

ALBEMARLE CORP
Form S-3/A
December 10, 2004
Table of Contents

As filed with the Securities and Exchange Commission on December 10, 2004

Registration Statement No. 333-119723

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

AMENDMENT NO. 2

TO

FORM S-3

REGISTRATION STATEMENT

UNDER THE SECURITIES ACT OF 1933

ALBEMARLE CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Virginia
(State or Other Jurisdiction of Incorporation or Organization)

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

330 South Fourth Street

Richmond, Virginia 23219

(804) 788-6000

(Address, Including Zip Code, and Telephone Number, Including Area Code, of

Registrant's Principal Executive Offices)

PAUL F. ROCHELEAU
Senior Vice President and
Chief Financial Officer
330 South Fourth Street
P. O. Box 1335
Richmond, Virginia 23210
(804) 788-6000

LUTHER C. KISSAM, IV, ESQ.
Vice President, General
Counsel and Secretary
330 South Fourth Street
P. O. Box 1335
Richmond, Virginia 23210
(804) 788-6000

(Name, Address, Including Zip Code, and Telephone Number, Including

Area Code, of Agent for Service)

It is respectfully requested that the Commission send copies of all notices, orders and communications to:

ALLEN C. GOOLSBY, ESQ.
JOHN OWEN GWATHMEY, ESQ.
Hunton & Williams LLP
Riverfront Plaza, East Tower
951 E. Byrd Street
Richmond, Virginia 23219
(804) 788-8200

JOHN D. LOBRANO, ESQ.
Simpson Thacher & Bartlett LLP
425 Lexington Avenue
New York, New York 10017
(212) 455-2000

Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this registration statement as the registrant determines.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. "

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If the Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. "

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Public Offering Price	\$	\$
Underwriting Discount	\$	\$
Proceeds, before Expenses, to Albemarle	\$	\$
Proceeds to the Selling Shareholders	\$	\$

We have granted the underwriters a 30-day option to purchase up to 600,000 additional shares to cover any over-allotments.

Delivery of the shares will be made on or about _____, 2004.

Bear, Stearns & Co. Inc.

UBS Investment Bank

Banc of America Securities LLC

The date of this prospectus supplement is _____, 2004.

Table of Contents

GLOBAL LOCATIONS

AMERICAS

Executive Offices

330 South Fourth Street*

Richmond, Virginia 23219

804-788-6000

Operations Offices

451 Florida Street*

Baton Rouge, Louisiana 70801

225-388-8011

Sales and General Offices

Baton Rouge, Louisiana*

225-388-7402

Houston, Texas*

281-480-4747

Research and

Development Facilities

Baton Rouge, Louisiana

Dayton, Ohio*

Pasadena, Texas

Santa Cruz, Brazil**

Tyrone, Pennsylvania

Plants

Baton Rouge, Louisiana

Dayton, Ohio*

Magnolia, Arkansas (3 locations)

Orangeburg, South Carolina

Pasadena, Texas (2 locations)

Pasadena, Texas**

Santa Cruz, Brazil**

Tyrone, Pennsylvania

EUROPE/MIDDLE

EAST/AFRICA

Sales and General Offices

Amersfoort, Netherlands*

31 33 467 6310

Bergheim, Germany

49 2271 902 0

Louvain-La-Neuve, Belgium

32 10 48 1711

Research and

Development Facilities

Amsterdam, the Netherlands

Bergheim, Germany

Louvain-La-Neuve, Belgium

Thann, France

Plants

Amsterdam, the Netherlands

Avonmouth, United Kingdom

Bergheim, Germany

Feluy, Belgium*

Gela, Italy**

Jubail, Saudi Arabia**

La Voulte, France**

Port-de-Bouc, France

Safi, Jordan**

St. Jakob/Breitenau, Austria**

Teesport, United Kingdom

Thann, France

ASIA-PACIFIC

Sales and General Offices

Beijing, China

106 505 4153

Seoul, South Korea*

82 2 555 3005

Shanghai, China*

86 21 5306 1360

Singapore*

65 6732 6286

Tokyo, Japan*

81 3 5251 0791

Research and

Development Facilities

Niihama, Japan**

Plants

Jin Shan District, Shanghai,

China**

Ninghai County, Zhejiang

Province, China**

Niihama, Japan**

Takaishi City, Osaka, Japan **

** Leased Location*

***Joint Venture*

Table of Contents

ABOUT THIS PROSPECTUS SUPPLEMENT

This document consists of two parts. The first part is the prospectus supplement, which describes the specific terms of this offering and certain other matters relating to Albemarle Corporation. The second part, the accompanying prospectus, gives more general information, some of which does not apply to this offering. Generally, when we refer to the prospectus, we are referring to both parts of this document combined. If the description in the prospectus supplement differs from the description in the accompanying prospectus, the description in the prospectus supplement supersedes the description in the accompanying prospectus.

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. Neither we, the selling shareholders nor the underwriters have authorized anyone to provide you with information other than that contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. The information in this prospectus supplement and the accompanying prospectus may be accurate only as of their respective dates.

We, the selling shareholders and the underwriters are not making an offer to sell the common stock in jurisdictions where the offer or sale is not permitted. The distribution of this prospectus supplement and the accompanying prospectus and the offering of the common stock in certain jurisdictions may be restricted by law. Persons who come into possession of this prospectus supplement and the accompanying prospectus must inform themselves about and observe any restrictions relating to the offering of the common stock and the distribution of this prospectus supplement and the accompanying prospectus. This prospectus supplement and the accompanying prospectus do not constitute, and may not be used in connection with, an offer to sell, or a solicitation of an offer to buy, any securities offered by this prospectus supplement and the accompanying prospectus by any person in any jurisdiction in which it is unlawful for a person to make an offer or solicitation.

Unless the context otherwise indicates, the terms Albemarle, we, us, our or the company mean Albemarle Corporation and its consolidated subsidiaries.

MARKET AND INDUSTRY DATA

This prospectus supplement and the accompanying prospectus include market share and industry data and forecasts that we obtained from internal company surveys, market research, publicly available information and industry publications and surveys. Industry publications and surveys generally state that the information contained therein has been obtained from sources believed to be reliable. We have not independently verified any of the data from third-party sources nor have we ascertained the underlying economic assumptions relied upon therein. Similarly, internal company surveys, forecasts and market research, which we believe to be reliable based upon management's knowledge of the industry, have not been verified by any independent sources. Except where otherwise noted, statements as to our position relative to our competitors or as to market position or share refer to the most recently available data.

NON-GAAP FINANCIAL MEASURE

In this prospectus supplement, we present EBITDA, which is a supplemental financial measure that is not required by, or presented in accordance with, accounting principles generally accepted in the United States, or U.S. GAAP. Our management believes EBITDA is more reflective of our operations as it provides transparency to investors and enhances period-to-period comparability of operations and financial performance. See footnote 6 in the section of this prospectus supplement titled Prospectus Supplement Summary Summary Historical and Pro

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Forma Consolidated Financial Information of Albemarle for the definition of EBITDA and related disclosure.

S-i

Table of Contents

EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our financial results prepared in accordance with U.S. GAAP. Some of these limitations are:

EBITDA does not reflect our cash expenditures, future requirements for capital expenditures or contractual commitments;

EBITDA does not reflect changes in, or cash requirements for, our working capital needs;

EBITDA does not reflect the significant interest expense, or the cash requirements necessary to make interest or principal payments, on our debts;

although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA does not reflect any cash requirements for such replacements; and

other companies in our industry may calculate EBITDA differently than we do, limiting its usefulness as a comparative measure.

Because of these limitations, EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business.

PRO FORMA FINANCIAL INFORMATION

This prospectus supplement contains various references to pro forma financial information. This pro forma financial information is included in, or is derived from, the Unaudited Pro Forma Combined Financial Information that has been prepared in conformity with Regulation S-X. This unaudited pro forma financial information, included in this prospectus supplement, gives effect to (1) the acquisition of the refinery catalysts business of Akzo Nobel N.V., (2) the financing of the purchase price through borrowings under our new senior credit agreement and 364-day loan agreement, including amounts borrowed to refinance our then-existing credit agreement and to pay related fees and expenses, and (3) to the extent appropriate, the completion of this offering and our concurrent offering of notes and the application of the net proceeds as described under

Use of Proceeds, as if such transactions had occurred on January 1, 2003. Our Current Report on Form 8-K/A that we filed with the Securities and Exchange Commission, or the SEC, on October 13, 2004, which is incorporated by reference in this prospectus supplement, includes pro forma financial information as of June 30, 2004 and for the year ended December 31, 2003 and the six months ended June 30, 2004 and 2003. The pro forma financial information set forth in the Current Report on Form 8-K/A reflects the acquisition and related financings as if they had occurred on January 1, 2003, in the case of income data, or on June 30, 2004, in the case of balance sheet data, which differs in presentation from what is included in this prospectus supplement because (1) it does not give effect to the completion of this offering and the notes offering and the application of the net proceeds as described under Use of Proceeds and (2) it provides information as of June 30, 2004 and the six months ended June 30, 2004 and 2003. The term pro forma also reflects, to the extent appropriate, the realignment of our polyolefin catalysts business from our Polymer Chemicals segment, which we renamed Polymer Additives, to our new Catalysts segment.

Table of Contents**EXCHANGE RATES**

The combined financial statements of Akzo Nobel's refinery catalysts business contained in this prospectus supplement are denominated in European Union euros. The following chart shows for certain periods from January 1, 2001 through December 8, 2004, the average, high and low noon buying rates in The City of New York for cable transfers of euros as certified for customs purposes by the Federal Reserve Bank of New York expressed as U.S. dollars per euro, or the noon buying rate. The noon buying rate on December 8, 2004, was \$1.3252 per 1.00. We make no representation that the euro or U.S. dollar amounts referred to in this prospectus supplement have been, could have been or could, in the future, be converted into U.S. dollars or euros, as the case may be, at any particular rate, if at all.

(dollars per euro)

Year	Low	High	Average ⁽¹⁾	Period End
2001	0.8370	0.9535	0.8952	0.8901
2002	0.8594	1.0485	0.9454	1.0485
2003	1.0361	1.2597	1.1315	1.2597
Month				
March 2004	1.2088	1.2431	1.2261	1.2292
April 2004	1.1802	1.2358	1.1989	1.1975
May 2004	1.1801	1.2274	1.2000	1.2217
June 2004	1.2006	1.2320	1.2146	1.2179
July 2004	1.2032	1.2437	1.2266	1.2032
August 2004	1.2025	1.2368	1.2191	1.2183
September 2004	1.2052	1.2417	1.2214	1.2417
October 2004	1.2271	1.2783	1.2507	1.2746
November 2004	1.2703	1.3288	1.2997	1.3259
December 2004 (through December 8, 2004)	1.3252	1.3437	1.3348	1.3252

(1) The average of the noon buying rates in The City of New York for cable transfers of euros as certified for customs purposes by the Federal Reserve Bank of New York on the last day of each month that are published on the website maintained by the Federal Reserve Bank of New York.

FORWARD-LOOKING STATEMENTS

Some of the information presented in this prospectus supplement and the accompanying prospectus, 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, should, will and variations of such words and similar expressions to identify such forward-looking statements. These forward-looking statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions, which are difficult to predict and many of which are beyond our control. There can be no assurance, therefore, that our actual results will not differ materially from the results and expectations expressed or implied in the forward-looking statements. Factors that could cause actual results to differ materially include, without limitation:

the timing of orders received from customers;

Edgar Filing: ALBEMARLE CORP - Form S-3/A

the gain or loss of significant customers;

competition from other manufacturers;

changes in the demand for our products;

changes in our margins;

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

S-iii

Table of Contents

changes in our manufacturing processes;

changes in our markets in general;

fluctuations in foreign currencies;

changes in new product introductions resulting in increases in capital project requests and approvals leading to additional capital spending;

changes in laws and regulations;

the occurrence of claims or litigation;

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

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

changes in accounting standards;

the integration of the Akzo Nobel refinery catalysts business into our operations;

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

changes in interest rates, to the extent they (1) affect our ability to raise capital or increase our cost of funds, (2) have an impact on the overall performance of our pension fund investments and (3) increase our pension expense and funding obligations; and

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

We assume no obligation to provide revisions to any forward-looking statements should circumstances change, except as otherwise required by securities and other applicable laws.

Table of Contents

PROSPECTUS SUPPLEMENT SUMMARY

The following section summarizes more detailed information presented later in this prospectus supplement and the accompanying prospectus. You should read this entire prospectus supplement and the accompanying prospectus carefully, including the section entitled Risk Factors, before making an investment decision. Unless indicated otherwise, the information contained in this prospectus supplement and the accompanying prospectus assumes that the underwriters' over-allotment option is not exercised.

Albemarle Corporation

We are a leading global developer, manufacturer and marketer of highly-engineered specialty chemicals. Our products enhance the value of our customers' end-products by improving performance, providing essential product attributes, lowering cost and simplifying processing. We sell a highly diversified mix of products to a wide range of customers, including manufacturers of electronics, building and construction materials, automotive parts, packaging, pharmaceuticals and agrichemicals and to petroleum refiners. We believe that our commercial and geographic diversity, technical expertise, flexible, low-cost global manufacturing base, strong cash flows and experienced management team enable us to maintain leading market positions in those areas of the specialty chemicals industry in which we operate.

We and our joint ventures currently operate 38 production facilities, research and development facilities, and administrative and sales offices in North and South America, Europe and Asia and serve more than 3,400 customers in approximately 100 countries. In 2003, we generated net sales of \$1,515.2 million, operating profit of \$139.9 million, net income (before cumulative effect of a change in accounting principle) of \$96.4 million and earnings before interest, taxes, depreciation and amortization, or EBITDA, of \$266.2 million, in each case on a pro forma basis. The following chart presents the geographic balance of our 2003 pro forma net sales.

In recent years, we have expanded through acquisitions and joint ventures as well as organic growth. Management estimates that sales from businesses acquired, including the refinery catalysts business of Akzo Nobel, and joint ventures completed over the past five years comprised approximately \$707 million, or 47%, of our total 2003 pro forma net sales.

Refinery Catalysts Acquisition. On July 31, 2004, we acquired the refinery catalysts business of Akzo Nobel N.V. for 615.7 million (approximately \$763 million at applicable exchange rates) in cash. We financed the acquisition with borrowings under our new senior credit agreement and 364-day loan agreement. We believe that this acquisition significantly enhances our business by giving us a strong new operating segment. Key attributes of the acquired refinery catalysts business are:

leading global market positions;

strong industry fundamentals;

proprietary technology and service-driven business model; and

attractive margins and cash flows.

S-1

Table of Contents

Following the refinery catalysts acquisition, we transferred our existing polyolefin catalysts business from our Polymer Chemicals segment, which we renamed Polymer Additives, to a newly created Catalysts segment, which includes the assets we acquired from Akzo Nobel. Our operations are now managed and reported as three operating segments: Polymer Additives; Catalysts; and Fine Chemicals. The following chart presents the contributions of our three segments based on our 2003 pro forma net sales.

Polymer Additives

Our Polymer Additives business consists of the following two product categories:

Flame Retardants. We are a leading global producer of brominated, mineral-based and phosphorous flame retardants. These flame retardants comprise the bulk of the global flame retardant market, which is estimated at more than \$2.0 billion. Our flame retardants help materials in a wide variety of finished products meet fire-safety requirements. Some of the products that benefit from our flame retardants include plastic enclosures for consumer electronic products, printed circuit boards, wire and cable, electrical connectors, foam seating in furniture and automobiles, and textiles. We believe that the key drivers for growth of demand for our flame retardants are the increasing demand for electrical and electronic equipment, new construction and increasingly stringent fire-safety regulations in many countries around the world.

Other Additives. We produce plastic and other additives, such as curatives, antioxidants and stabilizers, which are often specially developed and formulated for a customer's specific manufacturing requirements. Our additives improve the performance characteristics of inks and coatings, adhesives, bullet-proof glass and numerous plastic products by enhancing strength, durability, color stability and other performance qualities. We also produce antioxidants used in fuels and lubricants, which are sold to lubricant manufacturers and refiners, some of which are also customers of our Catalysts segment.

Catalysts

Our Catalysts business consists of the following two product categories:

Refinery Catalysts. We and our joint ventures, collectively, are one of the leading global producers of hydroprocessing, or HPC, catalysts and fluidized catalytic cracking, or FCC, catalysts. HPC catalysts are primarily used to reduce the quantity of sulfur and other impurities in petroleum products. FCC catalysts assist in the cracking of petroleum streams into derivative, higher-value products such as gasoline, diesel and raw material components. In 2002, worldwide sales of HPC and FCC catalysts accounted for approximately 80% of the estimated \$2.0 billion refinery catalysts market. We believe the key drivers for the growth of demand for refinery catalysts are the increasing global demand for petroleum products, the generally deteriorating quality of crude oil feedstocks and the implementation of more stringent fuel quality requirements in many countries around the world as part of anti-pollution initiatives.

Table of Contents

Polyolefin Catalysts. We are a leading global manufacturer of aluminum- and magnesium-alkyls. These alkyls are used in the production of plastic products such as food wrap, stretch films, trash bags and a variety of plastic films. We are also a leader in the production of metallocene/single-site catalysts, which aid in the development and production of new polymers that increase impact strength, clarity and melt characteristics of plastic films. We expect that our extensive experience in polyolefin catalysts will present synergistic opportunities with our refinery catalysts business, particularly with respect to increasing our business with petroleum and petrochemical processing customers.

Fine Chemicals

Our Fine Chemicals business consists of the following four product categories:

Performance Chemicals. We are a leading global producer of bromine with geographically diverse production resources. In 2003, approximately 87% of the bromine that we produced was used internally in our Polymer Additives and Fine Chemicals segments and the remainder was sold into the merchant market. We also produce a number of bromides and bromine-based performance chemicals, which are used in a broad range of applications, including chemical synthesis, oil and gas well drilling and completion fluids, paper manufacturing, water purification, glass manufacturing and photography.

Pharmaceuticals. Our bulk actives, ibuprofen and naproxen, are widely used to provide temporary pain relief and fever reduction. Bulk ibuprofen and naproxen are formulated by pharmaceutical companies for sale in both the prescription and over-the-counter markets. These products compete against other painkillers, including aspirin and acetaminophen. We are one of the largest global producers of ibuprofen. We also produce other intermediates used in the manufacture of a variety of over-the-counter and prescription drugs.

Agrichemicals. We sell a diverse portfolio of chemical intermediates and active ingredients used in the manufacture of crop protection products, such as herbicides, insecticides, fungicides and soil fumigants. Our agrichemicals customers include major global agrichemical manufacturers and distributors.

Fine Chemistry Services and Intermediates. Our fine chemistry services and intermediates business offers custom manufacturing, research and scale-up services for downstream chemical and pharmaceutical companies. We support our customers' product development efforts by offering discovery-through-commercialization services, including cGMP manufacturing capabilities.

Competitive Strengths

We believe we benefit from the following competitive strengths:

Leading Market Positions in Major Product Categories. We believe that we have leading global market positions in our major product categories, including bromine and bromine-based products, flame retardants and refinery catalysts. We have achieved these positions as a result of the performance characteristics of our products, long-standing customer relationships and our ability to develop and effectively market new generations of value-added products.

Commercial and Geographic Diversity. We, along with our joint ventures, sell our products to over 3,400 customers across a diverse range of end-use markets in approximately 100 countries worldwide. Our broad product range allows us to serve customers in a wide variety of industries, including petroleum refining, consumer electronics, building and construction materials, automotive parts, pharmaceuticals and agrichemicals. We believe that the diversity of our operations fosters stability in our operating performance through reduced reliance on any one customer, industry, product or geographic area.

Technological Expertise. We are a technological innovator within the markets we serve and are committed to maintaining a leadership position with respect to technological innovation, expertise and service.

Table of Contents

At September 30, 2004, we had over 1,400 patents as well as over 850 pending patent applications. At September 30, 2004, our research and development effort was supported by approximately 350 employees, of whom approximately one-third had PhDs. Examples of our innovative products and services include:

reactive brominated flame retardants that, when incorporated into commonly used resin systems, help electronic devices meet fire-safety requirements;

advanced mineral-based flame retardants for extreme temperature applications, such as automotive electrical connectors;

highly active HPC catalysts that help petroleum refiners meet more stringent fuel quality requirements without significant capital expenditures or reductions in refining capacity; and

in conjunction with a pharmaceutical company, a novel polymeric drug release coating for use in a recently approved medical device.

Strong Underlying Industry Fundamentals. We believe we are well positioned to capitalize on favorable trends within the areas of the specialty chemicals industry in which we operate. We expect our Polymer Additives segment to benefit from the increasing demand for electrical and electronic equipment, new construction and increasingly more stringent fire-safety regulations. We expect demand for our refinery catalysts to grow as a result of the increasing global demand for petroleum products, the generally deteriorating quality of crude oil feedstocks and the implementation of more stringent fuel quality requirements in many countries around the world as a part of anti-pollution initiatives. We expect our Fine Chemicals segment to continue to benefit from the rapid pace of innovation and the introduction of new products coupled with a movement by pharmaceutical companies to outsource certain research, product development and manufacturing functions.

Flexible, Low-Cost Global Manufacturing Base. We believe our manufacturing base affords us a competitive advantage by virtue of its breadth, cost position and flexibility. We and our joint ventures operate 27 manufacturing plants, with major facilities in North and South America, Europe and Asia. This global footprint allows us to provide timely service to our customers and supply our products to rapidly growing regions such as Asia. We are also vertically integrated in bromine. We believe that we are one of the lowest-cost producers of the bromine used in our brominated flame retardants and bromine derivative products. In addition, our pilot facilities provide us with the flexibility to commercialize newly developed products rapidly and cost efficiently. The ability to move quickly from product innovation to large-scale, commercial production contributes to our ability to capitalize on our product development efforts. For example, our Orangeburg, South Carolina facility currently is scaling up to produce commercial quantities of a new antioxidant for fuels after initial market-trial quantities were successfully produced at our Tyrone, Pennsylvania facility.

Strong Cash Flows. We have generated strong cash flows from operations even through adverse business cycles and periods of challenging chemical sector fundamentals. We generated average net cash provided from operations of approximately \$150 million per year between 1999 and 2003. In 2003, Akzo Nobel's refinery catalysts business had net cash provided from operations of approximately 41.1 million (approximately \$51 million based on an exchange rate of 1.00=€1.2417, the noon buying rate for euros on September 30, 2004). Our ability to generate strong cash flows is principally attributable to the diversity of our product lines, our strong margins and the effective management of working capital. We believe that our strong cash flow will help us to reduce our indebtedness and implement our growth strategies discussed below.

Experienced Management Team. We have a highly experienced management team throughout our organization, including our Catalysts segment, which includes all of the incumbent managers of Akzo Nobel's refinery catalysts business. Our senior management team has an average of 29 years of experience in the chemicals business and a proven track record of developing and marketing new chemical products. Members of this team also have significant experience in executing and integrating acquisitions, including the acquisitions of eight businesses or product lines during the last five years.

Table of Contents

Growth Strategy

Our key objectives are to increase our revenues and our profitability and to broaden our product offerings. Our strategies to achieve these objectives include:

Develop New Value-Added Products and New Applications for Existing Products. We believe that significant opportunities exist for us to generate additional high margin business through the introduction of new value-added products and processes. We estimate that approximately 14% of our 2003 net sales were from products newly introduced or re-engineered during the preceding five years.

Expand Our Global Reach. We intend to grow domestically and internationally by expanding our product sales to new and existing multinational customers, particularly as they target high-growth regions and markets. We believe that our relationships with large multinational customers will provide access to new geographic and end-use product markets. We intend to add personnel focused on sales, marketing and research and development in selected regions and to expand our infrastructure to respond to the needs of our customers. We also plan on making selective acquisitions and participating in joint ventures consistent with this strategy. For example, we recently acquired a significant distributor in Korea, giving us direct access to a growing market for many of our Polymer Additives products.

Focus on Operational Improvement. In 2002, we launched a three-year \$50 million manufacturing cost reduction program to reduce our fixed cost base. As of September 30, 2004, we believe that this program has yielded estimated savings of approximately \$27 million. We expect to implement additional cost-saving initiatives focused on achieving operational efficiencies by continuing to invest in flexible manufacturing equipment and processes, to optimize process control technologies and to reduce fixed costs through the rationalization of manufacturing capacity and the efficient management of capital spending.

Cultivate Strategic Collaborations and Alliances. We believe that strategic collaborations and alliances, including joint ventures, afford us the opportunity to develop and expand our business with less capital investment and lower risk. We currently have joint ventures in Austria, Brazil, France, Japan, Jordan, the People's Republic of China and the United States. By entering into collaborations and alliances, we can leverage the technology and research and development skills of our partners, extend our business reach, gain greater access to important raw materials and benefit from our partners' knowledge of the local business environment.

Pursue Disciplined Acquisition Strategy. We intend to continue to explore possible acquisitions in areas that allow us to build upon our product and technology portfolio, expand our customer base, and leverage our sales and distribution infrastructure and existing customer relationships. We intend to target acquisitions that are expected to contribute to sustainable cash flow and that are consistent with maintaining our investment grade credit rating.

Table of Contents

Notes Offering

We intend to offer senior unsecured notes in an aggregate principal amount of approximately \$300.0 million with an expected maturity of 10 years. We will use the net proceeds from the offering of notes, together with the proceeds from this offering, to retire all or substantially all of the indebtedness that we incurred under our 364-day loan agreement to finance our acquisition of Akzo Nobel's refinery catalysts business. To the extent that the net proceeds from this offering, together with the net proceeds from the notes offering, are insufficient to retire all of the indebtedness outstanding under our 364-day loan agreement, we intend to incur additional borrowings under our \$300 million revolving credit facility to retire the remaining amount of indebtedness outstanding under our 364-day loan agreement. The offering of the notes will be conducted as a separate public offering by means of a separate prospectus supplement. In this prospectus supplement, we refer to our offering of the senior unsecured notes described above as the notes offering and the senior unsecured notes we intend to issue as the notes.

The completion of this offering is not contingent on the completion of the notes offering but the completion of the notes offering is contingent on the completion of this offering.

We were incorporated in Virginia in 1993. Our principal executive offices are located at 330 South Fourth Street, Richmond, Virginia 23219, and our telephone number is (804) 788-6000.

Table of Contents

The Offering

Issuer	Albemarle Corporation
Common stock offered by us	4,000,000 shares ⁽¹⁾
Common stock offered by the selling shareholders	488,420 shares
Common stock to be outstanding immediately after the offering	45,870,701 shares ⁽¹⁾⁽²⁾
Use of proceeds	<p>We expect to use the net proceeds from this offering, together with the net proceeds from the notes offering, to retire all or substantially all of the outstanding short-term debt that we incurred to finance our acquisition of Akzo Nobel's refinery catalysts business. The completion of this offering is not contingent on the completion of the notes offering but the completion of the notes offering is contingent upon the completion of this offering.</p> <p>We will not receive any of the proceeds from the sale of shares of our common stock by the selling shareholders.</p>
Dividend policy	<p>We intend to continue to declare and pay quarterly cash dividends on our common stock. We recently raised our annual dividend to \$0.60 per share. The declaration and payment of dividends is subject to the discretion of our board of directors and will depend on various factors, including our financial condition, earnings, cash requirements, legal requirements and other factors deemed relevant by our board of directors.</p>
Listing	New York Stock Exchange
Symbol	ALB

(1) Excludes up to an additional 600,000 shares of common stock that may be purchased by the underwriters within 30 days of the date of this prospectus supplement if their over-allotment option is exercised.

(2) Excludes:

2,936,841 shares issuable upon the exercise of outstanding stock options as of November 30, 2004; and

2,321,000 shares available for future issuance under our incentive compensation plan as of November 30, 2004.

Table of Contents

Summary Historical and Pro Forma Consolidated Financial Information of Albemarle

The following table sets forth summary historical consolidated financial information of Albemarle as of and for the years ended December 31, 2003, 2002 and 2001, which have been derived from our audited consolidated financial statements, and as of and for the nine months ended September 30, 2004 and 2003, which have been derived from our unaudited consolidated financial statements. In the opinion of our management, the unaudited consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and include all adjustments necessary for a fair presentation of the information set forth therein. Interim results are not necessarily indicative of full year results.

The following table also sets forth summary unaudited pro forma financial information, which gives effect to (1) our acquisition of Akzo Nobel's refinery catalysts business, (2) the financing of the purchase price through borrowings under our new senior credit agreement and 364-day loan agreement, including amounts borrowed to refinance our then-existing credit agreement and to pay related fees and expenses and (3) the completion of this offering and the notes offering and the application of the net proceeds therefrom as described under Use of Proceeds. The unaudited pro forma financial information is based on our historical consolidated financial statements and the historical combined financial statements of the refinery catalysts business and includes, in the opinion of our management, all adjustments necessary for a fair presentation of the information set forth therein. The pro forma adjustments are based on information and assumptions we believe are reasonable. The unaudited pro forma financial information is presented for informational purposes only and does not purport to represent what our results of operations or financial position would have been had the transactions reflected occurred on the dates indicated or to project our financial position as of any future date or our results of operations for any future period.

You should read the information in this table together with Summary Historical Combined Financial Information of Akzo Nobel's Refinery Catalysts Business, Unaudited Pro Forma Combined Financial Information, Selected Historical Consolidated Financial Information of Albemarle, Management's Discussion and Analysis of Financial Condition and Results of Operations of Albemarle, our historical consolidated financial statements and the related notes and the historical combined financial statements of the refinery catalysts business and related notes contained elsewhere in this prospectus supplement and the other information contained in the documents incorporated by reference in this prospectus supplement. See Where You Can Find More Information and Documents Incorporated by Reference.

Table of Contents

	Pro Forma		Historical				
	Nine Months		Nine Months		Year Ended		
	Ended	Year Ended	Ended September 30,		December 31,		
	September 30,	December 31,	2004	2003	2003	2002	2001
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(restated)(1)		
Statements of Income Data:							
Net sales	\$ 1,345,639	\$ 1,515,187	\$ 1,062,672	\$ 815,113	\$ 1,110,237	\$ 1,007,918	\$ 942,752
Cost of goods sold	1,046,187	1,143,408	845,952	640,331	871,727	775,388	721,417
Acquisition-related cost			13,400				
Gross profit	299,452	371,779	203,320	174,782	238,510	232,530	221,335
Selling, general and administrative expenses	147,182	179,037	106,078	85,026	117,226	111,676	98,915
Research and development (R&D) expenses	33,766	39,760	18,768	14,133	18,411	16,485	21,919
Purchased in-process R&D charges		3,000	3,000				
Special items (2)	4,858	10,049	4,858	7,503	10,049	1,550	2,051
Operating profit	113,646	139,933	70,616	68,120	92,824	102,819	98,450
Interest and financing expenses	(23,835)	(32,286)	(9,168)	(4,043)	(5,376)	(5,070)	(5,536)
Other income (expense), net including minority interest	5,992	9,558	(13,532)	594	607	3,358	4,282
Income before income taxes and cumulative effect of a change in accounting principle, net	95,803	117,205	47,916	64,671	88,055	101,107	97,196
Income taxes	26,518	21,867	12,714	7,294	13,890	28,086	29,029
Income before cumulative effect of a change in accounting principle, net	69,285	95,338	35,202	57,377	74,165	73,021	68,167
Cumulative effect of change in accounting principle, net (3)		(2,220)		(2,220)	(2,220)		
Net income (4)	\$ 69,285	\$ 93,118	\$ 35,202	\$ 55,157	\$ 71,945	\$ 73,021	\$ 68,167
Basic earnings per share:							
Income before cumulative effect of a change in accounting principle, net	\$ 1.52	\$ 2.11	\$ 0.85	\$ 1.39	\$ 1.79	\$ 1.73	\$ 1.49
Cumulative effect of a change in accounting principle, net (3)		(0.05)		(0.05)	(0.05)		
Net income	\$ 1.52	\$ 2.06	\$ 0.85	\$ 1.34	\$ 1.74	\$ 1.73	\$ 1.49
Diluted earnings per share:							
Income before cumulative effect of a change in accounting principle, net	\$ 1.50	\$ 2.07	\$ 0.83	\$ 1.36	\$ 1.76	\$ 1.69	\$ 1.47
Cumulative effect of a change in accounting principle, net (3)		(0.05)		(0.05)	(0.05)		
Net income (4)	\$ 1.50	\$ 2.02	\$ 0.83	\$ 1.31	\$ 1.71	\$ 1.69	\$ 1.47

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Other Financial Data:

Net cash provided from operating activities			\$ 131,217	\$ 107,787	\$ 150,098	\$ 144,771	\$ 143,864
Depreciation and amortization	\$ 88,986	\$ 116,727	69,288	61,765	84,014	80,603	77,610
Capital expenditures	48,834	58,928	37,602	30,307	41,058	38,382	49,903
Ratio of earnings to fixed charges (5)	4.0x	3.8x	4.6x	N/A	9.2x	11.1x	10.1x

Balance Sheet Data (as of end of period):

Cash and cash equivalents			\$ 60,817	\$ 34,984	\$ 35,173	\$ 47,784	\$ 30,585
Working capital			(77,025)	265,178	271,298	256,481	79,824
Total assets			2,429,140	1,343,153	1,387,291	1,200,398	1,138,272
Total debt			953,266	240,660	228,579	190,628	170,215
Total liabilities			1,765,537	732,120	751,070	626,061	538,649(1)
Shareholders' equity			663,603	611,033	636,221	574,337	599,623(1)

Non-GAAP Financial Data:

EBITDA (6)	\$ 208,624	\$ 266,218	\$ 126,372	\$ 130,479	\$ 177,445	\$ 186,780	\$ 180,342
------------	------------	------------	------------	------------	------------	------------	------------

S-9

Table of Contents

- (1) We restated our financial statements for the year ended December 31, 2002 to move the recognition of revenue of a fourth quarter 2002 transaction from December 31, 2002 results to the first quarter and second quarter of 2003. In addition, the December 31, 2002 and prior years consolidated balance sheets and statements of changes in shareholders' equity were restated to reflect an increase in additional paid-in capital and a decrease in deferred income tax liability. The results for the year ended December 31, 2002 and prior years included above reflect the restatement. For more information on the restatement, see our consolidated financial statements and related notes included elsewhere in this prospectus supplement and the discussion of the restatement included in our Annual Report on Form 10-K incorporated by reference in this prospectus supplement.
- (2) We reported a \$550 pre-tax charge for the nine months ended September 30, 2004 related to the shutdown of our zeolite plant in Pasadena, Texas. For the year ended December 31, 2003, we incurred a \$7,503 pre-tax charge associated with a voluntary severance program. Additionally, for the year ended December 31, 2003, we recorded a one-time charge of \$2,546 for real estate held for sale. For the years ended December 31, 2002 and 2001, we recorded \$1,550 and \$2,051, respectively, in special charges related to work force reduction programs at certain of our facilities.
- (3) On January 1, 2003, we implemented SFAS No. 143 Accounting for Asset Retirement Obligations, which addressed financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The cumulative effect of the change in accounting principle resulting from the implementation of this standard was \$2,220.
- (4) The following significant non-recurring income and expense items have been included in the Albemarle pro forma statements of income presented:

	Year Ended December 31, 2003		Nine Months Ended September 30, 2004	
	Pre-tax	After-tax	Pre-tax	After-tax
	(unaudited)			
	(in thousands)			
Albemarle reported special items impacting operating profit	\$ 10,049	\$ 6,402	\$ 4,858	\$ 3,095
Albemarle income tax refunds and related interest	(4,308)	(13,816)		
Refinery catalysts business provisions liability additions/reversals activity, net	(44)	(28)	(444)	(282)
Refinery catalysts business foreign exchange hedging gains and losses	(6,459)	(4,102)	(1,728)	(1,097)
Insurance settlement gain			(6,945)	(4,424)
Valuation reserve on claim receivable			3,396	2,163

- (5) For purposes of computing the ratios of earnings to fixed charges, earnings consist of pre-tax income from continuing operations before adjustment for minority interests in consolidated subsidiaries or income or loss from equity investees plus fixed charges and amortization of capitalized interest less interest capitalized and minority interest in pre-tax income of subsidiaries that have not incurred fixed charges. Fixed charges consist of interest expense (before capitalized interest) and a portion of rental expense that we believe to be representative of interest.
- (6) EBITDA, which represents earnings before depreciation and amortization, interest and financing expense, income taxes and cumulative effect of a change in accounting principle, net, is a supplemental measure of performance that is not required by, or presented in accordance with, U.S. GAAP. We present EBITDA because we consider it an important supplemental measure of our operations and financial performance. Our management believes EBITDA is more reflective of our operations as it provides transparency to investors and enhances period-to-period comparability of operations and financial performance. EBITDA should not be considered as an alternative to net income determined in accordance with U.S. GAAP. Set forth below is a reconciliation of EBITDA, a non-GAAP financial measure, to net income, the most directly comparable financial measure calculated and reported in accordance with U.S. GAAP. Our calculation of EBITDA may not be comparable to the calculation of similarly titled measures reported by other companies.

	Pro Forma		Historical				
	Nine Months Ended September 30,	Year Ended December 31,	Nine Months Ended September 30,		Year Ended December 31,		
	2004	2003	2004	2003	2003	2002	2001
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(in thousands)		
Net income	\$ 69,285	\$ 93,118	\$ 35,202	\$ 55,157	\$ 71,945	\$ 73,021	\$ 68,167
Add:							
Depreciation and amortization	88,986	116,727	69,288	61,765	84,014	80,603	77,610
Interest and financing expense	23,835	32,286	9,168	4,043	5,376	5,070	5,536
Income taxes	26,518	21,867	12,714	7,294	13,890	28,086	29,029

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Cumulative effect of a change in accounting principle, net

		2,220		2,220	2,220		
EBITDA	\$ 208,624	\$ 266,218	\$ 126,372	\$ 130,479	\$ 177,445	\$ 186,780	\$ 180,342

S-10

Table of Contents**Summary Historical Combined Financial Information of Akzo Nobel's Refinery Catalysts Business**

The following table sets forth summary historical combined financial information of Akzo Nobel's refinery catalysts business, which we acquired on July 31, 2004, as of and for the three years ended December 31, 2003, 2002 and 2001, which have been derived from the audited combined financial statements of the refinery catalysts business, and as of and for the six months ended June 30, 2004 and 2003, which have been derived from the unaudited combined financial statements of the refinery catalysts business. In the opinion of management, the unaudited combined financial statements have been prepared on the same basis as the audited financial statements and include all adjustments necessary for a fair presentation of the information set forth therein. Interim results are not necessarily indicative of full year results.

The historical combined financial statements of Akzo Nobel's refinery catalysts business contained in this prospectus supplement were prepared in accordance with accounting principles generally accepted in the Netherlands, or Dutch GAAP. There are significant differences between Dutch GAAP and U.S. GAAP. See footnote 23 of the historical combined financial statements Akzo Nobel's refinery catalysts business contained elsewhere in this prospectus supplement for additional information regarding the differences between Dutch GAAP and U.S. GAAP as they relate to such financial statements and for a reconciliation of net income and divisional equity from Dutch GAAP to U.S. GAAP.

You should read the information in this table together with Management's Discussion and Analysis of Financial Condition and Results of Operations of Akzo Nobel's Refinery Catalysts Business and the historical combined financial statements of the refinery catalysts business and related notes contained elsewhere in this prospectus supplement.

	Six Months			Year Ended			
	Ended June 30,			December 31,			
	2004(1)	2004	2003	2003(1)	2003	2002	2001
	(unaudited)	(unaudited)	(unaudited)	(unaudited)			
	(in thousands)						
Dutch GAAP:							
Statements of Income Data:							
Net sales	\$ 234,222	192,316	179,118	\$ 423,314	347,577	378,831	365,438
Cost of sales	172,044	141,263	120,780	292,045	239,794	262,281	284,932
Gross profit	62,178	51,053	58,338	131,269	107,783	116,550	80,506
Selling, general and administrative expenses	29,611	24,313	22,954	58,651	48,157	52,653	47,322
Research and development expenses	13,648	11,206	9,797	25,271	20,750	21,218	19,890
Operating income	18,919	15,534	25,587	47,347	38,876	42,679	13,294
Other income (expense), net	4,068	3,340	2,861	8,351	6,857	4,017	2,551
Interest expense, net	(1,127)	(925)	(1,889)	(4,264)	(3,501)	(5,499)	(9,847)
Income before income taxes and equity results from associated companies	21,860	17,949	26,559	51,434	42,232	41,197	5,998
Income taxes	7,674	6,301	9,524	18,522	15,208	15,433	1,663
Equity results from associated companies	6,085	4,996	5,419	10,596	8,700	9,068	9,366
Net income	\$ 20,271	16,644	22,454	\$ 43,508	35,724	34,832	13,701
Other Financial Data:							

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Net cash provided (used) by operations	\$ (7,512)	(6,168)	27,159	\$ 50,058	41,102	62,320	29,314
Depreciation and amortization	16,621	13,647	14,758	35,907	29,483	32,254	33,419
Capital expenditures	(8,941)	(7,341)	(6,036)	(19,243)	(15,800)	(22,667)	(16,226)
U.S. GAAP:							
Net income	\$ 19,667	16,148	21,164	\$ 41,348	33,950	37,830	N/A
Divisional equity	285,529	234,444	N/A	247,992	203,623	220,241	N/A
Non-GAAP Financial Data:							
EBITDA (2)	\$ 45,693	37,517	48,625	\$ 102,201	83,916	88,018	58,630

- (1) We converted the amounts in this column from euros into U.S. dollars solely for your convenience at an exchange rate of \$1.2179 = 1.00, the noon buying rate for euros on June 30, 2004. Please note that these convenience translations are not Dutch GAAP or U.S. GAAP and, accordingly, these translated U.S. dollar amounts have not been audited. These translations should not be construed as a representation that the euro amounts represent, or have been or could be converted into, U.S. dollars at that or any other rate. These convenience translations have been made at a rate different from the rates used in the preparation of the Unaudited Pro Forma Combined Financial Information.

S-11

Table of Contents

(2) EBITDA, which represents earnings before depreciation and amortization, interest expense, net and income taxes is a supplemental measure of performance that is not required by, or presented in accordance with, U.S. GAAP or Dutch GAAP. We present EBITDA because we consider it an important supplemental measure of our operations and financial performance. Our management believes EBITDA is more reflective of our operations as it provides transparency to investors and enhances period-to-period comparability of operations and financial performance. EBITDA should not be considered as an alternative to net income determined in accordance with U.S. GAAP or Dutch GAAP. Set forth below is a reconciliation of EBITDA, a non-GAAP financial measure, to net income, the most directly comparable financial measure calculated and reported in accordance with U.S. GAAP or Dutch GAAP. Our calculation of EBITDA may not be comparable to the calculation of similarly titled measures reported by other companies.

	Six Months			Year Ended			
	Ended June 30,			December 31,			
	2004(A)	2004	2003	2003(A)	2003	2002	2001
	(unaudited)	(unaudited)	(unaudited)	(unaudited)			
	(in thousands)						
Net income	\$ 20,271	16,644	22,454	\$ 43,508	35,724	34,832	13,701
Add:							
Depreciation and amortization	16,621	13,647	14,758	35,907	29,483	32,254	33,419
Interest expense, net	1,127	925	1,889	4,264	3,501	5,499	9,847
Income taxes	7,674	6,301	9,524	18,522	15,208	15,433	1,663
EBITDA	\$ 45,693	37,517	48,625	\$ 102,201	83,916	88,018	58,630

(A) We converted the amounts in this column from euros into U.S. dollars solely for your convenience at an exchange rate of \$1.2179 = 1.00, the noon buying rate for euros on June 30, 2004. Please note that these convenience translations are not Dutch GAAP or U.S. GAAP and, accordingly, these translated U.S. dollar amounts have not been audited. These translations should not be construed as a representation that the euro amounts represent, or have been or could be converted into, U.S. dollars at that or any other rate. These convenience translations have been made at a rate different from the rates used in the preparation of the Unaudited Pro Forma Combined Financial Information.

Table of Contents

RISK FACTORS

An investment in our common stock involves risks. You should consider carefully the following risks in addition to the other information contained in this prospectus supplement and the accompanying prospectus, including the documents incorporated by reference, before deciding to purchase any of our common stock.

Risks Related to Our Business

Our inability to pass through increases in costs and expenses for raw materials and energy, on a timely basis or at all, could have a material adverse effect on the margins of our products.

In 2003, our raw material and energy costs increased approximately 8% and approximately 25%, respectively, compared to 2002. Raw material costs and energy costs have continued to increase significantly in 2004. The increases are primarily driven by significantly tighter market conditions and major increases in pricing of basic building blocks for our products such as crude oil, chlorine and metals, including molybdenum, which is used in the refinery catalysts business. In 2003, management estimates that molybdenum represented approximately 10% of the cost of goods sold in the refinery catalysts business and from January 1, 2004 until November 30, 2004, the price of molybdenum increased from approximately \$8 to approximately \$28 per pound. We generally attempt to pass changes in the prices of raw materials and energy to our customers, but we may be unable to or be delayed in doing so. Our inability to pass through price increases or any limitation or delay in our passing through price increases could adversely affect our margins.

In addition to raising prices, raw material suppliers may extend lead times or limit supplies. For example, in the aftermath of Hurricane Ivan, certain chlorine producers took actions that limited supplies of chlorine. Constraints on the supply or delivery of critical raw materials could disrupt production and adversely affect the performance of our business.

We face intense competition from other specialty chemical companies, which places downward pressure on the prices and margins of our products.

We operate in a highly competitive marketplace, competing against a number of domestic and foreign specialty chemical producers. Competition is based on several key criteria, including product performance and quality, product price, product availability and security of supply, responsiveness of product development in cooperation with customers and customer service. Some of our competitors are larger than we are and have greater financial resources. These competitors may also be able to maintain significantly greater operating and financial flexibility than we do. As a result, these competitors may be better able to withstand changes in conditions within our industry, changes in the prices of raw materials and energy and in general economic conditions. Additionally, competitors' pricing decisions could compel us to decrease our prices, which could affect our margins and profitability adversely. Our ability to maintain or increase our profitability is, and will continue to be, dependent upon our ability to offset decreases in the prices and margins of our products by improving production efficiency and volume, shifting to higher margin chemical products and improving existing products through innovation and research and development. If we are unable to do so or to otherwise maintain our competitive position, we could lose market share to our competitors.

Downturns in our customers' cyclical industries could adversely affect our sales and profitability.

Downturns in the businesses that use our specialty chemicals will adversely affect our sales. Many of our customers are in industries, including the electronics, building and construction, and automotive industries, that are cyclical in nature and sensitive to changes in general economic conditions. Historically, downturns in general economic conditions have resulted in diminished product demand, excess manufacturing capacity and lower average selling prices, and we may experience similar problems in the future. A decline in economic conditions in our customers cyclical industries may have a material adverse effect on our sales and profitability.

S-13

Table of Contents

Our results are subject to fluctuation because of irregularities in the demand for our HPC catalysts and certain of our agrichemicals.

Our HPC catalysts are used by petroleum refiners in their processing units to reduce the quantity of sulfur and other impurities in petroleum products. The effectiveness of HPC catalysts diminishes with use, requiring the HPC catalysts to be replaced, on average, once every one to three years. The sales of our HPC catalysts, therefore, are largely dependent on the useful life cycle of the HPC catalysts in the processing units. Sales of our agrichemicals are also subject to fluctuation as demand varies depending on environmental conditions, such as droughts, which may prevent farming for extended periods.

Changes in our customers' products can reduce the demand for our specialty chemicals.

Our specialty chemicals are used for a broad range of applications by our customers. Changes in our customers' products or processes may enable our customers to reduce consumption of the specialty chemicals that we produce or make our specialty chemicals unnecessary. Customers may also find alternative materials or processes that no longer require our products. For example, many of our flame retardants are incorporated into resin systems to enhance the flame retardancy of a particular polymer. Should a customer decide to use a different polymer due to price, performance or other considerations, we may not be able to supply a product that meets the customer's new requirements. Consequently, it is important that we develop or acquire new products to replace the sales of products that mature and decline in use. Our business, results of operations, cash flows and margins could be materially adversely affected if we are unable to manage successfully the maturation of our existing products and the introduction of new products.

Our research and development efforts may not succeed and our competitors may develop more effective or successful products.

The specialty chemicals industry is subject to periodic technological change and ongoing product improvements. In order to maintain our margins and remain competitive, we must successfully develop, manufacture and market new or improved products. As a result, we must commit substantial resources each year to research and development. Ongoing investments in research and development for future products could result in higher costs without a proportional increase in revenues. Additionally, for any new product program, there is a risk of technical or market failure in which case we may not be able to develop the new commercial products needed to maintain our competitive position or we may need to commit additional resources to new product development programs. Moreover, new products may have lower margins than the products they replace.

We also expect competition to increase as our competitors develop and introduce new and enhanced products. For example, the Fine Chemicals segment is experiencing increased competition from large-scale producers of pharmaceuticals, particularly from Asian sources. In our Catalysts segment, our petroleum refinery customers are processing crude oil feedstocks of declining quality, while at the same time operating under increasingly stringent regulations requiring the gasoline, diesel and other fuels they produce to contain fewer impurities, including sulfur. As a result, our petroleum refining customers are demanding more effective and efficient catalyst products, and the average life cycle for new catalyst products has declined. As new products enter the market, our products may become obsolete or competitors' products may be marketed more effectively than our products. If we fail to develop new products, maintain or improve our margins with our new products or keep pace with technological developments, our business, financial condition, results of operations and cash flows will suffer.

Our inability to protect our intellectual property rights could have a material adverse effect on our business, financial condition and results of operations.

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Protection of our proprietary processes, methods and compounds and other technology is important to our business. We generally rely on patent, trade secret, trademark and copyright laws of the United States and certain other countries in which our products are produced or sold, as well as licenses and nondisclosure and confidentiality agreements, to protect our intellectual property rights. The patent, trade secret, trademark and

S-14

Table of Contents

copyright laws of some countries may not protect our intellectual property rights to the same extent as the laws of the United States. Failure to protect our intellectual property rights may result in the loss of valuable proprietary technologies. Additionally, some of our technologies are not covered by any patent or patent application and, even if a patent application has been filed, it may not result in an issued patent. If patents are issued to us, those patents may not provide meaningful protection against competitors or against competitive technologies. We cannot assure you that our intellectual property rights will not be challenged, invalidated, circumvented or rendered unenforceable.

We could face patent infringement claims from our competitors or others alleging that our processes or products infringe on their proprietary technologies. If we are found to be infringing on the proprietary technology of others, we may be liable for damages, and we may be required to change our processes, to redesign our products partially or completely, to pay to use the technology of others or to stop using certain technologies or producing the infringing product entirely. Even if we ultimately prevail in an infringement suit, the existence of the suit could prompt customers to switch to products that are not the subject of infringement suits. We may not prevail in any intellectual property litigation and such litigation may result in significant legal costs or otherwise impede our ability to produce and distribute key products.

We also rely upon unpatented proprietary manufacturing expertise, continuing technological innovation and other trade secrets to develop and maintain our competitive position. While we generally enter into confidentiality agreements with our employees and third parties to protect our intellectual property, we cannot assure you that our confidentiality agreements will not be breached, that they will provide meaningful protection for our trade secrets and proprietary manufacturing expertise or that adequate remedies will be available in the event of an unauthorized use or disclosure of our trade secrets or manufacturing expertise.

Our substantial international operations subject us to risks of doing business in foreign countries, which could adversely affect our business, financial condition and results of operations.

We conduct a substantial portion of our business outside of the United States. We and our joint ventures currently have 25 production facilities, research and development facilities, and administrative and sales offices located outside the United States, including facilities and offices located in Austria, Belgium, Brazil, France, Germany, Italy, Japan, Jordan, the Netherlands, the People's Republic of China, Saudi Arabia and the United Kingdom. In 2003, more than half of our pro forma net sales were to markets outside the United States. We expect sales from international markets to continue to represent a significant portion of our net sales and the net sales of our joint ventures. Accordingly, our business is subject to risks related to the differing legal, political, social and regulatory requirements and economic conditions of many jurisdictions. Risks inherent in international operations include the following:

agreements may be difficult to enforce and receivables difficult to collect;

foreign customers may have longer payment cycles;

foreign countries may impose additional withholding taxes or otherwise tax our foreign income, or adopt other restrictions on foreign trade or investment, including currency exchange controls;

foreign operations may experience staffing difficulties and labor disputes;

transportation and other shipping costs may increase;

Edgar Filing: ALBEMARLE CORP - Form S-3/A

foreign governments may nationalize private enterprises;

unexpected adverse changes in export duties, quotas and tariffs and difficulties in obtaining export licenses;

intellectual property rights may be more difficult to enforce;

fluctuations in exchange rates may affect product demand and may adversely affect the profitability in U.S. dollars of products and services we provide in international markets where payment for our products and services is made in the local currency;

S-15

Table of Contents

general economic conditions in the countries in which we operate could have an adverse effect on our earnings from operations in those countries;

our business and profitability in a particular country could be affected by political or economic repercussions on a domestic, country specific or global level from terrorist activities and the response to such activities;

unexpected adverse changes in foreign laws or regulatory requirements may occur; and

compliance with a variety of foreign laws and regulations may be burdensome.

In addition, certain of our joint ventures operate in high-risk regions of the world such as the Middle East and South America. Unanticipated events, such as geopolitical changes, could result in a write-down of our investment in the effected joint venture. Our success as a global business will depend, in part, upon our ability to succeed in differing legal, regulatory, economic, social and political conditions by developing, implementing and maintaining policies and strategies that are effective in each location where we and our joint ventures do business.

We are exposed to fluctuations in foreign exchange rates, which may adversely affect our operating results and net income.

We conduct our business and incur costs in the local currency of most of the countries in which we operate. The financial condition and results of operations of each foreign operating subsidiary and joint venture are reported in the relevant local currency and then translated to U.S. dollars at the applicable currency exchange rate for inclusion in our consolidated financial statements. Changes in exchange rates between these foreign currencies and the U.S. dollar will affect the recorded levels of our assets and liabilities as foreign assets and liabilities that are translated into U.S. dollars for presentation in our financial statements as well as our net sales, cost of goods sold and operating margins and could result in exchange losses. The main foreign currencies for which we have exchange rate fluctuation exposure are the European Union euro, Japanese yen and British pound sterling. Exchange rates between these currencies and the U.S. dollar in recent years have fluctuated significantly and may do so in the future. Significant changes in these foreign currencies relative to the U.S. dollar could also have an adverse effect on our ability to meet interest and principal payments on any foreign currency-denominated debt outstanding. In addition to currency translation risks, we incur currency transaction risks whenever one of our operating subsidiaries or joint ventures enters into either a purchase or a sales transaction using a different currency from the currency in which it receives revenues. Our operating results and net income may be affected by any volatility in currency exchange rates and our ability to manage effectively our currency transaction and translation risks.

We incur substantial costs in order to comply with extensive environmental, health and safety laws and regulations.

In the jurisdictions in which we operate, we are subject to numerous federal, state and local environmental, health and safety laws and regulations, including those governing the discharge of pollutants into the air and water, the management and disposal of hazardous substances and wastes and the cleanup of contaminated properties. Ongoing compliance with such laws and regulations is an important consideration for us and we incur substantial capital and operating costs in our compliance efforts. Environmental laws have become increasingly strict in recent years. We expect this trend to continue and anticipate that compliance will continue to require increased capital expenditures and operating costs.

Violations of environmental, health and safety laws and regulations may subject us to fines, penalties and other liabilities and may require us to change certain business practices.

If we violate environmental, health and safety laws or regulations, in addition to being required to correct such violations, we can be held liable in administrative, civil or criminal proceedings for substantial fines and other sanctions could be imposed that could disrupt or limit our operations. Liabilities associated with the

S-16

Table of Contents

investigation and cleanup of hazardous substances, as well as personal injury, property damages or natural resource damages arising out of such hazardous substances, may be imposed in many situations without regard to violations of laws or regulations or other fault, and may also be imposed jointly and severally (so that a responsible party may be held liable for more than its share of the losses involved, or even the entire loss). Such liabilities may also be imposed on many different entities with a relationship to the hazardous substances at issue, including, for example, entities that formerly owned or operated the property affected and entities that arranged for the disposal of the hazardous substances at the affected property, as well as entities that currently own or operate such property. Such liabilities can be difficult to identify and the extent of any such liabilities can be difficult to predict. We use, and in the past have used, hazardous substances at many of our facilities, and we have in the past, and may in the future, be subject to claims relating to exposure to hazardous materials and the associated liabilities may be material. We also have generated, and continue to generate, hazardous wastes at a number of our facilities. Some of our facilities also have lengthy histories of manufacturing or other activities that have resulted in site contamination. We have also given contractual indemnities for environmental conditions relating to facilities we no longer own or operate. The nature of our business, including historical operations at our current and former facilities, exposes us to risks of liability under these laws and regulations due to the production, storage, use, transportation and sale of materials that can cause contamination or personal injury if released into the environment. Additional information may arise in the future concerning the nature or extent of our liability with respect to identified sites, and additional sites may be identified for which we are alleged to be liable, that could cause us to materially increase our environmental accrual or the upper range of the costs we believe we could reasonably incur for such matters.

Contractual indemnities may be ineffective in protecting us from environmental liabilities.

At several of our properties where hazardous substances are known to exist (including some sites where hazardous substances are being investigated or remediated), we believe we are entitled to contractual indemnification from one or more former owners or operators; however, in the event we make a claim, the indemnifier may disagree with us. We recently commenced an arbitration proceeding against Aventis S.A. concerning its obligations with respect to contamination at our Thann, France facility after Aventis refused to accept our demands for indemnification under the contract pursuant to which we acquired the facility. If those who currently or in the future disagree with us about the scope of their indemnity obligations prevail in their interpretation, our accrual and/or our costs for the investigation and cleanup of hazardous substances could increase materially.

Concern about the impact of some of our products on human health or the environment may lead to regulation, or reaction in our markets independent of regulation, that could reduce or eliminate markets for such products.

We manufacture a number of products that are or have been the subject of attention by regulatory authorities and environmental interest groups. For example, for many years we have produced methyl bromide, a chemical that is particularly effective as a soil fumigant. In recent years, the market for methyl bromide has changed significantly, driven by the Montreal Protocol of 1991 and related regulation prompted by findings regarding the chemical's potential to deplete the ozone layer. The current regulations contemplate completion of the phase-out of methyl bromide as a fumigant in 2005, although certain aspects of the phase-out have been delayed under implementing regulations that permit the use of methyl bromide on a year-to-year basis until a feasible alternative is available.

In addition, there has been increased scrutiny by regulatory authorities and environmental interest groups of polybrominated diphenylethers, or PBDEs, which are used as flame retardants, in light of concerns about their potential impacts on human health and the environment. We manufacture decabrom-PDE, a type of PBDE compound. In 2003, our net sales of decabrom-PDE were less than 5% of total net sales. Government regulation, if it occurs or studies evaluating the possibility of regulation, even if governmental regulation does not occur, may result in a decline in our net sales of decabrom-PDE.

Table of Contents

We could be subject to damages based on claims brought against us by our customers or lose customers as a result of the failure of our products to meet certain quality specifications.

Our products provide important performance attributes to our customers' products. If a product fails to perform in a manner consistent with quality specifications or has a shorter useful life than guaranteed, a customer could seek replacement of the product or damages for costs incurred as a result of the product failing to perform as guaranteed. These risks apply to our refinery catalysts in particular because, in certain instances, we sell our refinery catalysts under agreements that contain limited performance and life cycle guarantees. A successful claim or series of claims against us could have a material adverse effect on our financial condition and results of operations and could result in a loss of one or more customers.

Our substantial indebtedness could adversely affect our financial health and limit our ability to react to changes in our industry or to implement our strategic initiatives.

In connection with our recent acquisition of Akzo Nobel's refinery catalysts business, we entered into (1) a new senior credit agreement, consisting of a \$300 million revolving credit facility and a \$450 million five-year term loan facility, and (2) a \$450 million 364-day loan agreement. We used the initial borrowings under the senior credit agreement and the 364-day loan agreement to consummate the acquisition, refinance our then-existing credit agreement and pay fees and expenses in connection therewith. As of September 30, 2004, we had total indebtedness of \$953.3 million and we had also guaranteed \$37.1 million of indebtedness incurred by certain of our joint ventures.

Our substantial indebtedness could have important consequences to you. For example, it could:

require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, research and development efforts and other general corporate purposes;

limit our ability to secure additional financing to implement our strategic initiatives;

increase the amount of our interest expense because most of our borrowings are at variable rates of interest, which, if interest rates increase or our credit ratings decline, will result in higher interest expense;

increase our vulnerability to general adverse economic and industry conditions;

limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

place us at a disadvantage compared to our competitors that have proportionately less debt;

restrict us from making strategic acquisitions, introducing new technologies or otherwise exploiting business opportunities;

Edgar Filing: ALBEMARLE CORP - Form S-3/A

make it more difficult for us to satisfy our obligations with respect to our existing indebtedness; and

limit, along with the financial and other restrictive covenants in our indebtedness, among other things, our ability to borrow additional funds, dispose of assets or pay cash dividends.

In addition, we may be able to incur substantial additional indebtedness in the future. The terms of the senior credit agreement, 364-day loan agreement and the indentures governing the debt securities described in the accompanying prospectus do not prohibit us from incurring substantial additional indebtedness. If new debt is added to our current debt levels, the related risks that we now face could intensify.

We will need a significant amount of cash to service our indebtedness and our ability to generate cash depends on many factors beyond our control.

Our ability to generate sufficient cash flow from operations to make scheduled payments on our debt depends on a range of economic, competitive and business factors, many of which are outside our control. Based

S-18

Table of Contents

on an average interest rate of 2.82% at September 30, 2004 and outstanding borrowings at that date of \$953.3 million, our annual interest expense would be \$26.9 million. Giving pro forma effect to the completion of this offering and the notes offering and the application of the net proceeds therefrom as described in *Use of Proceeds* and assuming that we incur additional borrowings under our \$300 million revolving credit facility to retire the remaining amount of indebtedness outstanding under our 364-day loan agreement and assuming an interest rate of 5.50% for the notes and 2.80% for borrowings of \$462.5 million under our senior credit agreement (the pro forma amount outstanding at September 30, 2004), our annualized interest expense would be \$29.5 million. A change of 0.125% in the interest rate applicable to the notes would change our annualized interest expense by \$0.4 million and a change of 0.125% in the interest rate applicable to such borrowings under our senior credit agreement would change our annualized interest expense by \$0.6 million. Our business may not generate sufficient cash flow from operations to service our debt obligations, particularly if currently anticipated cost savings and operating improvements are not realized on schedule or at all. If we are unable to service our debt obligations, we may need to refinance all or a portion of our indebtedness on or before maturity, reduce or delay capital expenditures, sell assets or raise additional equity. We may not be able to refinance any of our indebtedness, sell assets or raise additional equity on commercially reasonable terms or at all, which could cause us to default on our obligations and impair our liquidity. Our inability to generate sufficient cash flow to satisfy our debt obligations, or to refinance our obligations on commercially reasonable terms, could have a material adverse effect on our business and financial condition.

Restrictive covenants in our debt instruments may adversely affect our business.

Our senior credit agreement and 364-day loan agreement contain restrictive covenants. These covenants will constrain our activities and limit our operational and financial flexibility. The failure to comply with the covenants in the senior credit agreement, the 364-day loan agreement and the agreements governing other indebtedness, including indebtedness incurred in the future, could result in an event of default, which, if not cured or waived, could have a material adverse effect on our business, financial condition and results of operations.

A downgrading of the ratings on our debt or an increase in interest rates will cause our debt service obligations to increase.

Borrowings under our senior credit agreement and 364-day loan agreement bear interest at floating rates. The rates are subject to adjustment based on the ratings of our senior unsecured long-term debt by Standard & Poor's Ratings Services, or S&P, and Moody's Investors Services, or Moody's. S&P has rated our senior unsecured long-term debt as BBB- and Moody's has rated our senior unsecured long-term debt as Baa3. S&P and/or Moody's may, in the future, downgrade our ratings. The downgrading of our ratings or an increase in benchmark interest rates would result in an increase of our interest expense on borrowings under our senior credit agreement and 364-day loan agreement. In addition, the downgrading of our ratings could adversely affect our future ability to obtain funding or materially increase the cost of any additional funding.

Our business is subject to hazards common to chemical businesses, any of which could interrupt our production and adversely affect our results of operations.

Our business is subject to hazards common to chemical manufacturing, storage, handling and transportation, including explosions, fires, inclement weather, natural disasters, mechanical failure, unscheduled downtime, transportation interruptions, remediation, chemical spills, discharges or releases of toxic or hazardous substances or gases and other risks. These hazards can cause personal injury and loss of life, severe damage to, or destruction of, property and equipment and environmental contamination. In addition, the occurrence of material operating problems at our facilities due to any of these hazards may diminish our ability to meet our output goals. Accordingly, these hazards, and their consequences could have a material adverse effect on our operations as a whole, including our results of operations and cash flows, both during and after the period of operational difficulties.

Table of Contents

The insurance that we maintain may not fully cover all potential exposures.

We maintain property, business interruption and casualty insurance but such insurance may not cover all risks associated with the hazards of our business and is subject to limitations, including deductibles and maximum liabilities covered. We may incur losses beyond the limits, or outside the coverage, of our insurance policies, including liabilities for environmental remediation. In addition, from time to time, various types of insurance for companies in the specialty chemical industry have not been available on commercially acceptable terms or, in some cases, have not been available at all. In the future, we may not be able to obtain coverage at current levels, and our premiums may increase significantly on coverage that we maintain.

We may not be able to consummate future acquisitions or successfully integrate the refinery catalysts business of Akzo Nobel or future acquisitions into our business, which could result in unanticipated expenses and losses.

As part of our business growth strategy, we have acquired businesses and entered into joint ventures in the past and intend to pursue acquisitions and joint venture opportunities in the future. Our ability to implement this component of our growth strategy will be limited by our ability to identify appropriate acquisition or joint venture candidates and our financial resources, including available cash and borrowing capacity. The expense incurred in consummating acquisitions or entering into joint ventures, the time it takes to integrate an acquisition or our failure to integrate businesses successfully, could result in unanticipated expenses and losses. Furthermore, we may not be able to realize any of the anticipated benefits from acquisitions or joint ventures.

As described under **Business Acquisition of Refinery Catalysts Business**, we acquired the refinery catalysts business of Akzo Nobel on July 31, 2004. This acquisition is the largest in our history and successful integration of this business is important to our future.

The process of integrating acquired operations into our existing operations may result in unforeseen operating difficulties and may require significant financial resources that would otherwise be available for the ongoing development or expansion of existing operations. Some of the risks associated with the integration of acquisitions include:

potential disruption of our ongoing business and distraction of management;

unforeseen claims and liabilities, including unexpected environmental exposures;

unforeseen adjustments, charges and write-offs;

problems enforcing the indemnification obligations of sellers of businesses or joint venture partners for claims and liabilities;

unexpected losses of customers of, or suppliers to, the acquired business;

difficulty in conforming the acquired business standards, processes, procedures and controls with our operations;

Edgar Filing: ALBEMARLE CORP - Form S-3/A

variability in financial information arising from the implementation of purchase price accounting;

inability to coordinate new product and process development;

loss of senior managers and other critical personnel and problems with new labor unions; and

challenges arising from the increased scope, geographic diversity and complexity of our operations.

The financial statements for the refinery catalysts business are derived from the accounting records of Akzo Nobel and may not be an accurate reflection of the financial condition or performance of the refinery catalysts business as a separate stand-alone company.

The financial information for the refinery catalysts business that we acquired from Akzo Nobel included in this prospectus supplement is derived from Akzo Nobel's accounting records and is presented on a carve-out

S-20

Table of Contents

basis of the historical operations applicable to the refinery catalysts business as operated by Akzo Nobel. This financial information reflects the assets, liabilities, revenues and expenses that were directly related to the refinery catalyst business as it was operated by Akzo Nobel, including certain dormant assets that we did not acquire. Additionally, this financial information includes allocations for various expenses, including corporate administrative and indirect expenses, as well as certain assets and liabilities historically maintained by Akzo Nobel and not recorded in the accounts of the refinery catalysts business. This financial information does not necessarily reflect what the results of operations, financial position and cash flows would have been if the refinery catalysts business had been operated as a separate stand-alone company during the periods presented or what our results of operations, financial position or cash flows would have been had we operated this business during the periods presented or what they will be in the future.

We may be unable to satisfactorily complete the evaluations and obtain the attestations required with respect to our internal controls over financial reporting.

We have invested significant resources to document and analyze our system of internal controls over financial reporting, and we are continuing our evaluation of such internal controls versus the standards adopted by the Public Company Accounting Oversight Board. In the course of our ongoing evaluation, we have identified certain areas of our internal controls requiring improvement, and are in the process of designing enhanced processes and controls to address issues identified through this review. We believe that our efforts will allow management and our independent registered public accounting firm to complete the procedures, certification and attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002 in connection with our Annual Report for the fiscal year ended December 31, 2004; however, we cannot guarantee such outcome. In the event that we are unable to complete the evaluation of our internal controls or our independent registered public accounting firm is unable to deliver an attestation, our Annual Report on Form 10-K would be defective and we may be subject to sanctions and may lose the ability to use registration statements on Form S-3.

We are not required to assess the effectiveness of the internal controls over financial reporting of the refinery catalysts business until 2005.

Section 404 of the Sarbanes-Oxley Act of 2002 and the rules of the SEC promulgated thereunder require issuer annual reports to contain a report of management's assessment of the effectiveness of internal controls over financial reporting and an attestation of the issuer's independent registered public accounting firm as to that management report. For our company, the first management internal controls report, as well as the first auditor attestation of that report, will be required to be included starting in our Annual Report Form 10-K for the fiscal year ended December 31, 2004. The SEC has clarified that the staff will not object if management's Section 404 report does not cover the internal controls of companies or businesses acquired during the fiscal year of the report where it is not possible for management to conduct a timely assessment following the consummation of the acquisition. Based on the staff's position, we intend to exclude the refinery catalysts business from our Section 404 certification for 2004. Therefore, we will not be required to determine the effectiveness of the internal accounting controls for the refinery catalysts business until we complete our assessment for 2005.

We may be unable to achieve, or may be delayed in achieving, our cost-reduction goals.

We have put in place workplace initiatives throughout our businesses in an effort to reduce operating expenses and increase organizational efficiency. To achieve these goals, we have reduced our workforce, and we are attempting to streamline and further automate processing, consolidate manufacturing processes and reduce general and administrative expenses. We expect to continue to implement programs intended to achieve cost savings and improve operational results. If we are unable to achieve, or if we meet any unexpected delays in achieving, these goals, our results of operations and cash flows may be adversely affected. Additionally, even if we achieve our operational goals, we may not receive the expected financial benefits of our initiatives, or the costs of implementing these cost-reduction measures, including any related reduction in workforce charges or write-down of assets, could exceed the benefits of these initiatives.

Table of Contents

We may incur significant charges in the event we close all or part of a manufacturing plant or facility.

We periodically assess our manufacturing operations in order to manufacture and distribute our products in the most efficient manner. Based on our assessments, we may make capital improvements to modernize certain units, move manufacturing or distribution capabilities from one plant or facility to another plant or facility, discontinue manufacturing or distributing certain products or close all or part of a manufacturing plant or facility. We also have shared services agreements at several of our plants and if such agreements are terminated or revised, we would assess and potentially adjust our manufacturing operations. The closure of all or part of a manufacturing plant or facility could result in future charges which could be significant.

If we are unable to retain key personnel or attract new skilled personnel, it could have an adverse effect on our business.

The unanticipated departure of any key member of our management team could have an adverse effect on our business. In addition, because of the specialized and technical nature of our business, our future performance is dependent on the continued service of, and on our ability to attract and retain, qualified management, scientific, technical, marketing and support personnel. Competition for such personnel is intense, and we may be unable to continue to attract or retain such personnel.

Some of our employees are unionized, represented by workers councils or are employed subject to local laws that are less favorable to employers than the laws of the United States.

As of September 30, 2004, we had approximately 3,700 employees. Approximately 20% of our 2,100 U.S. employees are unionized. Two of our collective bargaining agreements expire in 2005 and one expires in 2007. In addition, a large number of our employees are employed in countries in which employment laws provide greater bargaining or other rights to employees than the laws of the United States. Such employment rights require us to work collaboratively with the legal representatives of the employees to effect any changes to labor arrangements. For example, most of our employees in Europe are represented by workers councils that must approve any changes in conditions of employment, including salaries and benefits and staff changes, and may impede efforts to restructure our workforce. Although we believe that we have a good working relationship with our employees, a strike, work stoppage or slowdown by our employees or significant dispute with our employees could result in a significant disruption of our operations or higher ongoing labor costs.

Our joint ventures may not operate according to their business plans if our partners fail to fulfill their obligations, which may adversely affect our results of operations and may force us to dedicate additional resources to these joint ventures.

We currently participate in a number of joint ventures and may enter into additional joint ventures in the future. The nature of a joint venture requires us to share control with unaffiliated third parties. If our joint venture partners do not fulfill their obligations, the effected joint venture may not be able to operate according to its business plan. In that case, our results of operations may be adversely affected and we may be required to increase the level of our commitment to the joint venture. Also, differences in views among joint venture participants may result in delayed decisions or failures to agree on major issues. If these differences cause the joint ventures to deviate from their business plans, our results of operations could be adversely affected.

Although our pension plans are currently adequately funded, events could occur that would require us to make significant contributions to the plans and reduce the cash available for our business.

Edgar Filing: ALBEMARLE CORP - Form S-3/A

We have several defined benefit pension plans around the world, including in the United States, the Netherlands, Germany, Japan and Belgium, covering most of our employees. The U.S. plans represent approximately 80% of the total liabilities of the plans worldwide. We are required to make cash contributions to our pension plans to the extent necessary to comply with minimum funding requirements imposed by the various countries' benefit and tax laws. The amount of any such required contributions will be determined annually based on an actuarial valuation of the plans as performed by the plans' actuaries.

S-22

Table of Contents

During 2003, we contributed \$11.3 million in cash to our U.S. defined benefit pension plans, of which \$10.0 million was voluntary. With this contribution, our U.S. defined benefit pension plans in aggregate were approximately 128% funded on a U.S. Internal Revenue Service funding basis as of December 31, 2003 and, as a result, there are no minimum required cash contributions to the U.S. pension plans in 2004. However, the actual amount of contributions made subsequent to 2003 will depend upon asset returns, then-current interest rates, and a number of other factors. The amount we may elect or be required to contribute to our pension plans in the future may increase significantly. Specifically, if year-end accumulated obligations exceed assets, we may elect to make a voluntary contribution, over and above the minimum required, in order to avoid additional minimum liability charges to our balance sheet and consequent reductions to shareholders' equity. These contributions could be substantial and would reduce the cash available for our business.

The occurrence or threat of extraordinary events, including domestic and international terrorist attacks, may disrupt our operations and decrease demand for our products.

Chemical-related assets may be at greater risk of future terrorist attacks than other possible targets in the United States and throughout the world. Federal legislation is under consideration that could impose significant new site security requirements specifically on chemical manufacturing facilities which may increase our over-head expenses. New federal regulations have already been adopted to increase the security of the transportation of hazardous chemicals in the United States.

The occurrence of extraordinary events, including future terrorist attacks and the outbreak or escalation of hostilities, cannot be predicted, and their occurrence can be expected to continue to affect negatively the economy in general, and specifically the markets for our products. The resulting damage from a direct attack on our assets or assets used by us could include loss of life and property damage. In addition, available insurance coverage may not be sufficient to cover all of the damage incurred or, if available, may be prohibitively expensive.

Risks Related to Our Common Stock

Because a significant portion of our operations is conducted through our subsidiaries and joint ventures, our ability to service our debt and pay dividends to holders of our common stock is largely dependent on our receipt of distributions or other payments from our subsidiaries and joint ventures.

A significant portion of our operations is conducted through our subsidiaries and joint ventures. As a result, our ability to service our debt and pay dividends to holders of our common stock is largely dependent on the earnings of our subsidiaries and joint ventures and the payment of those earnings to us in the form of dividends, loans or advances and through repayment of loans or advances from us. Payments to us by our subsidiaries and joint ventures will be contingent upon our subsidiaries' or joint ventures' earnings and other business considerations and may be subject to statutory or contractual restrictions. In addition, there may be significant tax and other legal restrictions on the ability of non-U.S. subsidiaries or joint ventures to remit money to us.

The interests of our principal shareholders may conflict with your interests, and they could act in a manner detrimental to you.

As of November 30, 2004, Floyd D. Gottwald, Jr., the Vice Chairman of our board of directors and Chairman of the Executive Committee of our board of directors, and his sons, William M. Gottwald, the Chairman of our board of directors, John D. Gottwald, a member of our board of directors, and James T. Gottwald, beneficially owned approximately 9.1 million shares, or 21.8%, of the outstanding shares of our common

Edgar Filing: ALBEMARLE CORP - Form S-3/A

stock. John D. Gottwald and certain entities controlled by the Gottwalds are selling 488,420 shares of our common stock in this offering and may sell up to an aggregate of 1,111,580 shares of our common stock in one or more additional offerings under applicable prospectus supplements. Assuming that all of these shares are sold, the Gottwalds will continue to own approximately 7.5 million shares beneficially, or 16.4%, of the outstanding shares of our common stock. By virtue of their stock ownership, the Gottwalds have the power to influence the outcome of matters

S-23

Table of Contents

submitted to shareholders for approval, including the election of directors, the approval of mergers and other business combination transactions and the amendment of our amended and restated articles of incorporation or amended bylaws. The interests of the Gottwalds may not coincide with the interests of our other securityholders, and they could take actions that advance their own interests to the detriment of our other securityholders.

The price of our common stock may fluctuate significantly, and you could lose all or part of your investment.

Volatility in the market price of our common stock may prevent you from being able to sell your shares at or above the price you paid for your shares. The market price of our common stock could fluctuate significantly for various reasons, which include the following:

our quarterly or annual earnings or those of other companies in our industry;

changes to our dividend policy or restrictions on our ability to declare and pay dividends;

the public's reaction to our press releases, our other public announcements and our filings with the SEC;

changes in earnings estimates or recommendations by research analysts who track our common stock, the stock of other specialty chemical companies or the stock of companies in our primary end-markets;

changes in U.S. and global economic conditions, financial markets or specialty chemical industry;

primary sales of common stock by us or secondary sales of our common stock by our principal shareholders and our directors and executive officers; and

the other factors described in "Risk Factors" in this prospectus supplement.

We may be restricted from paying cash dividends on our common stock in the future.

We currently declare and pay quarterly cash dividends on our common stock. The declaration and payment of dividends is subject to the discretion of our board of directors and depends upon various factors, including our financial condition, earnings, cash requirements, legal requirements and other factors deemed relevant by our board of directors. Furthermore, we will be permitted under the terms of our senior credit agreement, 364-day loan agreement and the indentures governing the debt securities described in the accompanying prospectus to incur additional indebtedness that may restrict or prohibit the payment of dividends. We cannot assure you that the agreements governing our future indebtedness will permit us to pay dividends on our common stock.

Future sales of our common stock in the public market could lower our stock price.

Edgar Filing: ALBEMARLE CORP - Form S-3/A

We and members of the Gottwald family, including the selling shareholders named in this prospectus supplement, may sell additional shares of common stock in subsequent public offerings. We may also issue additional shares of common stock to finance future acquisitions. Any of the shares offered by this and other prospectus supplements generally will be freely tradeable without further restriction or further registration under the federal securities laws, unless purchased by an affiliate as that term is defined in Rule 144 under the Securities Act of 1933. We cannot predict the size of future issuances of our common stock, if any, or the effect that future issuances and sales of shares of our common stock will have on the market price for our common stock. Sales of substantial amounts of our common stock by us, including shares issued in connection with an acquisition, or by members of the Gottwald family, or the perception that such sales could occur, may adversely affect prevailing market prices for our common stock.

S-24

Table of Contents

Certain provisions of Virginia law and our amended and restated articles of incorporation and amended bylaws could make it more difficult for our shareholders to remove our board of directors and management.

Certain provisions of Virginia law, the state in which we are incorporated, and our amended and restated articles of incorporation and amended bylaws could make it more difficult for our shareholders to remove our board of directors or management. These provisions include:

a provision allowing our board of directors to issue preferred stock with rights senior to those of the common stock without any vote or action by the holders of our common stock. The issuance of preferred stock could adversely affect the rights and powers, including voting rights, of the holders of common stock;

a provision allowing the removal of directors only for cause;

the requirement that shareholders provide advance notice when nominating our directors or submitting other shareholder proposals; and

the inability of shareholders to convene a special shareholders meeting without the chairman of the board, the chief executive officer or a majority of the board of directors first calling the meeting.

These and other provisions may also have the effect of discouraging a change of control transaction.

Table of Contents

USE OF PROCEEDS

The net proceeds to Albemarle from the sale of 4,000,000 shares of our common stock in this offering are estimated to be approximately \$149.0 million (approximately \$171.4 million if the underwriters' over-allotment option is exercised in full) at an assumed offering price of \$39.16 per share after deducting the underwriting discount and estimated offering expenses. We will not receive any of the proceeds from the sale of shares of our common stock by the selling shareholders.

We expect to use the net proceeds that we receive from this offering, together with an estimated \$297.3 million of net proceeds from the notes offering, to retire all or substantially all of the indebtedness that we incurred under our 364-day loan agreement to finance our acquisition of Akzo Nobel's refinery catalysts business. To the extent that the net proceeds from this offering, together with the net proceeds from the notes offering, are insufficient to retire all of the indebtedness outstanding under our 364-day loan agreement, we intend to incur additional borrowings under our \$300 million revolving credit facility to retire the remaining amount of indebtedness outstanding under our 364-day loan agreement. As of September 30, 2004, we had \$450 million of indebtedness outstanding under our 364-day loan agreement. Our borrowings under the 364-day loan agreement bear interest at floating rates based on an average London interbank offered rate, or LIBOR, for deposits in the relevant currency plus 1.0% and mature on July 28, 2005. As of September 30, 2004, borrowings under the 364-day loan agreement were accruing interest at the rate of 2.69% per annum. The completion of this offering is not contingent on the completion of the notes offering but the notes offering is contingent on the completion of this offering.

Affiliates of Bear, Stearns & Co. Inc., UBS Securities LLC and Banc of America Securities LLC are lenders under our 364-day loan agreement. It is expected that these affiliates will receive a portion of the proceeds from this offering and the senior notes offering used to repay all or substantially all of the borrowings outstanding under our 364-day loan agreement.

Table of Contents**PRICE RANGE OF COMMON STOCK AND DIVIDENDS**

Our common stock trades on the New York Stock Exchange, or the NYSE, under the symbol ALB. The following table sets forth on a per share basis the high and low sales prices for our common stock for the periods indicated as reported on the NYSE composite transactions reporting system and the dividends paid per share on our common stock.

	Common Stock Price Range		Dividends Paid Per Share of Common Stock
	High	Low	
2002			
First Quarter	\$ 27.73	\$ 21.90	\$ 0.13
Second Quarter	33.00	26.67	0.13
Third Quarter	31.95	24.80	0.13
Fourth Quarter	31.36	23.60	0.14
2003			
First Quarter	\$ 29.88	\$ 22.10	\$ 0.14
Second Quarter	28.62	23.72	0.14
Third Quarter	29.22	25.99	0.14
Fourth Quarter	30.70	25.63	0.14
2004			
First Quarter	\$ 30.75	\$ 27.20	\$ 0.145
Second Quarter	31.85	26.97	0.145
Third Quarter	35.39	29.50	0.145
Fourth Quarter (through December 8, 2004)	40.65	32.95	(1)

- (1) On November 17, 2004, our board of directors declared a dividend of \$0.15 per share payable on January 1, 2005 to shareholders of record on December 15, 2004.

On December 8, 2004, the last reported sale price of our common stock on the NYSE was \$39.16 per share. As of November 30, 2004, there were 4,851 holders of record of our common stock.

DIVIDEND POLICY

We have declared and paid cash dividends on our common stock without interruption since 1994. The declaration and payment of dividends is subject to the discretion of our board of directors. Future dividends will depend on various factors, including our financial condition, earnings, cash requirements, legal requirements and other factors deemed relevant by our board of directors.

Table of Contents**CAPITALIZATION**

The table below shows our cash and cash equivalents and capitalization as of September 30, 2004:

on an actual basis;

on a pro forma as adjusted basis to give effect to the sale of the 4,000,000 shares of our common stock offered by this prospectus supplement at an assumed public offering price of \$39.16 per share, assuming no exercise of the underwriters' over-allotment option, and the application of the net proceeds as described in "Use of Proceeds;" and

on a pro forma as further adjusted basis also to give effect to the sale of \$300.0 million aggregate principal amount of notes in the notes offering at par and the application of the net proceeds therefrom as described in "Use of Proceeds."

You should read the information in this table together with "Unaudited Pro Forma Combined Financial Information," "Selected Historical Consolidated Financial Information of Albemarle," "Management's Discussions and Analysis of Financial Condition and Results of Operations of Albemarle" and our historical consolidated financial statements and the related notes included elsewhere in this prospectus supplement.

	As of September 30, 2004		
	Actual	As Adjusted for Common Stock Offering	As Further Adjusted for Notes Offering
	(in thousands)		
Cash and cash equivalents	\$ 60,817	\$ 60,817	\$ 60,817
Short-term debt			
364-day loan	\$ 450,000	\$ 300,965	\$
Current maturities of long-term debt	45,047	45,047	45,047
Total short-term debt	495,047	346,012	45,047
Long-term debt			
Senior credit agreement revolving loan facility	20,000	20,000	23,715
Senior credit agreement term loan	393,750	393,750	393,750
New senior notes			300,000
Variable rate bank loans	28,059	28,059	28,059
Industrial revenue bonds	11,000	11,000	11,000
Foreign borrowings	4,545	4,545	4,545
Other debt	865	865	865
Total long-term debt	458,219	458,219	761,934
Total debt	953,266	804,231	806,981
Shareholders' equity			

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Common stock, \$.01 par value (authorized 150,000,000), 41,657,017, 45,657,017 and 45,657,017 issued and outstanding	417	457	457
Additional paid-in capital	9,432	158,427	158,427
Accumulated other comprehensive income	25,197	25,197	25,197
Retained earnings	628,557	628,094	627,171
	<u> </u>	<u> </u>	<u> </u>
Total shareholders equity	663,603	812,175	811,252
	<u> </u>	<u> </u>	<u> </u>
Total capitalization	\$ 1,616,869	\$ 1,616,406	\$ 1,618,233
	<u> </u>	<u> </u>	<u> </u>

S-28

Table of Contents

UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION

The following unaudited pro forma combined financial statements are based on our historical consolidated financial statements as of and for the year ended December 31, 2003 and the nine months ended September 30, 2004, which are included elsewhere in this prospectus supplement, and the historical combined financial statements of Akzo Nobel's refinery catalysts business, which we acquired on July 31, 2004, as of and for the year ended December 31, 2003, which are included elsewhere in this prospectus supplement, and the seven months ended July 31, 2004, which are not included in this prospectus supplement. The unaudited pro forma combined financial statements should be read in conjunction with our audited consolidated financial statements and related notes for the year ended December 31, 2003, our unaudited condensed consolidated financial statements and related notes for the nine months ended September 30, 2004 and the audited combined financial statements and related notes of the refinery catalysts business for the year ended December 31, 2003, each included elsewhere in this prospectus supplement.

The unaudited pro forma combined financial statements give effect to (1) the acquisition of the refinery catalysts business, (2) the financing of the purchase price through borrowings of approximately \$510 million under our senior credit agreement and of \$450 million under our 364-day loan agreement, including amounts borrowed to refinance approximately \$233 million outstanding under our then-existing credit agreement and to pay related fees and expenses and (3) the completion of this offering and the notes offering and the application of the net proceeds therefrom as described in Use of Proceeds.

The unaudited pro forma combined financial statements give effect to the above transactions as if they had occurred on January 1, 2003. The acquisition of the refinery catalysts business has been accounted for as a purchase in conformity with Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations. The total cost of the acquisition has been allocated to the preliminary estimates of assets acquired and liabilities assumed based on their respective estimated fair values as of July 31, 2004. The excess of the purchase price over the preliminary fair values of the net assets acquired has been allocated to goodwill. The preliminary allocation of the purchase price is subject to adjustment until it is finalized, which is expected to occur no later than the first quarter of 2005. Accordingly, the final purchase price allocation and the resulting effect on income from operations may differ from the pro forma amounts included in this prospectus supplement. The unaudited pro forma combined financial statements do not give effect to any working capital purchase price adjustment provided for in the sale agreement, the amount of which has not yet been finalized. The unaudited pro forma combined financial statements presented below do not reflect any anticipated operating efficiencies or cost savings from the integration of the refinery catalysts business into our business. The unaudited pro forma combined statements of income do not include the cumulative effect of the change in accounting resulting from our adoption of SFAS No. 143, Accounting for Asset Retirement Obligation, in 2003.

In connection with the acquisition, we incurred during the third quarter of 2004 certain one-time after-tax costs and expenses, including foreign exchange hedging losses of \$10.0 million on contracts entered into for the purpose of hedging the euro-denominated purchase price for the acquired business, additional cost of sales charges of \$8.5 million as a result of inventory write-ups, \$3.0 million as a result of purchased in-process research and development write-offs and unamortized financing costs write-offs of \$0.4 million. These costs and expenses resulted in an aggregate one-time after-tax charge of \$21.9 million, which is included in the unaudited pro forma combined financial statements for the nine months ended September 30, 2004.

The unaudited pro forma combined financial statements reflect pro forma adjustments that are described in the accompanying notes and are based on available information and certain assumptions our management believes are reasonable, but are subject to change. We have made, in the opinion of our management, all adjustments that are necessary to present fairly the unaudited pro forma combined financial information. The unaudited pro forma combined financial statements do not purport to represent what our results of operations or financial position actually would have been had the acquisition and related transactions occurred on the dates indicated or to project our financial position as of any future date or our results of operations for any future period.

Table of Contents**ALBEMARLE CORPORATION****UNAUDITED PRO FORMA COMBINED STATEMENT OF INCOME****For the Year Ended December 31, 2003****(in thousands, except per share data)**

	Albemarle Corporation	Refinery Catalysts U.S. GAAR	Refinery Catalysts Reclassification	Pro Forma Acquisition Adjustments	Albemarle Pro Forma for Acquisition	Pro Forma Common Stock Offering Adjustments	Albemarle Pro Forma for Acquisition and Common Stock Offering	Pro Forma Notes Offering Adjustments	Albemarle Pro Forma for Acquisition, Common Stock Offering and Notes
	(1)	(2)	(3)	(4)	(5)(6)	(7)	Offering	(8)	Offering
Net sales	\$ 1,110,237	\$ 404,950	\$	\$	\$ 1,515,187	\$	\$ 1,515,187	\$	\$ 1,515,187
Cost of goods sold	871,727	278,660	(6,459)A	(520)B	1,143,408		1,143,408		1,143,408
Gross profit	238,510	126,290	6,459	520	371,779		371,779		371,779
Selling, general and administrative expenses	117,226	61,827		(16)C	179,037		179,037		179,037
Research and development (R&D) expenses	18,411	21,365		(16)D	39,760		39,760		39,760
Purchased in-process R&D charges				3,000 E	3,000		3,000		3,000
Special items	10,049				10,049		10,049		10,049
Operating profit	92,824	43,098	6,459	(2,448)	139,933		139,933		139,933
Interest and financing expenses	(5,376)	(3,960)		(21,292)F	(30,628)	5,034I	(25,594)	(6,692)J	(32,286)
Other income (expense), net including minority interest	607	15,410	(6,459)A	G	9,558		9,558		9,558
Income before income taxes and cumulative effect of a change in accounting principle, net	88,055	54,548		(23,740)	118,863	5,034	123,897	(6,692)	117,205
Income taxes	13,890	16,151		(7,570)H	22,471	1,838	24,309	(2,442)	21,867
Income before cumulative effect of a change in accounting principle, net	\$ 74,165	\$ 38,397	\$	\$ (16,170)	\$ 96,392	\$ 3,196	\$ 99,588	\$ (4,250)	\$ 95,338
Basic earnings per share: Income before cumulative effect of a change in accounting principle, net	\$ 1.79				\$ 2.34		\$ 2.20		\$ 2.11
Diluted earnings per share: Income before cumulative effect of a change in accounting principle, net	\$ 1.76				\$ 2.29		\$ 2.16		\$ 2.07

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Weighted average shares outstanding basic	41,255	41,255	45,255	45,255
Weighted average shares outstanding diluted	42,146	42,146	46,146	46,146

S-30

Table of Contents**ALBEMARLE CORPORATION****UNAUDITED PRO FORMA COMBINED STATEMENT OF INCOME****For the Nine Months Ended September 30, 2004****(in thousands, except per share data)**

	Albemarle Corporation	Refinery Catalysts U.S. GAAP	Refinery Catalysts Reclassification	Pro Forma Acquisition Adjustments	Albemarle Pro Forma for Acquisition	Pro Forma Common Stock Offering Adjustments for Acquisition and Common Stock	Albemarle Pro Forma Offering	Pro Forma Notes Offering Adjustments	Albemarle Pro Forma for Acquisition, Common Stock Offering and Notes Offering
	(1)	(2)	(3)	(4)	(5)(6)	(7)	Offering	(8)	Notes Offering
Net sales	\$ 1,062,672	\$ 282,967	\$	\$	\$ 1,345,639	\$	\$ 1,345,639	\$	\$ 1,345,639
Cost of goods sold	845,952	201,751	(1,728) A	212 B	1,046,187		1,046,187		1,046,187
Acquisition-related cost	13,400			(13,400)					
Gross profit	203,320	81,216	1,728	13,188	299,452		299,452		299,452
Selling, general and administrative expenses	106,078	41,100		4 C	147,182		147,182		147,182
Research and development (R&D) expenses	18,768	14,994		4 D	33,766		33,766		33,766
Purchased in-process R&D charges	3,000			(3,000)E					
Special items	4,858				4,858		4,858		4,858
Operating profit	70,616	25,122	1,728	16,180	113,646		113,646		113,646
Interest and financing expenses	(9,168)	(1,345)		(12,145)F	(22,658)	3,772I	(18,886)	(4,949)J	(23,835)
Other income (expense), net including minority interest	(13,532)	8,404	(1,728)A	12,848 G	5,992		5,992		5,992
Income before income taxes and cumulative effect of a change in accounting principle, net	47,916	32,181		16,883	96,980	3,772	100,752	(4,949)	95,803
Income taxes	12,714	9,167		5,067 H	26,948	1,376	28,324	(1,806)	26,518
Income before cumulative effect of a change in accounting principle, net	\$ 35,202	\$ 23,014	\$	\$ 11,816	\$ 70,032	\$ 2,396	\$ 72,428	\$ (3,143)	\$ 69,285
Basic earnings per share: Income before cumulative effect of a change in accounting principle, net	\$ 0.85				\$ 1.69		\$ 1.59		\$ 1.52
Diluted earnings per share: Income before cumulative effect of a change in	\$ 0.83				\$ 1.65		\$ 1.56		\$ 1.50

Edgar Filing: ALBEMARLE CORP - Form S-3/A

accounting principle, net				
Weighted average shares outstanding basic	41,497	41,497	45,497	45,497
Weighted average shares outstanding diluted	42,342	42,342	46,342	46,342

S-31

Table of Contents**ALBEMARLE CORPORATION****NOTES TO UNAUDITED PRO FORMA COMBINED STATEMENTS OF INCOME****For the Year Ended December 31, 2003 and Nine Months Ended September 30, 2004****(in thousands)**

- (1) This column represents Albemarle's historical consolidated income statements as reported for the periods presented.
- (2) This column represents the historical income statements of the refinery catalysts business under U.S. GAAP stated in euros and translated to U.S. dollars for pro forma purposes using estimated average U.S. dollars to euro exchange rates of \$1.131 and \$1.228 to 1 for the income statements of the refinery catalysts business for the 12 months ending December 31, 2003 and seven months ending July 31, 2004, respectively, which was the exchange rate used by management of the refinery catalysts business for the purpose of converting U.S. dollar amounts to euros in connection with the preparation of the euro-denominated financial statements of the refinery catalysts business. Such translations should not be construed as a representation that the euro amounts represent, or have been or could be converted into, U.S. dollars at that or any other rate.
- (3) The adjustments in this column represent the reclassifications necessary to conform the historical refinery catalysts business amounts to the Albemarle statement of income presentation.

Note	Year Ended December 31, 2003	Nine Months Ended September 30, 2004	
A	\$ (6,459)	\$ (1,728)	To reclassify foreign exchange gains and losses from other income to cost of goods sold to conform to Albemarle's application of U.S. GAAP reporting for this item

- (4) This column represents the adjustments necessary to give pro forma effect to the acquisition of the refinery catalysts business as if the acquisition had taken place on January 1, 2003. The majority of these adjustments relate to a preliminary allocation of the acquisition purchase price, which is expected to be finalized within one year of the acquisition date. See description of these adjustments below:

Note	Year Ended December 31, 2003	Nine Months Ended September 30, 2004	
B	\$ (601)	\$ 145	Represents adjustments to depreciation and amortization expense included in cost of goods sold for differences between estimated fair values assigned to refinery catalysts business tangible assets (average 15 year depreciation lives) and intangible assets (average 15 year amortization lives) versus historical depreciation and amortization amounts reported

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Represents adjustments to amortization of capitalized interest differences between assumed interest capitalized under pro forma debt interest assumptions described in Note F below versus historical amounts reported

81	67
\$ (520)	\$ 212

The assumed one-time impact to cost of goods sold of Albemarle's estimated purchase accounting adjustment to step up finished goods and work-in-progress inventories acquired in the refinery catalysts business acquisition of \$13,400 has not been included in the unaudited pro forma combined statements of income presented.

Table of Contents**ALBEMARLE CORPORATION****NOTES TO UNAUDITED PRO FORMA COMBINED STATEMENTS OF INCOME (Continued)****For the Year Ended December 31, 2003 and Nine Months Ended September 30, 2004****(in thousands)**

Total pro forma depreciation and amortization expense totaled \$116,727 and \$88,986 for the year ended December 31, 2003 and nine months ended September 30, 2004, respectively.

Note	Year Ended December 31, 2003	Nine Months Ended September 30, 2004	
C	\$ (16)	\$ 4	Represents adjustments to estimated depreciation expense included in selling, general and administrative expense for differences between estimated fair values assigned to refinery catalysts business tangible assets (average 15 year depreciation lives) versus historical depreciation amounts reported
D	\$ (16)	\$ 4	Represents adjustments to estimated depreciation expense included in research and development expense for differences between estimated fair values assigned to refinery catalysts business tangible assets (average 15 year depreciation lives) versus historical depreciation amounts reported
E	\$ 3,000	\$ (3,000)	To record (1) estimated purchased in-process research and development assumed to be charged to expense immediately upon the January 1, 2003 pro forma effective acquisition date for the twelve months ended December 31, 2003 and (2) corresponding reversal of historical amounts recorded in the nine-month period ended September 30, 2004
F	Pro forma interest expense adjustments are detailed as follows:		
	\$ 3,960	\$ 1,345	Reversal of historical net interest and financing expenses of the refinery catalysts business as reported for the periods presented
	5,376	9,168	Reversal of Albemarle historical net interest and financing expenses as reported for the periods presented
	964	998	Estimated capitalized interest expense associated with the new debt structure
	(220)	(165)	Estimated interest expense associated with Albemarle's existing industrial revenue bond and foreign loans
	(1,763)	(1,322)	Estimated interest expense associated with the \$300 million revolving credit facility bearing interest at 2.55%
	(12,600)	(9,450)	

Edgar Filing: ALBEMARLE CORP - Form S-3/A

		Estimated interest expense associated with the \$450 million 364-day loan agreement at 2.8%, assumed outstanding for entirety of all periods presented
(12,600)	(9,450)	Estimated interest expense associated with the \$450 million five-year term loan facility bearing interest at 2.8%
(3,509)	(2,632)	Amortization of estimated debt issuance costs on new financing (amounts exclude write off of \$575,000 of estimated deferred loan costs associated with Albemarle's previous credit facilities replaced by the debt facilities described above)
(150)	(75)	Additional commitment fees and other recurring costs associated with new financing structure
(750)	(562)	Reflects commitment fees of 0.25% on the \$300 million revolving credit facility
<u>\$ (21,292)</u>	<u>\$ (12,145)</u>	Total

S-33

Table of Contents**ALBEMARLE CORPORATION****NOTES TO UNAUDITED PRO FORMA COMBINED STATEMENTS OF INCOME (Continued)****For the Year Ended December 31, 2003 and Nine Months Ended September 30, 2004****(in thousands)**

Note a 0.125% increase or decrease in the weighted average interest rate applicable to Albemarle's indebtedness outstanding under its new financing structure would impact the estimated pro forma interest expense for the year ended December 31, 2003 and nine months ended September 30, 2004, by the following amounts:

	Year Ended December 31, 2003	Nine Months Ended September 30, 2004	
	\$ 1,211	\$ 909	
Note	Year Ended December 31, 2003	Nine Months Ended September 30, 2004	
G	\$	\$ 12,848	Adjustment represents elimination of Albemarle's euro hedging contract net losses recorded related to hedge contracts entered into in connection with the refinery catalysts business acquisition
H	\$ (7,570)	\$ 5,067	Adjustments represent pro forma income tax impacts of the pro forma adjustments based on the estimated applicable statutory tax rates at 36.5% (excluding purchased in-process research and development charges deemed non-tax deductible)

(5) This column represents the unaudited pro forma combined statements of income of Albemarle giving effect to the July 31, 2004 acquisition of the refinery catalysts business as if the acquisition occurred on January 1, 2003. These amounts are derived by summing the columns captioned Albemarle Corporation, Refinery Catalysts U.S. GAAP, Refinery Catalysts Reclassification and Pro Forma Acquisition Adjustments.

(6) See the table below detailing the following significant non-recurring (income) and expense items which have been included in the Albemarle unaudited pro forma combined statements of income for the periods presented:

Year Ended December 31, 2003		Nine Months Ended September 30, 2004	
Pre-tax	After-tax	Pre-tax	After-tax

Edgar Filing: ALBEMARLE CORP - Form S-3/A

\$ 10,049	\$ 6,402	\$ 4,858	\$ 3,095	Albemarle s reported special items impacting operating profit
(4,308)	(13,816)			Albemarle income tax refunds and related interest
(44)	(28)	(444)	(282)	Refinery catalysts business provisions liability additions/reversals activity, net
(6,459)	(4,102)	(1,728)	(1,097)	Refinery catalysts business foreign exchange hedging gains and losses
		(6,945)	(4,424)	Insurance settlement gain
		3,396	2,163	Valuation reserve on claim receivable

(7) This column reflects the use of estimated net proceeds of \$149.0 million from the sale of 4,000,000 shares of our common stock in this offering at an assumed public offering price of \$39.16 per share after deducting the underwriting discount and estimated offering expenses of \$0.4 million to retire a corresponding amount of the indebtedness that Albemarle incurred under the 364-day loan agreement. For purposes of this column, it is assumed that the underwriters do not exercise their over-allotment option.

Table of Contents**ALBEMARLE CORPORATION****NOTES TO UNAUDITED PRO FORMA COMBINED STATEMENTS OF INCOME (Continued)****For the Year Ended December 31, 2003 and Nine Months Ended September 30, 2004****(in thousands)**

Note	Year Ended December 31, 2003	Nine Months Ended September 30, 2004	
I			Represents estimated reduced interest expense associated with reduced borrowings outstanding under the \$450 million 364-day loan agreement bearing interest at 2.8%
	\$ 4,174	\$ 3,130	
	870	652	Represents estimated reduced commitment fee and funding fee associated with reduced borrowings under the \$450 million 364-day loan agreement
	(10)	(10)	Represents estimated decrease in capitalized interest cost (average interest rate decreased from 3.21% to 3.17%)
	<u>\$ 5,034</u>	<u>\$ 3,772</u>	

(8) This column reflects the use of estimated net proceeds of \$297.3 million from the sale of \$300.0 million aggregate principal amount of notes in the notes offering at par after deducting the underwriting discount and estimated offering expenses of \$0.8 million to retire substantially all of the remaining amount of the indebtedness that Albemarle incurred under the 364-day loan agreement and the incurrence of additional borrowings of \$3.7 million under the \$300 million revolving credit facility to retire the remaining amount of indebtedness that Albemarle incurred under the 364-day loan agreement.

Note	Year Ended December 31, 2003	Nine Months Ended September 30, 2004	
J			Represents estimated reduced interest expense associated retirement of substantially all of the remaining amount outstanding under the \$450 million 364-day loan agreement bearing interest at 2.8%
	\$ 8,427	\$ 6,320	
	(95)	(71)	Represents estimated increased interest expense associated with additional borrowings under the \$300 million revolving credit facility bearing interest at 2.55%
	1,505	1,129	Represents estimated reduced commitment fee and funding fee associated with reduced borrowings under the \$450 million 364-day loan agreement
	(275)	(206)	Represents estimated amortization of underwriting fee payable in the notes offering

Edgar Filing: ALBEMARLE CORP - Form S-3/A

(16,500)	(12,375)	Represents estimated interest expense associated with the notes at 5.50%
<u>246</u>	<u>254</u>	Represents estimated increase in capitalized interest cost (average interest rate increased from 3.17% to 3.99%)
<u>\$ (6,692)</u>	<u>\$ (4,949)</u>	

This column assumes an interest rate of 5.50% for the notes. A change of 0.125% in the interest rate applicable to the notes would change Albemarle's annualized interest expense by \$0.4 million.

Table of Contents**SELECTED HISTORICAL CONSOLIDATED FINANCIAL INFORMATION OF ALBEMARLE**

The following table sets forth selected historical consolidated financial information as of and for the years ended December 31, 2003, 2002, 2001, 2000 and 1999, which have been derived from our audited consolidated financial statements, and as of and for the nine months ended September 30, 2004 and 2003, which have been derived from our unaudited consolidated financial statements. In the opinion of our management, the unaudited consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and include all adjustments necessary for a fair presentation of the information set forth therein. Interim results are not necessarily indicative of full year results.

You should read the information in this table together with Management's Discussion and Analysis of Financial Condition and Results of Operations of Albemarle and our historical consolidated financial statements and the related notes contained elsewhere in this prospectus supplement and the other information contained in the documents incorporated by reference in this prospectus supplement. See Where You Can Find More Information and Documents Incorporated by Reference.

	Nine Months		Year Ended				
	Ended September 30,		December 31,				
	2004	2003	2003	2002	2001	2000	1999
	(unaudited)	(unaudited)	(restated)(1)				
	(in thousands, except per share amounts and ratios)						
Statements of Income Data:							
Net sales	\$ 1,062,672	\$ 815,113	\$ 1,110,237	\$ 1,007,918	\$ 942,752	\$ 941,449	\$ 865,937
Cost of goods sold	845,952	640,331	871,727	775,388	721,417	669,986	608,995
Acquisition-related cost	13,400						
Gross profit	203,320	174,782	238,510	232,530	221,335	271,463	256,942
Selling, general and administrative expenses	106,078	85,026	117,226	111,676	98,915	103,234	97,836
Research and development (R&D) expenses	18,768	14,133	18,411	16,485	21,919	26,201	34,288
Purchased in-process R&D charges	3,000						
Special items (2)	4,858	7,503	10,049	1,550	2,051	(8,134)	10,692
Operating profit	70,616	68,120	92,824	102,819	98,450	150,162	114,126
Interest and financing expenses	(9,168)	(4,043)	(5,376)	(5,070)	(5,536)	(5,998)	(8,379)
Gain on sale of investment in Albright & Wilson stock, net							22,054
Other income (expense), net including minority interest	(13,532)	594	607	3,358	4,282	3,337	937
Income before income taxes and cumulative effect of a change in accounting principle, net	47,916	64,671	88,055	101,107	97,196	147,501	128,738
Income taxes	12,714	7,294	13,890	28,086	29,029	45,725	39,909
Income before cumulative effect of a change in accounting principle, net	35,202	57,377	74,165	73,021	68,167	101,776	88,829
Cumulative effect of change in accounting principle, net (3)		(2,220)	(2,220)				
Net income	\$ 35,202	\$ 55,157	\$ 71,945	\$ 73,021	\$ 68,167	\$ 101,776	\$ 88,829

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Basic earnings per share:								
Income before cumulative effect of a change in accounting principle, net	\$ 0.85	\$ 1.39	\$ 1.79	\$ 1.73	\$ 1.49	\$ 2.22	\$ 1.89	
Cumulative effect of a change in accounting principle, net (3)		(0.05)	(0.05)					
Net income	\$ 0.85	\$ 1.34	\$ 1.74	\$ 1.73	\$ 1.49	\$ 2.22	\$ 1.89	
Diluted earnings per share:								
Incoming before cumulative effect of a change in accounting principle, net	\$ 0.83	\$ 1.36	\$ 1.76	\$ 1.69	\$ 1.47	\$ 2.18	\$ 1.87	
Cumulative effect of a change in accounting principle, net (3)		(0.05)	(0.05)					
Net income	\$ 0.83	\$ 1.31	\$ 1.71	\$ 1.69	\$ 1.47	\$ 2.18	\$ 1.87	

S-36

Table of Contents

	Nine Months		Year Ended				
	Ended September 30,		December 31,				
	2004	2003	2003	2002	2001	2000	1999
	(unaudited)	(unaudited)	(restated) (1)				
Other Financial Data:							
Net cash provided from operating activities	\$ 131,217	\$ 107,787	\$ 150,098	\$ 144,771	\$ 143,864	\$ 154,887	\$ 164,297
Depreciation and amortization	69,288	61,765	84,014	80,603	77,610	73,750	75,750
Capital expenditures	37,602	30,307	41,058	38,382	49,903	52,248	77,569
Ratio of earnings to fixed charges (4)	4.6x	N/A	9.2x	11.1x	10.1x	13.6x	9.6x
Balance Sheet Data (as of end of period):							
Cash and cash equivalents	\$ 60,817	\$ 34,984	\$ 35,173	\$ 47,787	\$ 30,585	\$ 19,300	\$ 48,621
Working capital	(77,025)	265,178	271,298	256,481	79,824	173,038	201,246
Total assets	2,429,140	1,343,153	1,387,291	1,200,398	1,138,272	981,803	954,094
Total debt	953,266	240,660	228,579	190,628	170,215	97,980	159,760
Total liabilities	1,765,537	732,120	751,070	626,061	538,649(1)	416,575(1)	457,209(1)
Shareholders' equity	663,603	611,033	636,221	574,337	599,623(1)	565,228(1)	496,885(1)
Non-GAAP Financial Data:							
EBITDA (5)	\$ 126,372	\$ 130,479	\$ 177,445	\$ 186,780	\$ 180,342	\$ 227,249	\$ 212,867

- (1) We restated our financial statements for the year ended December 31, 2002 to move the recognition of revenue of a fourth quarter 2002 transaction from December 31, 2002 results to the first quarter and second quarter of 2003. In addition, the December 31, 2002 and prior years consolidated balance sheets and statements of changes in shareholders' equity were restated to reflect an increase in additional paid-in capital and a decrease in deferred income tax liability. The results for the year ended December 31, 2002 and prior years included above reflect the restatement. For more information on the restatement, see our consolidated financial statements and related notes included elsewhere in this prospectus supplement and the discussion of the restatement included in our Annual Report on Form 10-K incorporated by reference in this prospectus supplement.
- (2) We reported a \$550 pre-tax charge for the nine months ended September 30, 2004 related to the shutdown of our zeolite plant in Pasadena, Texas. For the year ended December 31, 2003, we incurred a \$7,503 pre-tax charge associated with a voluntary severance program. Additionally, for the year ended December 31, 2003, we recorded a one-time charge of \$2,546 for real estate held for sale. For the years ended December 31, 2002 and 2001, we recorded \$1,550 and \$2,051 in special charges related to work force reduction programs at certain of our facilities.
- (3) On January 1, 2003, we implemented SFAS No. 143 Accounting for Asset Retirement Obligations, which addressed financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The cumulative effect of the change in accounting principle, net of tax, resulting from the implementation of this standard was \$2,220.
- (4) For purposes of computing the ratios of earnings to fixed charges, earnings consist of pre-tax income from continuing operations before adjustment for minority interests in consolidated subsidiaries or income or loss from equity investees plus fixed charges and amortization of capitalized interest less interest capitalized and minority interest in pre-tax income of subsidiaries that have not incurred fixed charges. Fixed charges consist of interest expense (before capitalized interest) and a portion of rental expense that we believe to be representative of interest.
- (5) EBITDA, which represents earnings before depreciation and amortization, interest and financing expense, income taxes and cumulative effect of a change in accounting principle, net, is a supplemental measure of performance that is not required by, or presented in accordance with, U.S. GAAP. We present EBITDA because we consider it an important supplemental measure of our operations and financial performance. Our management believes EBITDA is more reflective of our operations as it provides transparency to investors and enhances period-to-period comparability of operations and financial performance. EBITDA should not be considered as an alternative to net income determined in accordance with U.S. GAAP. Set forth below is a reconciliation of EBITDA, a non-GAAP financial measure, to net income, the most directly comparable financial measure calculated and reported in accordance with U.S. GAAP. Our calculation of EBITDA may not be comparable to the calculation of similarly titled measures reported by other companies.

	Nine Months		Year Ended				
	Ended September 30,		December 31,				
	2004	2003	2003	2002	2001	2000	1999
	(unaudited)	(unaudited)	(in thousands)				
Net income	\$ 35,202	\$ 55,157	\$ 71,945	\$ 73,021	\$ 68,167	\$ 101,776	\$ 88,829
Add:							
Depreciation and amortization	69,288	61,765	84,014	80,603	77,610	73,750	75,750

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Interest and financing expense	9,168	4,043	5,376	5,070	5,536	5,998	8,379
Income taxes	12,714	7,294	13,890	28,086	29,029	45,725	39,909
Cumulative effect of a change in accounting principle, net		2,220	2,220				
EBITDA	\$ 126,372	\$ 130,479	\$ 177,445	\$ 186,780	\$ 180,342	\$ 227,249	\$ 212,867

S-37

Table of Contents

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF ALBEMARLE**

The following discussion and analysis of our financial condition and results of operations contains forward-looking statements that are based on our management's current expectations, which are in turn based on assumptions that we believe are reasonable based on our current knowledge of our business and operations. Our actual results may differ materially from those expectations expressed or implied in the forward-looking statements as a result of a number of factors, including those described under the caption "Forward-Looking Statements" and "Risk Factors" and elsewhere in this prospectus supplement. The following discussion should be read together with "Unaudited Pro Forma Combined Financial Information," "Selected Historical Consolidated Financial Information of Albemarle" and our consolidated financial statements and related notes included elsewhere or incorporated by reference in this prospectus supplement.

Overview

We are a leading global developer, manufacturer and marketer of highly-engineered specialty chemicals. Our products and services enhance the value of our customers' end-products by improving performance, providing essential product attributes, lowering cost and simplifying processing. We sell a highly diversified mix of products to a wide range of customers, including manufacturers of consumer electronics, building and construction materials, automotive parts, packaging, pharmaceuticals and agrichemicals, and petroleum refiners. We believe that our commercial and geographic diversity, technical expertise, flexible, low-cost global manufacturing base, strong cash flows and experienced management team enable us to maintain leading market positions in those areas of the specialty chemicals industry in which we operate.

Growth of our Polymer Additives segment is expected to be derived from increasing demand for electrical and electronic equipment, new construction and increasingly stringent fire-safety regulations in many countries around the world. Growth in our Catalysts segment is expected to be driven by increasing demand for petroleum products, generally deteriorating quality of crude oil feedstock and implementation of more stringent fuel quality requirements as a part of anti-pollution initiatives. The Fine Chemicals segment continues to benefit from the continued rapid pace of innovation and the introduction of new products, coupled with a movement by pharmaceutical companies to outsource certain research, product development and manufacturing functions.

Acquisition of Catalysts Refinery Business

On July 31, 2004, we acquired the refinery catalysts business of Akzo Nobel N.V. for 615.7 million (approximately \$762.2 million at applicable exchange rates). We believe that this acquisition significantly enhances our business by giving us a strong new operating segment. Following this acquisition, we transferred our existing polyolefin catalysts business from our Polymer Chemicals segment, which we renamed Polymer Additives, to a newly created Catalysts segment, which also includes the assets we acquired from Akzo Nobel. Our operations are now managed and reported as three operating segments: Polymer Additives; Catalysts; and Fine Chemicals.

Under the terms of the business sale agreement, we acquired two wholly owned subsidiaries of Akzo Nobel (one in the United States and one in the Netherlands), sales, marketing, intellectual property and other assets used in the acquired business, and 50% interests in three different joint ventures: Fábrica Carioca de Catalisadores S.A., a Brazilian joint venture; Nippon Ketjen Co., Ltd., a Japanese joint venture; and Eurecat S.A., a French joint venture (with affiliates in the United States, Saudi Arabia and Italy). As part of the acquisition, we also agreed to assume the liabilities of the two acquired subsidiaries and certain liabilities of Akzo Nobel and its affiliates related to the acquired business. We retained substantially all employees of the acquired business, including all of the incumbent managers.

In connection with the acquisition, we incurred during the third quarter of 2004 certain one-time after-tax costs and expenses, including foreign exchange hedging losses of \$10.0 million on contracts entered into for the purpose of hedging the euro-denominated purchase price for the acquired business, additional cost of sales

S-38

Table of Contents

charges of \$8.5 million as a result of inventory write-ups, \$3.0 million as a result of purchased in-process research and development write-offs and unamortized financing cost write-offs of \$0.4 million. We expect to finalize the acquisition purchase accounting adjustments by the end of the first quarter of 2005.

In connection with the acquisition, we entered into (1) a new senior credit agreement, dated as of July 29, 2004, among Albemarle, Albemarle Catalysts International, L.L.C., a subsidiary of our Company, certain of our subsidiaries as guarantors, the lenders parties thereto, Bank of America, N.A., as Administrative Agent, UBS Securities LLC, as Syndication Agent, and The Bank of New York, Fortis (USA) Finance LLC and SunTrust Bank, as Co-Documentation Agents, consisting of a \$300 million revolving credit facility and a \$450 million five-year term loan facility, and (2) a \$450 million 364-day loan agreement, dated as of July 29, 2004, among Albemarle, Albemarle Catalysts International, L.L.C., certain of our subsidiaries as guarantors, the lenders parties thereto, Banc of America Bridge LLC, as Administrative Agent, and UBS Securities LLC, as Syndication Agent. We used the initial borrowings under the new senior credit agreement and the 364-day loan agreement to consummate the acquisition, refinance our then-existing credit agreement and pay related fees and expenses incurred in connection therewith.

Outlook

With the acquisition of the Akzo Nobel refinery catalysts business, we have added a number of foundation technologies to our portfolio, including HPC catalysts and FCC catalysts, as well as new products targeting the fast growing clean fuels catalyst market. Since the completion of the acquisition of the refinery catalysts business on July 31, 2004, the new Catalysts segment has been performing well and we believe that it is poised to participate further in expected growth in the refinery catalysts industry. As we combine our current polyolefin catalyst business with the acquired refinery catalysts business, the Catalysts segment is forecasted to add more than 35% to the historic sales level on an annual basis.

Our net sales for the nine months ended September 30, 2004 were \$1.06 billion as compared with \$815 million in the same period of 2003.

We continue to experience significant increases in raw material and energy costs, particularly in molybdenum, which impacts the Catalysts segment, and bisphenol-A, alumina, phenol, chlorine and tin, which impact the Polymer Additives and Fine Chemicals segments. Based on our full year forecast for 2004, we expect that our raw material costs, excluding metals such as molybdenum, nickel and cobalt, and our energy costs will increase approximately 13% and 9%, respectively, compared to 2003. Molybdenum has experienced a steady increase in price from approximately \$8 per pound on January 1, 2004 to approximately \$28 per pound on November 30, 2004. In order to offset these increases, we are seeking price increases in most product areas, and these initiatives are taking effect with various levels of success. In bromine and bromine derivatives, our price increases are supported by strong global demand for our products. In addition, we began a manufacturing cost reduction program in 2002 targeting \$50 million in savings over three years. We believe that we have realized approximately \$27 million of these savings through the third quarter 2004 and we expect that this program will continue to help offset the impact of raw material and energy cost inflation.

Polymer Additives

Polymer Additives net sales have increased to record levels for the past four quarters with an average growth rate of close to 7% per quarter. Comparing the third quarter of 2004 to the similar period of 2003, segment revenues and income grew approximately 31% and approximately 22%, respectively. However, general indicators of market demand in the electronics sector have slowed versus the previous three quarters. While demand for our products at present remains strong and we are running our major flame retardant plants hard to meet customer needs, we believe that we must stay focused on our price increase efforts in order to catch up with inflation.

Table of Contents

Catalysts

Catalysts net sales have increased approximately 144% in the first nine months of 2004 compared to the same period of 2003 due primarily to the acquisition of the refinery catalysts business. Sales also reflect higher prices driven by higher metals costs, volume growth in both HPC and FCC catalysts and the effects of currency movements. The inflation of metals costs, most notably molybdenum, is expected to continue to effect margins for HPC catalysts for the balance of 2004. We believe that the demand for HPC catalysts will remain firm for the rest of the year. We expect FCC catalysts volumes to remain strong through 2004 as growth in gasoline demand is tracking slightly above expectations.

The major global petroleum refineries continue to prepare for stricter fuel specifications, including the upcoming on-road diesel sulfur specifications that will be implemented in 2006. These stricter specifications are leading to new capital expenditures by petroleum refineries to expand hydroprocessing capability as well as to increased demand for high performance catalysts to be used in existing and new hydroprocessing capacity.

Fine Chemicals

First nine-months 2004 net sales were up 4.3% compared to last year's levels despite the loss of revenue from the zeolites business, which we exited in January 2004. Revenue from new products is expected to increase compared to 2003. Looking forward, we expect to see increasingly high asset utilizations and margin improvement in the bromine products area, and we believe that underlying trends in Fine Chemistry Services are beginning to contribute to the segment profitability.

Looking forward to the fourth quarter, we expect that we will experience some unabsorbed factory costs resulting from a turnaround in our ibuprofen facility, which is associated with a cost improvement and automation project tie-ins designed to help us continue to drive down our cost of production. We expect continued competitive pricing pressure in ibuprofen as foreign producers attempt to further penetrate the U.S. market, and we are expanding our sales efforts in response to this development.

We expect continued growth in demand for bromine and derivatives, and do not anticipate any slowdown in shipments in the fourth quarter due to the relative tightness in chlorine supplies. In our agrichemicals business, we are experiencing tight supply in some important raw materials, which may impact us negatively toward the end of the fourth quarter.

We expect to complete construction of a new chlorine production unit as part of our joint venture's bromine production plant in Jordan in the fourth quarter of 2004. This facility, which is expected to have an annual capacity of approximately 25,000 metric tonnes, should serve to lower raw material costs of this joint venture in Jordan.

Industry Conditions

We conduct a substantial portion of our business outside of the United States. As a result, our business is subject to economic cycles in different regions of the world. In addition, because many of our customers are in industries, including the consumer electronics, building and

construction, and automotive industries, that are cyclical in nature and sensitive to changes in general economic conditions, our results are impacted by the effect on our customers of economic upturns and downturns, as well as our own costs to produce our products. Historically, downturns in general economic conditions have resulted in diminished product demand, excess manufacturing capacity and lower average selling prices.

Raw Material and Energy Costs

In 2003, our raw material and energy costs increased approximately 8% and 25%, respectively, compared to 2002. Raw material costs and energy costs have continued to increase in 2004. The increases are primarily driven by significantly tighter market conditions and major increases in pricing of basic building blocks for our products

S-40

Table of Contents

such as crude oil, chlorine and metals, including molybdenum, which is used in the refinery catalysts business. In 2003, management estimates that molybdenum represented approximately 10% of the cost of goods sold in the refinery catalysts business and from January 1, 2004 until November 30, 2004, the price of molybdenum increased from approximately \$8 to approximately \$28 per pound. We generally attempt to pass changes in the prices of raw materials and energy to our customers but we may be unable to or be delayed in doing so. Our inability to pass through price increases or any limitation or delay in our passing through price increases could adversely affect the margins for our products.

In addition to raising prices, raw material suppliers may extend lead times or limit supplies. For example, in the aftermath of Hurricane Ivan, certain chlorine producers took actions that limited chlorine supplies. Constraints on the supply or delivery of critical raw materials could disrupt production and adversely affect the performance of our business.

Other Factors Impacting Our Results

In 2002, we launched a three-year \$50 million manufacturing cost reduction program to reduce our fixed cost base. As of September 30, 2004, we believe that this program has yielded estimated savings of approximately \$27 million. We expect to implement additional cost-saving initiatives focused on achieving operational efficiencies by investing in flexible manufacturing equipment and processes, optimizing process control technologies, reducing fixed costs through the rationalization of manufacturing capacity and the efficient management of capital spending.

We have been notified by BP, p.l.c and certain of its affiliates, or BP, that it intends to terminate effective February 28, 2006, certain operating and service agreements pursuant to which we provide operating and support services and certain utilities to BP at its linear alpha olefins plant in Pasadena, Texas and BP provides operating and support services and certain utilities to us at one of our facilities in Pasadena, Texas. For the year ended December 31, 2003, these agreements resulted in net payments to us from BP of approximately \$9.0 million. We are currently negotiating with BP regarding the terms of the termination and a possible extension through later in 2006. In addition, we are working internally to develop a plan to mitigate the impact of the termination of these agreements through significant cost-savings and other efforts to reduce expenses.

Table of Contents**Additional Information**

Set forth below is a reconciliation of net income excluding special items, a non-GAAP financial measure, to net income, the most directly comparable financial measure calculated and reported in accordance with GAAP, for the nine months ended September 30, 2004 and 2003. This information is included to provide further support of the fluctuations discussed in the results of operations below.

ALBEMARLE CORPORATION AND SUBSIDIARIES

(in thousands, except share and per share amounts)

(unaudited)

	Nine Months Ended September 30, 2004			Nine Months Ended September 30, 2003		
	As Reported	Special Items*	Excluding Special Items	As Reported	Special Items*	Excluding Special Items
Net sales	\$ 1,062,672	\$	\$ 1,062,672	\$ 815,113	\$	\$ 815,113
Cost of goods sold(c)	(845,952)	(3,549)(a,b)	(849,501)	(640,331)		(640,331)
Acquisition-related cost	(13,400)	13,400(d)				
Gross profit	203,320	9,851	213,171	174,782		174,782
Selling, general and administrative expenses	(124,846)		(124,846)	(99,159)		(99,159)
Reduction in force adjustments	(4,858)	4,858(e)		(7,503)	7,503(e)	
Purchased in-process research and development charges	(3,000)	3,000(f)				
Operating profit	70,616	17,709	88,325	68,120	7,503	75,623
Interest and financing expenses	(9,168)	528(g)	(8,640)	(4,043)		(4,043)
Equity in unconsolidated investments	2,494		2,494	(1,148)		(1,148)
Other income (expense), net including minority interest	(16,026)	12,848(h)	(3,178)	1,742	(2,715)	(973)
Income before income taxes and cumulative effect of a change in accounting principle net	47,916	31,085	79,001	64,671	4,788	69,459
Income tax expense	12,714	10,196	22,910	7,294	13,725(i)	21,019
Income before cumulative effect of a change in accounting principle net	35,202	20,889	56,091	57,377	(8,937)	48,440
Cumulative effect of a change in accounting principle net				(2,220)	2,220(j)	
Net income	\$ 35,202	\$ 20,889	\$ 56,091	\$ 55,157	\$ (6,717)	\$ 48,440

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Diluted earnings per share	\$ 0.83	\$ 0.49	\$ 1.32	\$ 1.31	\$ (0.16)	\$ 1.15
* See footnotes below						
Operating profit by segment:						
Polymer Additives	\$ 65,687	\$ (3,583)	\$ 62,104	\$ 44,064	\$ 2,931	\$ 46,995
Catalysts	2,227	16,400	18,627	8,244		8,244
Fine Chemicals	25,885	4,892	30,777	33,924	1,814	35,738
Corporate and other expenses	(23,183)		(23,183)	(18,112)	2,758	(15,354)
Total	\$ 70,616	\$ 17,709	\$ 88,325	\$ 68,120	\$ 7,503	\$ 75,623

S-42

Table of Contents

Notes (in thousands, except per share amounts):

- (a) On August 26, 2004, we and a former insurer settled a dispute related to payments to be made to us in connection with insurance coverage for the period 1950 through 2000. Pursuant to the agreement, we will receive \$6,945 (\$4,424 after income taxes, or 10 cents per diluted share) with \$4,208 paid at the settlement date and future payments to be made on February 1, 2005 and 2006.
- (b) At September 30, 2004 and 2003, other assets and deferred charges include an insurance receivable, net amounting to \$2,400 and \$5,783, respectively, which was recorded in the second quarter of 2002. The receivable relates to the probable recovery of a claim from our insurers for costs incurred by us regarding the discontinuance of product support for, and the withdrawal from, a water treatment venture. Cost of goods sold for the nine-month period ended September 30, 2004 includes a charge amounting to \$3,396 (\$2,163 after income taxes, or five cents per diluted share) related to the establishment of a valuation reserve for the potential recoverability of this claim. We are continuing to vigorously pursue the entire amount of this receivable.
- (c) Includes foreign exchange transaction losses of (\$901) and (\$92) for the nine-month periods ended September 30, 2004 and 2003, respectively.
- (d) Acquisition-related costs totaling \$13,400 (\$8,536 after income taxes, or 20 cents per diluted share) for the nine-month period ended September 30, 2004 is made up of the preliminary purchase price allocation increase in inventory associated with the July 31, 2004 acquisition of the Akzo Nobel refinery catalysts business.
- (e) Reduction in force adjustments for the nine-month period ended September 30, 2004 includes a \$199 adjustment of a reserve for work force reduction. Nine-month period ended September 30, 2004 also includes a second-quarter 2004 charge totaling \$550 (\$350 after income taxes, or one cent per diluted share) related to the cleanup of the zeolite facility and a first-quarter 2004 charge totaling \$4,507 (\$2,871 after income taxes, or seven cents per diluted share) for layoffs at the zeolite facility and their related SFAS 88 curtailment charge. Reduction in force adjustments for the nine-month period ended September 30, 2003 totaled \$7,503 (\$4,780 after income taxes, or 12 cents per diluted share) and resulted from the acceptance of a voluntary separation package offered by us to certain domestic salaried employees.
- (f) Purchased in-process research and development charges amounting to \$3,000, or seven cents per diluted share, for the nine-month period ended September 30, 2004 are comprised of the estimated write-off of the deferred in-process research and development costs associated with the acquisition of the Akzo Nobel refinery catalysts business.
- (g) Interest and financing expenses for the nine-month period ended September 30, 2004 include the write-off of deferred financing expenses totaling \$528 (\$336 net of income taxes, or one cent per diluted share) related to the refinancing of our then-existing credit agreement.
- (h) Other income (expense), net for the nine-month period ended September 30, 2004 include foreign exchange hedging charges totaling \$12,848 (\$8,184 after income taxes, or 19 cents per diluted share) associated with contracts entered into by us to hedge the euro-denominated purchase price for the acquisition of the Akzo Nobel refinery catalysts business.
- (i) Income tax expense for the nine-month period ended September 30, 2003 benefited from the settlement and internal adjustments related to federal tax years 1996-1999 totaling \$11,988.
- (j) On January 1, 2003, we implemented SFAS No. 143, Accounting for Asset Retirement Obligations, which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The cumulative effect of the implementation of this change in accounting principle was \$2,220 net of taxes of \$1,265, or five cents per diluted share.

Table of Contents**Results of Operations*****Nine Months Ended September 30, 2004 Compared to Nine Months Ended September 30, 2003***

Net Sales. Net sales by operating segment for the nine-month periods ended September 30, 2004 and 2003 are as follows:

	Net Sales	
	Nine Months Ended September 30,	
	2004	2003
	(in thousands)	
Polymer Additives	\$ 538,631	\$ 397,002
Catalysts	153,795	62,970
Fine Chemicals	370,246	355,141
Segment totals	\$ 1,062,672	\$ 815,113

Net sales for first nine months of 2004 of \$1,063 million were up \$247.6 million, or 30.4%, from the first nine months of 2003 net sales of \$815.1 million.

Polymer Additives net sales increased \$141.6 million, or 35.7%, primarily due to higher shipments in flame retardants (\$56.6 million), the contributions made by our 2003 acquisitions (\$39.4 million), higher shipments (\$25.4 million) and prices (\$6.2 million) in curatives and additives, as well as the favorable impact of foreign exchange (\$18.4 million). The increase was partially offset by lower prices in flame retardants (\$4.7 million).

Catalysts net sales increased \$90.8 million primarily as a result of the impact of the refinery catalysts business acquisition (\$82.8 million), higher shipments of polyolefin catalysts (\$8.5 million) and the favorable impact of foreign exchange (\$1.8 million), partially offset by lower prices for polyolefin catalysts (\$2.1 million).

Fine Chemicals net sales increased \$15.1 million, or 4.3%, primarily due to the contributions made by our 2003 acquisition of the bromine fine chemicals business of Atofina Chemicals, Inc. (\$14.2 million), the favorable impact of foreign exchange (\$13.9 million), higher shipments in fine chemistry services and intermediates (\$6.5 million) and bulk active pharmaceuticals (\$1.4 million) and higher prices (\$3.7 million) and shipments (\$1.4 million) in agricultural actives. The increase was partially offset by an unfavorable sales mix in performance chemicals (\$19.4 million) and lower prices (\$7.1 million), primarily in bulk active pharmaceuticals.

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Operating Costs and Expenses. Cost of goods sold in the first nine months of 2004 increased \$205.6 million (32.1%) from the corresponding 2003 period. This increase resulted from the higher sales volumes in the 2004 period and the impact of our 2003 and 2004 acquisitions as well as higher raw material and energy costs, the establishment of a \$3.4 million valuation reserve for the potential recoverability of an insurance claim regarding the discontinuance of product support for, and the withdrawal from, a water treatment venture, our exit from the zeolite business and the unfavorable impact of foreign exchange on operating costs. The increase is partially offset by a \$6.9 million insurance settlement from a former insurer relating to certain payments made by us in connection with insurance coverage for the period 1950 through 2000.

In the first nine months of 2004, we also incurred \$13.4 million of acquisition-related charges consisting of the step-up increase in acquired inventory associated with the acquisition of the refinery catalysts business.

The gross profit margin decreased approximately 230 basis points to 19.1% in the 2004 period from 21.4% for the corresponding period in 2003. Excluding the \$13.4 million acquisition-related charges described, our gross profit margin for the 2004 period decreased approximately 100 basis points to 20.4%.

Selling, general and administrative, or SG&A, and research and development, or R&D, increased \$25.7 million (25.9%) in the first nine months of 2004 as compared with the first nine months of 2003 primarily due to higher SG&A and R&D costs related to acquisitions (\$12.8 million), higher employee incentive related costs

Table of Contents

(\$8.7 million), the unfavorable impact of foreign exchange (\$2.3 million), higher R&D costs (\$1.7 million) as well as higher outside legal costs (\$0.7 million), offset, in part, by the benefits of cost reduction efforts and a voluntary separation program implemented in the third quarter of 2003 and first quarter of 2004. As a percentage of net sales, SG&A and R&D were 11.7% in the first nine months of 2004 versus 12.2% in the 2003 period.

The 2004 period also includes a \$4.8 million charge consisting of layoffs of 53 employees at the zeolite facility amounting to (\$3.4 million) and related SFAS 88 curtailment charges of (\$0.9 million) as well as costs associated with the cleanup of the zeolite facility in Pasadena, Texas (\$0.5 million). The 2003 period includes a \$7.5 million charge related to a voluntary severance program offered to certain domestic salaried employees. Additionally, the first nine months of 2004 includes a \$3.0 million purchased in-process R&D charge associated with our acquisition of the refinery catalysts business.

Operating Profit. Operating profit by reportable operating segment for the nine-month periods ended September 30, 2004, and 2003 is as follows:

	Operating Profit	
	Nine Months Ended September 30,	
	2004	2003
	(in thousands)	
Polymer Additives	\$ 65,687	\$ 44,064
Catalysts	2,227	8,244
Fine Chemicals	25,885	33,924
Segment totals	93,799	86,232
Corporate and other expenses	(23,183)	(18,112)
Operating profit	\$ 70,616	\$ 68,120

Overall, nine months 2004 operating profit, including special items and acquisition-related charges, increased \$2.5 million (3.7%) from the first nine months of 2003. Excluding the effects of special items and acquisition-related charges, nine months 2004 operating profit increased \$12.7 million, or 16.8%, from the corresponding 2003 period.

Polymer Additives first nine months of 2004 segment operating profit increased \$21.6 million, or 49.0%, from the first nine months of 2003. This increase includes allocations of special items attributable to an insurance settlement of \$3.6 million in the third quarter 2004 and the absence of a \$2.9 million charge related to a voluntary severance program in the 2003 period. Excluding the special items, operating profit for the 2004 period increased \$15.1 million, or 32.2%, from the corresponding period of 2003 primarily due to higher shipments in flame retardants (\$16.9 million) and curatives and additives (\$8.9 million) and the overall favorable net effects of foreign exchange movements (\$5.3 million), offset, in part, by unfavorable raw material costs (\$14.7 million) and higher SG&A costs related to acquisitions (\$1.6 million).

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Catalysts first nine months of 2004 segment operating profit decreased \$6.0 million, or 73.0%, from the first nine months of 2003. The 2004 period includes purchase price adjustments for the step-up accounting values assigned to the acquired refinery catalysts business inventory (\$13.4 million) and the write-off of purchased in-process R&D charges associated with the acquisition (\$3.0 million). Excluding these adjustments, Catalysts segment operating profit for the 2004 period increased \$10.4 million from the corresponding 2003 period primarily due to the impact of the refinery catalysts business acquisition.

Fine Chemicals first nine months of 2004 segment operating profit decreased \$8.0 million, or 23.7%, from the first nine months of 2003. The decrease included special item charges of \$4.3 million that resulted from the layoff of 53 employees at the zeolite facility and the related SFAS No. 88 pension curtailment charge, \$0.5 million for cleanup of the zeolite facility as well as a \$3.4 million relating to the establishment of a valuation reserve for the potential recoverability of a claim, offset, in part, by an insurance settlement of \$3.3 million and

S-45

Table of Contents

the absence of a \$1.8 million charge related to a voluntary severance program in the 2003 period. Excluding the special items, first nine-months 2004 segment operating profit decreased \$5.0 million (13.9%) from the 2003 period primarily due to lower prices in bulk active pharmaceuticals (\$7.1 million), unfavorable plant utilization and manufacturing costs including our exit from the zeolite business (\$3.7 million), unfavorable sales mix in performance chemicals (\$2.6 million) and higher raw material and energy costs (\$2.2 million). This decrease was partially offset by higher shipments in fine chemistry services and intermediates (\$5.3 million) and higher prices (\$3.7 million) and shipments (\$1.3 million) in agricultural actives.

Corporate and other expenses for the first nine months of 2004 increased \$5.1 million (28.0%) from first nine months of 2003 primarily due to higher estimated employee incentive costs offset, in part, by the absence of the 2003 workforce reduction accrual of (\$2.8 million) allocated to the corporate segment.

Interest and Financing Expenses. Interest and financing expenses for the first nine months of 2004 amounted to \$9.2 million, an increase of \$5.1 million from first nine months of 2003 mainly due to higher average outstanding debt in the 2004 period relating to the acquisition of the refinery catalysts business and a third-quarter 2004 write-off of deferred financing expenses (\$0.5 million) relating to the refinancing of our prior revolving credit agreement.

Equity in Unconsolidated Investments. Equity in unconsolidated investments for the first nine months of 2004 amounted to \$2.5 million, up \$3.6 million from the first nine months of 2003, primarily due to the addition of unconsolidated investments from the refinery catalysts business acquisition (\$1.6 million) as well as improved results from continuing unconsolidated investments.

Other Income (Expense) Net, Including Minority Interest. Other income (expense), net for the first nine months of 2004 totaled (\$16.0) million, a decrease of \$17.8 million from the 2003 corresponding period. The decrease is primarily attributable to euro-denominated hedging losses associated with the acquisition of the refinery catalysts business in the 2004 period and the absence of \$4.3 million of interest income from an Internal Revenue Service income tax settlement in the 2003 period.

Income Taxes. The first nine months of 2004 effective income tax rate was 26.5%, up from 11.3% for the corresponding period in 2003. The significant differences between the U.S. federal statutory income tax rate on pretax income and the effective income tax rate for the nine-month periods ended September 30, 2004 and 2003, respectively, are as follows:

	% of Income	
	Before Income Taxes	
	Nine Months Ended	
	September 30,	
	2004	2003
Federal statutory rate	35.0%	35.0%
Revaluation of reserve requirements		(12.1)
State taxes, net of federal tax benefit	0.7	0.9
Extraterritorial income exclusion	(4.1)	(2.9)
Depletion	(2.8)	(2.1)

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Federal income tax settlement		(7.2)
Other items, net	(2.3)	(0.3)
	<u> </u>	<u> </u>
Effective income tax rate	26.5%	11.3%
	<u> </u>	<u> </u>

S-46

Table of Contents**Year Ended December 31, 2003 Compared to Year Ended December 31, 2002 and Year Ended December 31, 2002 Compared to Year Ended December 31, 2001**

The following discussion and analysis of our financial condition and results of operations covers periods before our acquisition of Akzo Nobel's refinery catalysts business. The disclosure with respect to future periods will include the performance of the acquired business, which is expected to have a significant impact on our overall results of operations. We restated our financial statements for the years ended December 31, 2003, 2002 and 2001 to reflect the realignment of our polyolefin catalysts business from our Polymer Chemicals segment, which we renamed Polymer Additives, to our new Catalysts segment, which occurred in connection with our acquisition of Akzo Nobel's refinery catalysts business. The polyolefin catalysts products' net sales, operating profit and identifiable assets were moved from the Polymer Chemicals segment into the new Catalysts operating segment. The Polymer Additives and Catalysts operating segment data herein are recast for net sales, operating profit and identifiable assets for each of the years ended December 31, 2003, 2002 and 2001 to reflect the realignment. After the realignment, the Polymer Additives operating segment is comprised of the flame retardants and polymer additives product areas. The Catalysts operating segment is comprised of the refinery catalysts and polyolefin catalysts product areas. The Fine Chemicals operating segment is comprised of the performance chemicals, pharmaceuticals, agrichemicals, and fine chemistry services and intermediates product areas. In addition, we restated our financial statements for the year ended December 31, 2002 to move the recognition of revenue of a fourth quarter 2002 transaction from December 31, 2002 results to the first quarter and second quarter of 2003. The results included and discussed below reflect these restatements. For more information on these restatements, see our consolidated financial statements and related notes included elsewhere in this prospectus supplement.

Net Sales. Net sales by operating segments for the three years ended December 31, are as follows:

	Net Sales		
	2003	2002	2001
	(in thousands)		
Polymer Additives	\$ 547,461	\$ 460,208	\$ 380,621
Catalysts	82,959	92,436	99,288
Fine Chemicals	479,817	455,274	462,843
Segment totals	\$ 1,110,237	\$ 1,007,918	\$ 942,752

Net sales for 2003 were \$1,110.2 million, up \$102.3 million (10.2%) from net sales of \$1,007.9 million in 2002. Polymer Additives' net sales in 2003 increased \$87.3 million (18.9%) due to the favorable impact of foreign exchange (\$28.1 million), the addition of our acquisitions (\$54.9 million) and higher shipments in flame retardants (\$13.5 million). The increase was partially offset by lower shipments (\$3.6 million) and prices (\$3.1 million) in curatives and additives and lower prices in flame retardants (\$2.4 million). Catalysts' net sales in 2003 were down \$9.5 million (10.3%) due to lower shipments (\$18.3 million), offset in part, by higher prices (\$6.3 million) and the favorable impact of foreign exchange (\$2.5 million). Fine Chemicals' net sales for 2003 increased \$24.5 million (5.4%) due to the favorable impact of foreign exchange (\$26.0 million), higher shipments in agricultural chemicals (\$8.2 million) and fine chemistry services and intermediates (\$6.1 million) and the addition of our Atofina acquisition (\$1.9 million). The increase was partially offset by unfavorable product mix (\$3.7 million) and prices (\$3.0 million) in performance chemicals, lower shipments (\$6.3 million) and unfavorable pricing (\$0.8 million) in bulk active pharmaceuticals, as well as unfavorable pricing in fine chemistry services and intermediates (\$3.6 million).

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Net sales for 2002 amounted to \$1,007.9 million, up \$65.2 million (6.9%), from \$942.7 million in 2001. Polymer Additives net sales in 2002 were up \$79.6 million (20.9%) due to higher shipments (\$47.9 million) partially offset by lower pricing (\$15.7 million) in flame retardants and the increase in net sales of \$37.4 million resulting from the mid-year 2001 acquisitions of Martinswerk GmbH and the custom and fine chemicals businesses of ChemFirst Inc. and higher shipments (\$12.5 million) offset, in part, by lower pricing (\$2.0 million)

S-47

Table of Contents

in curatives and additives. Catalysts net sales in 2002 were down \$6.9 million (6.9%) primarily due to lower shipments (\$5.3 million) and prices (\$1.8 million). Fine Chemicals net sales in 2002 were down \$7.5 million (1.6%) due to lower shipments (\$32.6 million) partially offset by higher pricing (\$1.3 million) in agricultural chemicals and fine chemistry services and intermediates and product mix in performance chemicals (\$5.7 million); offset by an increase in net sales from our mid-year 2001 acquisitions of Martinswerk and ChemFirst businesses (\$28.9 million).

Operating Costs and Expenses. Cost of goods sold in 2003 increased \$96.3 million (12.4%) from 2002. The increase was primarily due to operating costs associated with our 2003 acquisitions, the favorable impact of foreign exchange of \$12.7 million as well as the effects of raw material and energy costs of \$24.0 million. This increase is partially offset by the absence of a \$2.6 million charge to costs of sales related to the discontinuance and withdrawal from a water treatment venture in the 2002 period. The gross profit margin decreased approximately 160 basis points to 21.5% for 2003 from 23.1% in 2002. Overall, our average 2003 raw material costs were significantly higher, increasing by \$16.0 million from 2002. Energy costs in 2003 were \$8.0 million higher than in 2002.

Cost of goods sold in 2002 increased \$54.0 million (7.5%) from 2001. The increase was primarily due to operating costs associated with increased shipments over 2001 in flame retardants and our acquisitions of Martinswerk and the ChemFirst businesses, lower pension income as well as a charge of approximately \$2.6 million (\$8.3 million, net of probable insurance recovery of \$5.7 million) related to the discontinuance of product support for and the withdrawal from a water treatment venture. This increase is partially offset by favorable plant utilization and production costs and the favorable effects of foreign exchange transaction gains of approximately \$1.7 million in 2002 versus foreign exchange transaction gains of approximately \$0.5 million in 2001. Gross profit margin decreased to 23.1% in 2002 from 23.5% in 2001. Overall, our average 2002 raw material costs were significantly lower, decreasing by \$26.9 million from 2001. Energy costs in 2002 were \$0.4 million lower than in 2001.

Selling, general and administrative expenses, or SG&A, combined with research and development expenses, or R&D, in 2003 increased \$7.5 million (5.8%) from 2002 primarily due to the unfavorable impact of foreign exchange (\$4.4 million), lower pension income (\$2.7 million), higher outside services approximating \$3.0 million and higher SFAS No. 2 research and development costs (\$1.9 million) partially offset by lower employee incentive costs (\$2.8 million) and our overall cost reduction efforts. The 2003 increase in SG&A and R&D compares to an increase of \$7.3 million (6.1%) in 2002 from 2001 primarily due to higher employee-related costs as well as a \$3.5 million increase in recurring SG&A associated with our mid-year 2002 acquisitions of Martinswerk and ChemFirst businesses. As a percentage of net sales, SG&A and R&D were 12.2% in 2003 versus 12.7% in 2002 and 12.8% in 2001.

Operating Profit. Operating profit by operating segments for the three years ended December 31, are as follows:

	Operating Profit		
	2003	2002	2001
	(in thousands)		
Polymer Additives	\$ 58,527	\$ 56,325	\$ 50,260
Catalysts	12,305	9,030	10,400
Fine Chemicals	48,526	59,975	60,497
Corporate and Other Expenses	(26,534)	(22,511)	(22,707)
Totals	\$ 92,824	\$ 102,819	\$ 98,450

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Our operating profit in 2003, including a \$7.5 million voluntary separation charge and a \$2.5 million impairment charge relating to real estate held for sale, decreased \$10.0 million (9.7%) from the 2002 period. Higher raw material and energy costs were significant contributors to this decrease. The decrease is partially

S-48

Table of Contents

offset by the favorable net effects of foreign exchange, the impact of our 2003 acquisitions and the absence of a \$2.6 million charge to costs of sales related to the discontinuance and withdrawal from a water treatment venture in the 2002 period.

Our operating profit in 2002 increased \$4.4 million (4.4%) from 2001. Reduced raw material and favorable manufacturing costs and plant utilization, higher shipments in flame retardants as well as the favorable integration of Martinswerk contributed to this increase. The increase was partially offset by lower pricing, lower shipments in Fine Chemicals agricultural chemicals and fine chemistry services and intermediates product lines, a charge of approximately \$2.6 million related to the discontinuance of product support for and the withdrawal from a water treatment venture and a charge of \$1.5 million related to workforce reductions. SG&A and R&D in 2002 increased \$7.3 million (6.1%) from 2001 primarily due to higher employee-related costs as well as a \$3.5 million increase in recurring SG&A associated with the mid-year 2001 acquisitions.

Polymer Additives operating profit for 2003, including a \$2.9 million allocation charge related to a voluntary severance program, increased \$2.2 million (3.9%) from 2002. Excluding the above charge, 2003 operating profit increased \$5.1 million primarily due to the favorable net effects of foreign exchange (\$9.4 million), the favorable impact of our acquisitions (\$9.8 million), lower production costs (\$2.5 million) offset, in part, by higher raw material and energy costs (\$7.9 million), lower prices (\$5.6 million) and lower shipments in curatives and additives (\$2.0 million) and flame retardants (\$1.0 million).

Polymer Additives operating results for 2002 increased \$6.1 million (12.1%) versus 2001, primarily due to higher shipments in flame retardants (\$15.9 million), which includes the impact of the acquisition of Martinswerk and favorable raw material costs (\$13.2 million). The increase was partially offset by lower pricing (\$19.3 million) primarily in flame retardants and unfavorable production costs (\$3.2 million).

Catalysts operating profit for 2003 increased \$3.3 million (36.3%) from 2002 primarily due to higher prices (\$6.3 million), a 2002 period reclassification from corporate and other expenses (\$2.0 million), lower R&D and production costs (\$1.4 million) and the favorable net effects of foreign exchange (\$1.0 million) offset, in part, by lower shipments (\$5.2 million) and higher raw material and energy costs (\$2.2 million).

Catalysts operating results for 2002 decreased \$1.4 million (13.2%) versus 2001 primarily due to a first quarter 2002 reclassification of bad debt expense from corporate and other expenses (\$2.0 million) and lower prices (\$1.8 million). The decrease was partially offset by favorable SG&A and R&D costs (\$1.2 million) and production costs (\$1.0 million).

Fine Chemicals operating profit for 2003, including a \$1.8 million allocation charge related to a voluntary severance program, decreased \$11.4 million (19.1%) from 2002. Excluding the above charge, 2003 operating profit decreased \$9.6 million (16.1%) primarily due to higher raw material and energy costs (\$13.9 million), unfavorable manufacturing costs (\$7.8 million), lower prices (\$3.0 million) and product mix (\$2.5 million) in performance chemicals, and lower prices in fine chemistry services and intermediates (\$3.6 million) as well as bulk active pharmaceuticals (\$0.8 million). This decrease was partially offset by higher shipments in fine chemistry services and intermediates (\$7.4 million), agricultural chemicals (\$5.7 million), and bulk active pharmaceuticals (\$3.0 million), the absence of a \$2.6 million charge to costs of sales related to the discontinuance and withdrawal from a water treatment venture in the 2002 period and the favorable net effects of foreign exchange (\$3.1 million).

Fine Chemicals operating results for 2002 decreased \$0.5 million (0.8%) versus 2001 primarily due to lower pricing (\$13.7 million) primarily in performance chemicals, lower shipments (\$10.9 million) primarily in agricultural chemicals and fine chemistry services and intermediates, and a charge of approximately \$2.6 million (\$8.3 million, net of probable insurance recovery of \$5.7 million) related to the discontinuance of product support for and the withdrawal from a water treatment venture. The decrease was partially offset by favorable raw material (\$13.7 million) and

Edgar Filing: ALBEMARLE CORP - Form S-3/A

manufacturing costs (\$12.8 million), primarily due to increased production in the detergent builders zeolites product line.

S-49

Table of Contents

Corporate and other expenses for 2003 increased \$4.0 million (17.9%) from 2002, primarily due to the following adjustments recorded in the respective periods. Excluding the adjustments, corporate and other expenses were down approximately \$1.7 million in 2003 due primarily to lower employee incentive costs and our overall cost reduction efforts.

	Corporate and Other Expenses		
	2003	2002	Increase/ (Decrease)
	(in thousands)		
Expenses for the years ended December 31	\$ 26,534	\$ 22,511	\$ 4,023
2003 voluntary severance program	(2,758)		(2,758)
Impairment charge on real estate held for sale	(2,546)		(2,546)
Reclassification of bad debt reserve to catalysts segment		2,000	(2,000)
2002 workforce reduction		(1,550)	1,550
Net change excluding 2002 adjustment and voluntary severance program	\$ 21,230	\$ 22,961	\$ (1,731)

Corporate and other expenses in 2002 decreased \$0.2 million (0.9%) versus 2001. This decrease is attributable to a first quarter 2002 reclassification of bad debt expense to the Catalysts segment operating profit (\$2.0 million) partially offset by a higher employee incentive provision and a charge of \$1.5 million related to workforce reductions in 2002.

Interest and Financing Expenses. Interest and financing expenses for 2003 increased \$0.3 million from \$5.1 million in 2002 due primarily to higher commitment fees under our then-existing credit agreement offset, in part, by lower average interest rates on higher average outstanding long term debt. Interest and financing expenses for 2002 were impacted by an overall lower average interest rate for the year versus 2001 partially offset by higher average debt outstanding during 2002. The higher debt in 2002 reflected the impact of the two acquisitions during 2001 as well as the repurchase of 4,000,000 common shares in February 2002.

Other Income, Net Including Minority Interest. Other income, net including minority interest for 2003 amounted to \$0.6 million, down \$2.7 million from 2002 primarily due to higher operating losses on joint venture investments offset, in part, by an increase in interest on income tax settlements (\$0.7 million) in 2003 versus 2002. Other income, net including minority interest decreased to \$3.4 million in 2002 from \$4.3 million in 2001, primarily due to the minority interest of \$2.1 million in our majority-owned subsidiary, Stannica LLC, partially offset by interest received in the amount of \$2.0 million related to a favorable income tax settlement in 2002. See Note 1, Summary of Significant Accounting Policies Investments of the notes to our consolidated financial statements included elsewhere in this prospectus supplement.

Income Taxes. Income taxes in 2003 decreased \$14.2 million from 2002. The 2003 period includes the favorable benefit of \$7.5 million related to the revaluation of reserve requirements as the Internal Revenue Service closed audits related to tax years 1998 and 1999 as well as the impact of an IRS income tax settlement related to tax years 1996 and 1997 received in the amount of \$4.5 million. Income taxes in 2002 were relatively unchanged compared to 2001. Income taxes in 2002 included an IRS settlement in the amount of \$2.5 million offset by higher pre-tax income in 2002. The effective tax rate for 2003 was 15.8%, which was down from 27.8% in 2002 and 29.9% in 2001. See Note 13, Income Taxes of the notes to our consolidated financial statements included elsewhere in this prospectus supplement, for details of changes in effective income tax rates.

Summary of Critical Accounting Policies

Estimates and Assumptions

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Listed below are the estimates and assumptions that we consider to be significant in the preparation of the financial statements.

S-50

Table of Contents

Allowance for Doubtful Accounts We estimate losses for uncollectible accounts based on the aging of receivables and the evaluation of the likelihood of success in collecting the receivables.

Depreciation Book depreciation is estimated based upon internal engineering studies, which are conducted periodically. Engineering and manufacturing, with the advice of specific product management, review each project to make sure that assets to be capitalized are depreciated based upon the estimated product life and/or individual asset life, whichever is less.

Inventory Obsolescence Inventories are viewed on a monthly basis to determine age, movement and turnover. Reserves are setup periodically based upon estimates to adjust inventory values in line with their net realizable value.

Recovery of Long-Lived Assets We evaluate the recovery of our long-lived assets on a segment basis by periodically analyzing our operating results and considering significant events or changes in the business environment.

Acquisition Accounting We estimate the fair value of assets and liabilities when allocating the purchase price of an acquisition.

Income Taxes We assume the deductibility of certain costs in our income tax filings and estimate the future recovery of deferred tax assets.

Legal Accruals We estimate the amount of potential exposure and anticipated cost to defend that we may incur with respect to litigation, claims and assessments.

Performance and Life Cycle Guarantees We provide customers certain performance guarantees and life cycle guarantees. These guarantees entitle the customer to claim compensation if the product does not conform to performance standards originally agreed upon. Performance guarantees relate to minimum technical specifications that products produced with the delivered catalyst must meet, such as yield and product quality. Life cycle guarantees relate to minimum periods for which performance of the delivered catalysts is guaranteed. When either performance guarantees or life cycle guarantees are contractually agreed upon, an assessment of the appropriate revenue recognition treatment is evaluated.

Environmental Remediation Liabilities We estimate and accrue the costs required to remediate a specific site depending on site-specific facts and circumstances. Cost estimates to remediate each specific site are developed by assessing (1) the scope of our contribution to the environmental matter, (2) the scope of the anticipated remediation and monitoring plan, and (3) the extent of other parties' share of responsibility.

Actual results could differ materially from the estimates and assumptions that we use in the preparation of our financial statements.

Revenue Recognition

We recognize sales when the revenue is realized or realizable, and has been earned, in accordance with the SEC's Staff Accounting Bulletin No. 104, Revenue Recognition in Financial Statements. We recognize net sales as risk and title to the product transfer to the customer, which usually occurs at the time shipment is made. The majority of our sales are sold free on board (FOB) shipping point or on an equivalent basis, other transactions are based upon specific contractual arrangements. Our standard terms of delivery are included in our contracts of sale, order confirmation documents and invoices. We recognize revenue from services when performance of the services has been completed. We have a limited amount of consignment sales that are billed to the customer upon monthly notification of amounts used by the customers under these contracts.

Claims Receivable

We record receivables for non-trade claims on a case-by-case basis whenever management deems that the claim for recovery is probable. Recording of such receivables is preceded by the gathering and evaluation of

Table of Contents

factually supportable evidence and conditions surrounding the claim, and is generally based on application of specific contractual terms with third parties from which the claim arises. In accordance with generally accepted accounting principles, we evaluate these receivables for collectibility on a regular basis, and we record provisions for uncollectible amounts when subsequent conditions indicate that collection of all or part of the receivable is doubtful.

Pension Plans and Other Postretirement Benefits

We follow the guidance of SFAS No. 87, *Employers' Accounting for Pensions*, and SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, when accounting for pension and postretirement benefits. Under these accounting standards, assumptions are made regarding the valuation of benefit obligations and the performance of plan assets. Delayed recognition of differences between actual results and expected or estimated results is a guiding principle of these standards. This delayed recognition of actual results allows for the recognition of changes in benefit obligations and plan performance over the working lives of the employees who benefit under the plans. The primary assumptions are as follows:

Discount Rate The discount rate is used in calculating the present value of benefits, which is based on projections of benefit payments to be made in the future.

Expected Return on Plan Assets We project the future return on plan assets based principally on prior performance. These projected returns reduce the net benefit costs recorded currently.

Rate of Compensation Increase For salary-related plans, we project employees' annual pay increases, which are used to project employees' pension benefits at retirement.

Rate of Increase in the Per Capita of Covered Health Care Benefits We project the expected increases in the cost of covered health care benefits.

During 2003, we made changes to the assumptions related to the discount rate, the rate of compensation increase (for salary-related plans) and the rate of increase in the per capita cost of covered health care benefits. We consider available information that we deem relevant when selecting each of these assumptions.

In selecting the discount rate, consideration is given to fixed-income security yields, specifically high quality bonds (Moody's Aa corporate bond rate). At December 31, 2003, the discount rate was reduced for the plans from 6.60% to 6.15% as a result of decreased yields for long-term high quality bonds.

In estimating the expected return on plan assets, we consider past performance and future expectations for the types of investments held by the plan as well as the expected long-term allocation of plan assets to these investments. At December 31, 2003, the expected rate of return on pension plan assets was reduced from 9.25% to 8.75% and there was no change in the expected 7.00% return on other postretirement benefit plan assets. Our U.S. defined benefit plan was closed to new participants effective March 31, 2004. We adopted a new defined contribution plan for new employees hired after March 31, 2004.

Edgar Filing: ALBEMARLE CORP - Form S-3/A

In projecting the rate of compensation increase, we consider past experience in light of movements in inflation rates. At December 31, 2003, the assumed rate of compensation increase was reduced from 3.75% to 2.56% for the plans.

In selecting the rate of increase in the per capita cost of covered health care benefits, we consider past performance and forecasts of future health care cost trends. At December 31, 2003, the previously assumed rate of increase in the per capita cost of covered health care benefits was decreased. The assumed health care cost trend rate for 2003 for pre-65 coverage was 10% per year, dropping by 1% per year to an ultimate rate of 6%, the trend rate for post-65 coverage was 12% per year, dropping by 1% per year to an ultimate rate of 6%. The assumed health care cost trend rate for 2002 for pre-65 coverage was 11% per year, dropping by 1% per year to an ultimate rate of 6%, the trend rate for post-65 coverage was 13% per year, dropping by 1% per year to an ultimate rate of 6%.

S-52

Table of Contents

Income Taxes

Deferred income taxes result from temporary differences in the recognition of income and expenses for financial and income tax reporting purposes, using the liability or balance sheet method. Such temporary differences result primarily from differences between the financial statement carrying amounts and tax basis of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse.

In connection with our ongoing evaluation of our internal controls over financial reporting pursuant to the Sarbanes-Oxley Act of 2002, we have determined that certain of our reported deferred income tax assets with respect to accrued bonuses and other items are overstated based on our detailed reviews. As such, we expect to take a charge associated with a write-down of our deferred tax assets during the fourth quarter of 2004, resulting in the reduction of our net income by approximately \$1.7 million for the period. Additionally, we are investigating differences identified in our taxable income calculations for certain of our past income tax returns relating mainly to depreciation adjustments recorded for purposes of determining taxable income. These differences, amounting to approximately \$9.3 million reflected in deferred income tax liabilities, are expected to result in a reclassification of this balance from deferred income tax liabilities to current income taxes payable. We intend to reflect this reclassification in our Annual Report on Form 10-K for the year ended December 31, 2004. We believe that each of this write-down and this reclassification entry has had an immaterial impact on our reported financial position and will have an immaterial impact on our 2004 results of operations.

Investments

We have investments in joint ventures, nonmarketable securities and marketable equity securities. The majority of our investments are in joint ventures. Since we have the ability to exercise significant influence over the operating and financial policies of these joint ventures, they are accounted for using the equity method of accounting. Our shares of the investee's earnings (losses) are included in the consolidated statement of operations as a component of other income, net including minority interest. Investments in marketable securities are accounted for as available-for-sale securities with changes in fair value included in accumulated other comprehensive income (loss) in the shareholders' equity section of the consolidated balance sheets. Joint ventures and nonmarketable securities results for immaterial entities are estimated based upon the overall performance of the entity where financial results are not available on a timely basis.

Financial Condition and Liquidity

Cash and cash equivalents at September 30, 2004, were \$60.8 million, representing an increase of \$25.6 million from \$35.2 million at year-end 2003.

In the nine months ended September 30, 2004, cash flows provided from operating activities of \$131.2 million, together with approximately \$1,051 million of proceeds from borrowings, were used to cover operating activities, purchase a business and assets for \$762.4 million, net of cash acquired, repay debt of \$325.8 million, fund capital expenditures totaling \$37.6 million, pay quarterly dividends to shareholders of \$18.0 million, fund \$12.8 million of realized euro-denominated hedging losses associated with the acquisition of the Akzo Nobel refinery catalysts business, fund investments in joint ventures and nonmarketable securities of \$6.7 million, purchase 27,569 shares of our common stock, and increase cash and cash equivalents by \$25.6 million. We anticipate that cash provided from operations in the future and borrowings under our new senior credit agreement will be sufficient to pay our operating expenses, satisfy debt-service obligations, fund capital expenditures and make dividend payments.

Edgar Filing: ALBEMARLE CORP - Form S-3/A

The change in our accumulated other comprehensive loss from December 31, 2003, was due primarily to net foreign currency translation adjustments (strengthening of the U.S. dollar versus the euro), net of related deferred taxes.

On July 31, 2004, we completed the acquisition of the Akzo Nobel refinery catalysts business for 615.7 million (approximately \$762.2 million at applicable exchange rates) in cash. Following this acquisition, we

S-53

Table of Contents

transferred our existing polyolefin catalysts business from our Polymer Chemicals segment, which we renamed Polymer Additives, to a newly created Catalysts segment, which also includes the assets we acquired from Akzo Nobel.

In connection with the acquisition, we entered into (1) a new senior credit agreement, dated as of July 29, 2004, among Albemarle, Albemarle Catalysts International, L.L.C., a subsidiary of our company, certain of our subsidiaries as guarantors, the lenders parties thereto, Bank of America, N.A., as Administrative Agent, UBS Securities LLC, as Syndication Agent, and The Bank of New York, Fortis (USA) Finance LLC and SunTrust Bank, as Co-Documentation Agents, consisting of a \$300 million revolving credit facility and a \$450 million five-year term loan facility, and (2) a \$450 million 364-day loan agreement, dated as of July 29, 2004, among Albemarle, Albemarle Catalysts International, L.L.C., certain of our subsidiaries as guarantors, the lenders parties thereto, Banc of America Bridge LLC, as Administrative Agent, and UBS Securities LLC, as Syndication Agent. We used the initial borrowings under the new senior credit agreement and the 364-day loan agreement to consummate the acquisition, refinance our then-existing credit agreement and pay related fees and expenses incurred in connection therewith.

All of our borrowings under our \$300 million revolving credit facility, \$450 million five-year term loan facility and 364-day loan agreement bear interest at variable rates based on an average LIBOR rate for deposits in the relevant currency plus an applicable rate (currently 1.0%). The applicable rate is variable based on the rating of our senior unsecured long-term debt by S&P and Moody's. As of September 30, 2004, borrowings under our \$300 million revolving credit facility, \$450 million five-year term loan facility and 364-day loan agreement bore variable interest rates of 2.44%, 2.86% and 2.69%, respectively, per annum.

Borrowings under our new senior credit agreement and 364-day loan agreement are conditioned upon compliance with the following financial covenants: (a) consolidated fixed charge coverage ratio, as defined, must be greater than or equal to 1.25:1.00 as of the end of any fiscal quarter; (b) consolidated debt to capitalization ratio, as defined, at the end of any fiscal quarter must be less than or equal to 65% (i) prior to the earlier of (A) July 29, 2005 and (B) our first equity issuance subsequent to July 29, 2004, and (ii) thereafter, 60%; (c) consolidated tangible domestic assets, as defined, must be or greater than or equal to \$750 million for us to make investments in entities and enterprises that are organized outside the United States; and (d) with the exception of liens specified in our new senior credit agreement and the 364-day loan agreement, liens may not attach to assets where the aggregate amount of all indebtedness secured by such liens at any time exceeds 10% of consolidated net worth, as defined in the agreements. At September 30, 2004, our consolidated fixed charge coverage ratio was 2.81:1.00.

The current portion of our long-term debt amounted to \$495.0 million at September 30, 2004, principally reflecting amounts payable on July 28, 2005 under our 364-day loan agreement pursuant to which amounts were borrowed to finance in part the acquisition of the refinery catalysts business. The noncurrent portion of our long-term debt amounted to \$458.2 million at September 30, 2004, subsequent to our financing the acquisition of the Akzo Nobel refinery catalysts business, compared to \$228.4 million at the end of 2003. Our long-term debt, including the current portion, as a percentage of total capitalization amounted to 59.0% at September 30, 2004.

As of September 30, 2004, we were the guarantor of \$36.7 million of outstanding long-term debt on behalf of our joint venture company, Jordan Bromine Company Limited. We were also the guarantor of \$0.4 million of outstanding debt at September 30, 2004, on behalf of our joint venture company, Eurecat U.S., Inc. Our long-term debt, including the guarantees, as a percent of total capitalization amounted to 59.9% at September 30, 2004.

Our capital expenditures in the first nine months of 2004 were up by \$7.3 million from the nine-month period of 2003. For the year, capital expenditures, including capital expenditures relating to the Akzo Nobel refinery catalysts business since its acquisition, are forecasted to be about 50% greater than the 2003 level. Capital spending will be financed primarily with cash flow provided from operations with additional cash needed, if any, provided by borrowings, including borrowings under our revolving credit facility. The amount and timing of any additional borrowings will depend on the Company's specific cash requirements.

Table of Contents

On October 13, 2004, we filed a universal shelf registration statement on Form S-3 with the SEC covering \$700 million of securities. The shelf registration statement will permit us to issue from time to time a range of securities, including common stock, preferred stock and senior and subordinated debt. We intend to use the net proceeds from this offering and the notes offering to retire all or substantially all of the indebtedness that we incurred under our 364-day loan agreement to finance the refinery catalysts acquisition. To the extent that the net proceeds from this offering and the notes offering are insufficient to retire all of the indebtedness outstanding under our 364-day loan agreement, we intend to incur additional borrowings under our \$300 million revolving credit facility to retire the remaining amount of indebtedness outstanding under our 364-day loan agreement. As of September 30, 2004, after giving pro forma effect to the completion of this offering and the notes offering and the application of the net proceeds therefrom as described in "Use of Proceeds" and assuming that we incur additional borrowings under our \$300 million revolving credit facility to retire the remaining amount of indebtedness outstanding under our 364-day loan agreement, we would have had \$807.0 million of indebtedness outstanding. Giving pro forma effect to the completion of this offering and the notes offering and the application of the net proceeds therefrom as described in "Use of Proceeds" and assuming that we incur additional borrowings under our \$300 million revolving credit facility to retire the remaining amount of indebtedness outstanding under our 364-day loan agreement and assuming an interest rate of 5.50% for the notes and 2.80% for borrowings of \$462.5 million under our senior credit agreement (the pro forma amount outstanding at September 30, 2004), our annualized interest expense would be \$29.5 million. A change of 0.125% in the interest rate applicable to the notes would change our annualized interest expense by \$0.4 million and a change of 0.125% in the interest rate applicable to such borrowings under our senior credit agreement would change our annualized interest expense by \$0.6 million.

As of September 30, 2004, we had the ability to borrow an additional \$347 million under our various credit agreements.

The following table summarizes our contractual obligations at September 30, 2004.

	4Q						There- after
	2004	2005	2006	2007	2008	2009	
Long-term debt obligations	\$ 11,250	\$ 495,047	\$ 45,051	\$ 45,056	\$ 202,561	\$ 141,717	\$ 12,584
Expected interest payments on long-term debt obligations ⁽¹⁾	\$ 6,666	\$ 29,777	\$ 28,517	\$ 27,257	\$ 25,446	\$ 18,187	\$ 86,045
Operating lease obligations (rental)	\$ 1,730	\$ 5,228	\$ 4,267	\$ 2,885	\$ 2,719	\$ 2,719	\$ 10,228
Take or pay / throughput agreements	\$ 29,389	\$ 67,012	\$ 32,792	\$ 9,063	\$ 7,066	\$ 6,366	\$ 27,372
Additional investment commitment payments	\$ 3,883	\$ 1,020	\$ 790	\$ 790	\$ 30	\$ 30	\$ 210
Capital projects	\$ 13,652	\$ 7,325	\$ 616	\$ 622	\$ 2,525		
Letters of credit and guarantees	\$ 4,162	\$ 31,378	\$ 6,788	\$ 3,146	\$ 3,508	\$ 3,007	\$ 4,772
Total	\$ 70,732	\$ 636,787	\$ 118,821	\$ 88,819	\$ 243,855	\$ 172,026	\$ 141,211

(1) These amounts are based on a weighted average interest rate of 2.80% for our variable rate long-term debt obligations and an assumed interest rate of 5.50% for the notes to be sold in the notes offering.

Environmental Matters

We are subject to federal, state, local and foreign requirements regulating the handling, manufacture and use of materials (some of which may be classified as hazardous or toxic by one or more regulatory agencies), the discharge of materials into the environment and the protection of the environment. To our knowledge, we are currently complying and expect to continue to comply in all material respects with applicable

environmental

S-55

Table of Contents

laws, regulations, statutes and ordinances. Compliance with existing federal, state, local and foreign environmental protection laws is not expected to have in the future a material effect on our earnings or competitive position, but increased legal or regulatory requirements could have an adverse effect on our results.

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

Our environmental and safety operating costs charged to expense were \$21.0 million in 2003 versus \$17.7 million in 2002 and \$14.4 million in 2001, excluding depreciation of previous capital expenditures, and are expected to be in the same range in the next few years. Costs for remediation have been accrued and payments related to sites are charged against accrued liabilities, which at December 31, 2003 totaled \$29.1 million, down \$2.3 million, from December 31, 2002.

We believe that most of the amount we may be required to pay in connection with environmental remediation matters in excess of the amounts recorded, if any, should occur over a period of time and should not have a material adverse impact on our financial condition or results of operations, but could have a material adverse impact in any particular quarterly reporting period.

Our capital expenditures for pollution-abatement and safety projects, including such costs that are included in other projects, were \$4.5 million, \$4.4 million and \$2.6 million in 2003, 2002 and 2001, respectively. For each of the next few years, capital expenditures for these types of projects may increase due to more stringent regulatory requirements and the expansion of our operations by the acquisition of the Akzo Nobel refinery catalysts business. Management's estimates of the effects of compliance with governmental pollution-abatement and safety regulations are subject to (i) the possibility of changes in the applicable statutes and regulations or in judicial or administrative construction of such statutes and regulations, and (ii) uncertainty as to whether anticipated solutions to pollution problems will be successful, or whether additional expenditures may prove necessary.

Recently Issued Accounting Pronouncements

On January 1, 2003, we adopted SFAS No. 143, *Accounting for Asset Retirement Obligations*, which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. At the time of adoption, we identified certain assets for which there are future retirement obligations. These future obligations are comprised primarily of the cost of closing various facilities and of capping brine wells. The financial statement impact at adoption of this statement on our consolidated statements of income is reflected as a cumulative effect of a change in accounting principle amounting to \$3.5 or \$2.2 million after income taxes, which is reflected as a cumulative effect of a change in accounting principle, net in the company's consolidated statements of income in 2003.

During January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46 (FIN 46), *Consolidation of Variable Interest Entities*. FIN 46 clarifies the application of Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, to certain entities

Edgar Filing: ALBEMARLE CORP - Form S-3/A

in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties; such entities are known as variable interest entities. FIN 46 applies immediately to all variable interest entities created after

S-56

Table of Contents

January 31, 2003 and is effective as of December 31, 2003 for any variable interest entities deemed to be special purpose entities created prior to February 1, 2003. The FASB issued a revision to FIN 46 (FIN 46-R) in December 2003. FIN 46-R is effective for the interim period ending March 31, 2004 for all new or existing variable interest entities. We have determined that the adoption of FIN46-R did not impact the company for the current periods.

Effective June 30, 2003, we adopted SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. This statement amends and clarifies financial accounting and reporting for derivatives and for hedging activities under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. This standard had an immaterial impact on our financial statements.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Instruments with Characteristics of Both Liabilities and Equity. This standard requires that certain financial instruments embodying an obligation to transfer assets or to issue equity securities be classified as liabilities. It is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective July 1, 2003. At the time of adoption, this standard had no impact on our financial statements.

On December 23, 2003, the FASB issued SFAS No. 132 (revised 2003), Employers Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88, and 106, and a revision of FASB Statement No. 132. This statement revises employers disclosures about pension plans and other postretirement benefit plans. The new rules require additional disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other postretirement benefit plans. We implemented SFAS No. 132 (revised 2003) for the year ended December 31, 2003.

Quantitative and Qualitative Disclosures about Market Risk

In the normal course of operations, we are exposed to changes in financial market conditions due to the denomination of our business transactions in diverse foreign currencies and our ongoing manufacturing and funding activities. As a result, future earnings, cash flows and fair values of assets and liabilities are subject to market risk. We have established policies, procedures and internal processes governing our management of uncertain market conditions, and use both operational and financial market actions in our risk management activities, which include the use of derivative instruments. We do not use derivative instruments for trading purposes. We only enter into derivative contracts based on economic analysis of underlying exposures anticipating that adverse impacts on future earnings, cash flows and fair values due to fluctuations in foreign currency exchange rates will be offset by the proceeds from and changes in fair value of the derivative instruments. We do not hedge our exposure to market risks in a manner that completely eliminates the effects of changing market conditions on earnings, cash flows and fair values.

Short-term exposures to changing foreign currency exchange rates are primarily due to operating cash flows denominated in foreign currencies. We cover certain known and anticipated operating exposures by using forward contracts.

The primary currencies for which we have foreign currency exchange rate exposure are the European Union euro, Japanese yen, British pound sterling and the U.S. dollar (in certain of our foreign locations). In response to the greater fluctuations in foreign currency exchange rates in recent periods, we have increased the degree of risk management activities to minimize the impact on earnings of future periods.

Edgar Filing: ALBEMARLE CORP - Form S-3/A

We manage our foreign currency exposures by balancing certain assets and liabilities denominated in foreign currencies and through the use, from time-to-time, of foreign currency forward contracts. The principal objective of these contracts is to minimize the risks and/or costs associated with global operating activities. We do not use financial instruments for trading or other speculative purposes. The counterparties to these contracts are major financial institutions with which we generally also have other financial relationships.

We enter into foreign currency forward contracts, which generally expire within one year, in the regular course of business to assist in managing our exposure against foreign currency fluctuations on sales and

S-57

Table of Contents

intercompany transactions. The primary method to cover foreign currency exposure is to seek a natural hedge, in which the operating activities denominated in respective currencies balance in respect to timing and the underlying exposures. In the event a natural hedge is not available, a foreign currency forward contract may be employed to reduce currency exposure. While these contracts are subject to fluctuations in value, such fluctuations are generally offset by the value of the underlying foreign currency exposures being hedged. Gains and losses on foreign currency forward contracts are recognized currently in income.

In connection with the acquisition of the Akzo Nobel refinery catalysts business, we entered into foreign currency forward hedging contracts to partially hedge the purchase price, which was denominated in euros. As a result, we incurred a one-time net charge of \$12.8 million during the nine months ended September 30, 2004.

Our financial instruments, subject to foreign currency exchange risk, consist of foreign currency forward contracts and represented a net asset position of approximately one thousand dollars at September 30, 2004. We conducted a sensitivity analysis on the fair value of our foreign currency hedge portfolio assuming instantaneous 10% changes in foreign currency exchange rates from their levels as of September 30, 2004, with all other variables held constant. A 10% appreciation of the U.S. dollar against foreign currencies would result in an increase of \$0.2 million in the fair value of foreign currency exchange hedging contracts. A 10% depreciation of the U.S. dollar against foreign currencies would result in a decrease of \$0.2 million in the fair value of foreign currency exchange hedging contracts. The sensitivity in fair value of the foreign currency hedge portfolio represents changes in fair values estimated based on market conditions as of September 30, 2004, without reflecting the effects of underlying anticipated transactions. When those anticipated transactions are realized, actual effects of changing foreign currency exchange rates could have a material impact on earnings and cash flows in future periods.

We are exposed to changes in interest rates that could impact our results of operations and financial condition. We manage the worldwide exposure of our interest rate risks and foreign exchange exposure through our regular operations and financing activities. We intend to use the our senior credit agreement as our primary source of financing supplemented by several uncommitted line agreements, which could expose us to changes in interest rates, if various financial covenants are not met. We manage our ratio of debt-to-capitalization with the objective of achieving the lowest cost of capital possible.

The raw materials we use are subject to price volatility caused by weather, supply conditions, political and economic variables and other unpredictable factors. Historically, we have not used futures, options and swap contracts to manage the volatility related to the above exposures. However, the Akzo Nobel refinery catalysts business has used financing arrangements (certain of which contain embedded derivatives) to provide long-term protection against changes in metals prices. Management seeks to limit our exposure by entering into long-term contracts when available, and seeks price increase limitations through contracts.

Due to the increase in our outstanding indebtedness as a result of the acquisition of the Akzo Nobel refinery catalysts business, we now plan to enter into interest rate swaps, collars or similar instruments with the objective of reducing interest rate volatility relating to our borrowing costs.

Our operations are exposed to market risk from changes in natural gas prices. We purchase natural gas to meet our production requirements. In the second quarter of 2003, we began hedging a portion of our 12-month rolling forecast for North American natural gas requirements by entering into natural gas futures contracts to help mitigate uncertainty and volatility.

Hedge transactions are executed with a major financial institution by our purchasing personnel. Such derivatives are held to secure natural gas at fixed prices and not for trading.

The natural gas contracts qualify as cash flow hedges under SFAS No. 133 and are marked to market. The unrealized gains and/or losses are deferred and reported in accumulated other comprehensive income to the extent that the unrealized gains and losses are offset by the forecasted transaction. At September 30, 2004, there were unrealized gains of approximately \$121,000 (\$77,000, net of tax). Any unrealized gains and/or losses on the derivative instrument that are not offset by the forecasted transaction are recorded in earnings.

S-58

Table of Contents**SELECTED HISTORICAL COMBINED FINANCIAL INFORMATION OF AKZO NOBEL S REFINERY CATALYSTS BUSINESS**

The following table sets forth selected historical combined financial information of Akzo Nobel s refinery catalysts business, which we acquired on July 31, 2004, as of and for the years ended December 31, 2003, 2002 and 2001, which have been derived from the audited combined financial statements of the refinery catalysts business, and as of and for the six months ended June 30, 2004 and 2003, which have been derived from the unaudited combined financial statements of the refinery catalysts business. In the opinion of management, the unaudited combined financial statements have been prepared on the same basis as the audited combined financial statements and include all adjustments necessary for a fair presentation of the information set forth therein. Interim results are not necessarily indicative of full year results.

The historical combined financial statements of Akzo Nobel s refinery catalysts business contained in this prospectus supplement were prepared in accordance with Dutch GAAP. There are significant differences between Dutch GAAP and U.S. GAAP. See footnote 23 of the historical combined financial statements of Akzo Nobel s refinery catalysts business contained elsewhere in this prospectus supplement for additional information regarding the differences between Dutch GAAP and U.S. GAAP as they relate to such financial statements and for a reconciliation of net income and divisional equity from Dutch GAAP to U.S. GAAP.

You should read the information in this table together with Management s Discussion and Analysis of Financial Condition and Results of Operations of Akzo Nobel s Refinery Catalysts Business and the historical combined financial statements of the refinery catalysts business and related notes contained elsewhere in this prospectus supplement.

	Six Months			Year Ended			
	Ended June 30,			December 31,			
	2004(1)	2004	2003	2003(1)	2003	2002	2001
	(unaudited)	(unaudited)	(unaudited)	(unaudited)			
	(in thousands)						
Dutch GAAP:							
Statements of Income Data:							
Net sales	\$ 234,222	192,316	179,118	\$ 423,314	347,577	378,831	365,438
Cost of sales	172,044	141,263	120,780	292,045	239,794	262,281	284,932
Gross profit	62,178	51,053	58,338	131,269	107,783	116,550	80,506
Selling, general and administrative expenses	29,611	24,313	22,954	58,651	48,157	52,653	47,322
Research and development expenses	13,648	11,206	9,797	25,271	20,750	21,218	19,890
Operating income	18,919	15,534	25,587	47,347	38,876	42,679	13,294
Other income (expense), net	4,068	3,340	2,861	8,351	6,857	4,017	2,551
Interest expense, net	(1,127)	(925)	(1,889)	(4,264)	(3,501)	(5,499)	(9,847)
Income before income taxes and equity results from associated companies	21,860	17,949	26,559	51,434	42,232	41,197	5,998
Income taxes	7,674	6,301	9,524	18,522	15,208	15,433	1,663
Equity results from associated companies	6,085	4,996	5,419	10,596	8,700	9,068	9,366
Net income	\$ 20,271	16,644	22,454	\$ 43,508	35,724	34,832	13,701

Other Financial Data:

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Net cash provided (used) by operations	\$ (7,512)	(6,168)	27,159	\$ 50,058	41,102	62,320	29,314
Depreciation and amortization	16,621	13,647	14,758	35,907	29,483	32,254	33,419
Capital expenditures	(8,941)	(7,341)	(6,036)	(19,243)	(15,800)	(22,667)	(16,226)
U.S. GAAP:							
Net income	\$ 19,667	16,148	21,164	\$ 41,348	33,950	37,830	N/A
Divisional equity	285,529	234,444	N/A	247,992	203,623	220,241	N/A
Non-GAAP Financial Data:							
EBITDA (2)	\$ 45,693	37,517	48,625	\$ 102,201	83,916	88,018	58,630

- (1) We converted the amounts in this column from euros into U.S. dollars solely for your convenience at an exchange rate of \$1.2179 = 1.00, the noon buying rate for euros on June 30, 2004. Please note that these convenience translations are not Dutch GAAP or U.S. GAAP and, accordingly, these translated U.S. dollar amounts have not been audited. These translations should not be construed as a representation that the euro amounts represent, or have been or could be converted into, U.S. dollars at that or any other rate. These convenience translations have been made at a rate different from the rates used in the preparation of the Unaudited Pro Forma Combined Financial Information.

S-59

Table of Contents

- (2) EBITDA, which represents earnings before depreciation and amortization, interest expense, net and income taxes is a supplemental measure of performance that is not required by, or presented in accordance with, U.S. GAAP or Dutch GAAP. We present EBITDA because we consider it an important supplemental measure of our operations and financial performance. Our management believes EBITDA is more reflective of our operations as it provides transparency to investors and enhances period-to-period comparability of operations and financial performance. EBITDA should not be considered as an alternative to net income determined in accordance with U.S. GAAP or Dutch GAAP. Set forth below is a reconciliation of EBITDA, a non-GAAP financial measure, to net income, the most directly comparable financial measure calculated and reported in accordance with U.S. GAAP or Dutch GAAP. Our calculation of EBITDA may not be comparable to the calculation of similarly titled measures reported by other companies.

	Six Months			Year Ended			
	Ended June 30,			December 31,			
	2004(A)	2004	2003	2003(A)	2003	2002	2001
	(unaudited)	(unaudited)	(unaudited)				
	(in thousands)						
Net income	\$ 20,271	16,644	22,454	\$ 43,508	35,724	34,832	13,701
Add:							
Depreciation and amortization	16,621	13,647	14,758	35,907	29,483	32,254	33,419
Interest expense, net	1,127	925	1,889	4,264	3,501	5,499	9,847
Income taxes	7,674	6,301	9,524	18,522	15,208	15,433	1,663
EBITDA	\$ 45,693	37,517	48,625	\$ 102,201	83,916	88,018	58,630

- (A) We converted the amounts in this column from euros into U.S. dollars solely for your convenience at an exchange rate of \$1.2179 = 1.00, the noon buying rate for euros on June 30, 2004. Please note that these convenience translations are not Dutch GAAP or U.S. GAAP and, accordingly, these translated U.S. dollar amounts have not been audited. These translations should not be construed as a representation that the euro amounts represent, or have been or could be converted into, U.S. dollars at that or any other rate. These convenience translations have been made at a rate different from the rates used in the preparation of the Unaudited Pro Forma Combined Financial Information.

Table of Contents

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS OF AKZO NOBEL'S REFINERY CATALYSTS BUSINESS**

The following is a discussion and analysis of the financial condition and results of operations of the refinery catalysts business that we acquired from Akzo Nobel N.V. on July 31, 2004. The following discussion should be read together with Selected Historical Combined Financial Information of Akzo Nobel's Refinery Catalysts Business and the historical combined financial statements of the refinery catalysts business and related notes contained elsewhere in this prospectus supplement.

The refinery catalysts business of Akzo Nobel is engaged in the development, manufacture, distribution and sale of fluidized and fixed-bed catalysts to refineries and petrochemical plants. Akzo Nobel's refinery catalysts business primarily conducts business in Europe, North and South America, and Asia.

Prior to July 31, 2004, the refinery catalysts business was owned and operated as a separate division by Akzo Nobel. In September 2003, Akzo Nobel announced its intention to divest its refinery catalysts business, and began seeking offers for the purchase of substantially all of the related assets and liabilities. On April 19, 2004, Albemarle offered to purchase the refinery catalysts business and the resulting transaction was completed on July 31, 2004.

Growth in the refinery catalysts business is expected to be driven by increasing global demand for petroleum products, generally deteriorating quality of crude oil feedstock and higher fuel quality requirements as part of anti-pollution initiatives.

The major global petroleum refineries continue to prepare for stricter fuel specifications, including the upcoming on-road diesel sulfur specifications that will be implemented in 2006. These stricter specifications are leading to new capital expenditures by petroleum refineries to expand hydroprocessing capability as well as to increased demand for high performance catalysts to be used in existing and new hydroprocessing capacity.

Six Months Ended June 30, 2004 Compared to Six Months Ended June 30, 2003

Net Sales. Net sales for first six months of 2004 of 192.3 million were up 13.2 million (7.4%) from the first six months of 2003 net sales of 179.1 million. The increase in net sales was primarily due to higher volumes and prices in HPC catalysts, higher volumes in FCC catalysts, and increased volumes and a favorable product mix for FCC additives. These favorable effects were partly offset by an unfavorable impact of foreign exchange, as the euro strengthened against the U.S. dollar.

Operating Costs and Expenses. Cost of goods sold in the first six months of 2004 increased 20.5 million (17.0%) from the corresponding 2003 period. Apart from the volume effects mentioned above, the increase was primarily due to higher raw material costs, primarily molybdenum and other metals, impacting the refinery catalysts business HPC margins. As a result of significant increases in raw material costs, the gross profit margin decreased to 26.5% in the 2004 period from 32.6% for the corresponding period in 2003.

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Selling, general and administrative expenses (SG&A) and research and development expenses (R&D) increased 2.8 million (8.5%) in the first six months of 2004 versus the first six months of 2003, primarily due to receipt of an R&D subsidy in 2003 as well as slightly higher spending in 2004. As a percentage of net sales, SG&A and R&D were 18.5% in 2004 versus 18.3% in the 2003 period.

Operating Profit. Operating profit for the first six months of 2004 was down 10.1 million (39.3%) from the corresponding period of 2003, primarily due to lower profit margins from higher raw material costs and unfavorable product mix that were only partly recovered in selling prices. There was also an unfavorable foreign exchange effect as the euro strengthened against the U.S. dollar. However, this was offset by favorable hedging gains in the first six months of 2004 compared to the same period of 2003.

S-61

Table of Contents

Other Income, Net. Other income, net for the first six months of 2004 was 3.3 million as compared with 2.9 million for the 2003 corresponding period.

Interest Expense, Net. Interest expense, net for the first six months of 2004 was 0.9 million, down from 1.9 million in the first six months of 2003 due to lower average outstanding cash funded by Akzo Nobel N.V., the refinery catalysts business former parent company, in the 2004 period.

Income Taxes. The effective income tax rate before equity results from associated companies for the first six months of 2004 was 35.1%, down slightly from 35.9% for the corresponding period in 2003.

Equity Results from Associated Companies. Equity results from associated companies totaled 5.0 million for the first six months of 2004 as compared with 5.4 million for the corresponding period of 2003.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002 and Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

Net Sales. Net sales for 2003 were 347.6 million down 31.3 million (8.3%) from net sales of 378.9 million in 2002 primarily due to the unfavorable impact of foreign exchange, partly offset by higher volumes in HPC catalysts and FCC additives.

Net sales for 2002 of 378.9 million increased 13.4 million (3.7%) from 365.4 million in 2001 mainly due to strong volume growth for HPC catalysts partly offset by lower volumes in FCC catalysts. Foreign exchange rates had a negative impact of 13 million.

Operating Costs and Expenses. Cost of goods sold in 2003 decreased 22.5 million (8.6%) from 2002. Apart from the currency effect and the volume effect in HPC catalysts there was a favorable product mix. In FCC, the energy costs went up, especially in the United States. The gross profit margin increased to 31.0% for 2003 from 30.8% in 2002.

Cost of goods sold in 2002 decreased 22.7 million (7.9%) from 2001. The decrease was primarily due to lower production costs resulting from the closure of the refinery catalysts business FCC catalysts production facility located in Los Angeles, California in June 2001, offset in part by the unfavorable effects of foreign exchange. The natural gas prices in the United States were lower than in 2001. Gross profit margin increased to 30.8% in 2002 from 22.0% in 2001.

SG&A, combined with R&D in 2003 decreased 5.0 million (6.7%) from 2002. From 2002 to 2001 the increase was 6.7 million (9.9%), primarily due to expenditures associated with information technology related projects. As a percentage of net sales, SG&A and R&D was 19.8% in 2003 versus 19.5% in 2002 and 18.4% in 2001.

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Operating Profit. Operating profit in 2003 decreased 3.8 million (8.9%) from the 2002 period. Higher raw material and energy costs, more favorable provision adjustments in 2002 and unfavorable effects of foreign exchange were partly offset by improved HPC catalysts margins.

Operating profit in 2002 increased 29.4 million (221%) from 2001. Approximately half of the improvement was associated with the reduced manufacturing costs following the closure of the Los Angeles facility, with the balance of the improvement associated with higher HPC catalysts volumes, a favorable product mix plus lower natural gas prices in the 2002 period versus the corresponding period in 2001.

Other Income, Net. Other income, net was 6.9 million for 2003, up 2.9 million from 2002. In 2002, Other income, net was 4.0 million as compared to 2.6 million in 2001.

Interest Expense, Net. Interest expense, net for 2003 decreased 2.0 million from 5.5 million in 2002 due to lower average outstanding cash funded by Akzo Nobel, the refinery catalysts business former parent company. Interest expense, net for 2002 was down 4.3 million from 9.8 million in 2001 due to lower average divisional equity held by Akzo Nobel during 2002.

S-62

Table of Contents

Income Taxes. Income taxes in 2003 decreased 0.2 million from 2002. Income taxes in 2002 were up significantly from 2001 due to the significant higher Income before taxes. The effective tax rate for 2003 was 36.0%, which was down from 37.5% in 2002 and 27.8% in 2001.

Equity Results from Associated Companies. Equity results from associated companies totaled 8.7 million in 2003 as compared to 9.1 million and 9.3 million, in 2002 and 2001, respectively.

Table of Contents

BUSINESS

Overview

We are a leading global developer, manufacturer and marketer of highly-engineered specialty chemicals. Our products and services enhance the value of our customers' end-products by improving performance, providing essential product attributes, lowering cost and simplifying processing. We sell a highly diversified mix of products to a wide range of customers, including manufacturers of electronics, building and construction materials, automotive parts, packaging, pharmaceuticals and agrichemicals and to petroleum refiners. We believe that our commercial and geographic diversity, technical expertise, flexible, low-cost global manufacturing base, strong cash flows and experienced management team enable us to maintain leading market positions in those areas of the specialty chemicals industry in which we operate.

We and our joint ventures currently operate 38 production facilities, research and development facilities, and administrative and sales offices in North and South America, Europe and Asia and serve more than 3,400 customers in approximately 100 countries. In 2003, we generated net sales of \$1,515.2 million, operating profit of \$139.9 million, net income (before cumulative effect of a change in accounting principle) of \$96.4 million and EBITDA of \$266.2 million, in each case on a pro forma basis. The following chart presents the geographic balance of our 2003 pro forma net sales.

Our portfolio of products has changed significantly over the past five years, and we believe our sales, manufacturing, technical service and research groups are well positioned to rapidly identify, assess and capture new opportunities. We expect to capitalize on these opportunities through many different means, including internal (or organic) development and through additional strategic acquisitions. We believe our key business segments are well positioned to participate in global economic growth, and our operating network provides multiple links with suppliers and customers around the world. As a result, our businesses are continually reviewing new opportunities to expand relationships with existing suppliers and customers, or identifying new customers to support increased market penetration within a local region or individual product line.

Catalysts Acquisition

On July 31, 2004, we acquired the refinery catalysts business of Akzo Nobel N.V. for \$615.7 million (approximately \$763 million at applicable exchange rates). We believe that this acquisition significantly enhances our business by giving us a strong new operating segment. Key attributes of the acquired refinery catalysts business are:

leading global market positions;

strong industry fundamentals;

proprietary technology and service-driven business model; and

attractive margins and cash flows.

S-64

Table of Contents

Following the refinery catalysts acquisition, we transferred our existing polyolefin catalysts business from our Polymer Chemicals segment, which we renamed Polymer Additives, to a newly created Catalysts segment, which includes the assets we acquired from Akzo Nobel. Our operations are now managed and reported as three operating segments: Polymer Additives; Catalysts; and Fine Chemicals. The following chart presents the contributions of our three segments based on our 2003 pro forma net sales.

Polymer Additives

Our Polymer Additives business consists of the following two product categories:

Flame Retardants. We are a leading global producer of brominated, mineral-based and phosphorus flame retardants. These flame retardants comprise the bulk of the global flame retardant market, which is estimated at more than \$2.0 billion. Our flame retardants help materials in a wide variety of finished products meet safety requirements. Some of the products that benefit from our flame retardants include plastic enclosures for consumer electronic products, printed circuit boards, wire and cable, electrical connectors, foam seating in furniture and automobiles, and textiles. We believe that the key drivers for growth of demand for our flame retardants are the increasing demand for electrical and electronic equipment, new construction and increasingly stringent fire-safety regulations in many countries around the world. Some of our flame retardants are based on alumina, and we believe that there are supply chain and technology development synergies with respect to these products with our refinery catalysts business.

Other Additives. We produce plastic and other additives, such as curatives, antioxidants and stabilizers, which are often specially developed and formulated for a customer's specific manufacturing requirements. Our additives improve the performance characteristics of inks and coatings, adhesives, bullet-proof glass and numerous plastic products by enhancing strength, durability, color stability and other performance qualities. We also produce antioxidants used in fuels and lubricants, which are sold to lubricant manufacturers and refiners, some of which are also customers of our Catalysts segment.

Catalysts

Our Catalysts business consists of the following two product categories:

Refinery Catalysts. We and our joint ventures, collectively, are one of the leading global producers of hydroprocessing, or HPC, catalysts and fluidized catalytic cracking, or FCC, catalysts. HPC catalysts are primarily used to reduce the quantity of sulfur and other impurities in petroleum products. FCC catalysts assist in the cracking of petroleum streams into derivative, higher-value products such as gasoline, diesel and raw material components. In 2002, worldwide sales of HPC and FCC catalysts accounted for approximately 80% of the estimated \$2.0 billion refinery catalysts market. We believe the key drivers for the growth of demand for refinery catalysts are the increasing global demand for petroleum products, the generally deteriorating quality of crude oil feedstocks and the implementation of more stringent fuel quality requirements in many countries around the world as part of anti-pollution initiatives. The customers of our Catalysts segment include multinational corporations such as ExxonMobil Corporation, Royal Dutch Petroleum Company and ChevronTexaco

Table of Contents

Corporation; independent petroleum refining companies such as Valero Energy Corporation and Tesoro Petroleum Corporation; and national petroleum refining companies such as Saudi Aramco Mobil Refinery Company Ltd. and Petróleos Mexicanos.

Polyolefin Catalysts. We are a leading global manufacturer of aluminum- and magnesium-alkyls. These alkyls are used in the production of plastic products such as food wrap, stretch films, trash bags and a variety of plastic films. We are also a leader in the production of metallocene/single-site catalysts, which aid in the development and production of new polymers that increase impact strength, clarity and melt characteristics in plastic films. We expect that our extensive experience in polyolefin catalysts will present synergistic opportunities with our refinery catalysts business, particularly with respect to increasing our business with petroleum and petrochemical processing customers.

Fine Chemicals

Our Fine Chemicals business consists of the following four product categories:

Performance Chemicals. We are a leading global producer of bromine with geographically diverse production resources. In 2003, approximately 87% of the bromine that we produced was used internally in our Polymer Additives and Fine Chemicals segments and the remainder was sold into the merchant market. We also produce a number of bromides and bromine-based performance chemicals, which are used in a broad range of applications, including chemical synthesis, oil and gas well drilling and completion fluids, paper manufacturing, water purification, glass manufacturing and photography.

Pharmaceuticals. Our bulk actives, ibuprofen and naproxen, are widely used to provide temporary pain relief and fever reduction. Bulk ibuprofen and naproxen are formulated by pharmaceutical companies for sale in both the prescription and over-the-counter markets. These products compete against other painkillers, including aspirin and acetaminophen. We are one of the largest global producers of ibuprofen. We also produce other intermediates used in the manufacture of a variety of over-the-counter and prescription drugs.

Agrichemicals. We sell a diverse portfolio of chemical intermediates and active ingredients used in the manufacture of crop protection products, such as herbicides, insecticides, fungicides and soil fumigants. Our agrichemicals customers include major global agrichemicals manufacturers and distributors.

Fine Chemistry Services and Intermediates. Our fine chemistry services and intermediates business offers custom manufacturing, research and scale-up services for downstream chemical and pharmaceutical companies. We support our customers' product development efforts by offering discovery-through-commercialization services, including cGMP manufacturing capabilities.

Acquisition of Refinery Catalysts Business

Acquisition

Edgar Filing: ALBEMARLE CORP - Form S-3/A

On July 31, 2004, we acquired the refinery catalysts business of Akzo Nobel for 615.7 million (approximately \$763 million at applicable exchange rates) in cash pursuant to the terms of the International Share and Business Sale Agreement, a copy of which was filed as an exhibit to our Current Report on Form 8-K filed with the SEC on July 16, 2004.

Under the terms of the sale agreement, we acquired two wholly owned subsidiaries of Akzo Nobel (one in the United States and one in the Netherlands), sales, marketing, intellectual property and other assets used in the acquired business, and 50% interests in three joint ventures: Fábrica Carioca de Catalisadores S.A., a Brazilian joint venture; Nippon Ketjen Co., Ltd., a Japanese joint venture; and Eurecat S.A., a French joint venture (with affiliates in the United States, Saudi Arabia and Italy). As part of the acquisition, we also agreed to assume the liabilities of the two acquired subsidiaries and certain liabilities of Akzo Nobel and its affiliates related to the acquired business. We retained substantially all employees of the acquired business, including all of the incumbent managers.

S-66

Table of Contents

The sale agreement provides for a working capital adjustment based on the acquired business' working capital on July 31, 2004, as compared to a baseline working capital previously agreed upon by the parties. We expect that any working capital adjustments will be completed by the end of 2004.

The sale agreement contains representations, warranties and indemnities by the parties. Under the terms of the sale agreement, Akzo Nobel is generally liable for, and has indemnification obligations with respect to, all known pre-closing environmental liabilities and all environmental liabilities discovered post-closing, if such liabilities result from an environmental condition that existed pre-closing. Akzo Nobel also retained liability with respect to pending litigation matters related to the catalysts business. Each party's indemnity obligations under the sale agreement, including Akzo Nobel's environmental indemnity obligations, are subject to specific limitations and qualifications, including time limits for bringing claims and limits on the amounts that Akzo Nobel must pay in respect of indemnified liabilities.

Under the terms of the sale agreement, Akzo Nobel is obligated to provide certain transition services to us for a period of up to one year following the completion of the acquisition. The cost of these transition services was included in the acquisition purchase price.

Effects of the Acquisition

In connection with the acquisition, we incurred during the third quarter of 2004 certain one-time after-tax costs and expenses, including foreign exchange hedging losses of \$10.0 million on contracts entered into for the purpose of hedging the euro-denominated purchase price for the acquired business, additional cost of sales charges of \$8.5 million as a result of inventory write-ups, \$3.0 million as a result of purchased in-process research and development write-offs and unamortized financing costs write-offs of \$0.4 million. These costs and expenses resulted in an aggregate one-time after-tax charge of \$21.9 million. We expect to finalize the acquisition purchase accounting by the end of the first quarter of 2005.

For more information on the effects of the acquisition, please see Unaudited Pro Forma Combined Financial Information.

Financing for the Acquisition

In connection with the acquisition, we entered into (1) a new senior credit agreement, consisting of a \$300 million revolving credit facility and a \$450 million five-year term loan facility, and (2) a \$450 million 364-day loan agreement. We used the initial borrowings under the new senior credit agreement and the 364-day loan agreement to consummate the acquisition, refinance our then-existing credit agreement and pay fees and expenses incurred in connection therewith.

Borrowings under our new senior credit agreement and 364-day loan agreement are conditioned upon compliance with the following financial covenants: (a) our consolidated fixed charge coverage ratio, as defined in the agreements, must be greater than or equal to 1.25:1.00 as of the end of any fiscal quarter; (b) our consolidated debt to capitalization ratio, as defined in the agreements, at the end of any fiscal quarter must be less than or equal to 65% (i) prior to the earlier of (A) July 29, 2005 and (B) our first equity issuance subsequent to July 29, 2004, and (ii) thereafter, 60%; (c) consolidated tangible domestic assets, as defined in the agreements, must be greater than or equal to \$750 million for us to make investments in entities and enterprises that are organized outside the United States; and (d) with the exception of liens specified in our new senior credit agreement and the 364-day loan agreement, liens may not attach to assets where the aggregate amount of all indebtedness secured by such liens at any time exceeds 10% of our consolidated net worth, as defined in the agreements.

Edgar Filing: ALBEMARLE CORP - Form S-3/A

We intend to use the net proceeds from this offering and the notes offering to retire all or substantially all of the indebtedness that we incurred under our 364-day loan agreement to finance the refinery catalysts acquisition. To the extent that the net proceeds from this offering and the notes offering are insufficient to retire all of the indebtedness outstanding under our 364-day loan agreement, we intend to incur additional borrowings under our \$300 million revolving credit facility to retire the remaining amount of indebtedness outstanding under our 364-day loan agreement.

S-67

Table of Contents

For more information on the refinery catalysts business, see the historical financial statements and related notes of the acquired business for the three years ended December 31, 2003 and for the six-month period ended June 30, 2004, included elsewhere in this prospectus supplement.

Specialty Chemicals Industry Overview

In 2003, specialty chemicals represented approximately 17% of the estimated \$1.9 trillion global chemical industry. Specialty chemicals differ from commodity chemicals in that they are typically designed to meet the specifications of a particular application or customer. This customization requires the product to be produced in smaller quantities and demands a higher degree of expertise in a variety of chemistries. Additionally, end-users of specialty chemical products often focus as much or more on the performance characteristics of the product as they do on its price. As a result, in relation to commodity chemical producers, specialty chemical producers are often characterized by higher gross margins due to premium pricing, but relatively higher research and development expenditures due to the importance of continual product improvements and new product development efforts.

Within the specialty chemicals industry, Albemarle competes in polymer additives, catalysts and fine chemicals sectors.

Polymer Additives

Polymer additives are an essential part of most plastics formulations, helping to process materials efficiently and to enhance performance properties. Because polymer additives are used in creating the resins that form the base ingredients for plastics, the polymer additives industry is highly dependent on the performance of the plastics industry. Polymer additives include antioxidants, antistatic agents, peroxide catalysts, polyurethane catalysts, chemical blowing agents, flame retardants, heat stabilizers, impact modifiers, processing aids, lubricants and ultraviolet stabilizers. Our primary polymer additives products are flame retardants, although we also produce a variety of other polymer additives, including curatives, antioxidants and stabilizers.

Flame Retardants. The global flame retardant market had estimated global sales in excess of \$2.0 billion in 2003. Flame retardants help materials used in a variety of finished products meet fire-safety requirements. For example, the consumer electronics industry uses flame retardants in the production of enclosures for consumer electronics and printed circuit boards and the construction industry uses flame retardants in the production of roofing and insulation. The type of flame retardant used in a particular application depends on the degree of retardancy required and the other properties of the particular product. We compete in all the major flame retardant markets: bromine, mineral and phosphorous.

<u>Flame Retardant</u>	<u>Primary End-Markets</u>	<u>Estimated Product Use as % of Industry</u>
Bromine	Electronics housings	39%
	Electrical appliances	
	Printed circuit boards	

Edgar Filing: ALBEMARLE CORP - Form S-3/A

	Semiconductors	
Mineral	Other thermoplastics Construction products	
	Automotive components	24%
Phosphorus	Wire and cable Building materials	
	Flexible PVC	23%
	Polyurethane products	

Factors that are expected to contribute to growth include market growth in electrical and electronic products, new construction, technology trends creating higher performance requirements and increasingly stringent fire-safety regulations in many countries around the world.

S-68

Table of Contents

Catalysts

Catalysts are highly-specialized and highly-engineered substances that regulate the rate and efficiency of chemical reactions. Catalysts are critical to the processing and manufacturing of a wide range of products, including gasoline and other fuels, plastics, chemicals, rubbers, pesticides and pharmaceuticals. The catalysts industry can be divided into three major segments according to application: emission control, petroleum refining and chemical processing. We operate primarily in the petroleum refining and chemical processing sectors.

Refining Catalysts. Petroleum refining involves a number of processes that require catalysts, including HPC catalysts and FCC catalysts. In 2002, worldwide sales of HPC and FCC catalysts accounted for approximately 80% of the estimated \$2.0 billion refinery catalysts market.

Hydroprocessing catalysts. HPC catalysts fall primarily into two categories: hydrotreating and hydrocracking. Hydrotreating catalysts are used to improve the quality of petroleum streams and products, most notably through the removal and reduction of sulfur, nitrogen, oxygen and metals. Hydrotreating is now necessary in virtually all refineries in order for petroleum product producers to meet precise product specifications. Hydrocracking catalysts focus on cracking lower value, heavy petroleum feeds into a number of lighter, higher value streams.

Fluidized catalytic cracking catalysts. Catalytic cracking catalysts convert relatively heavy crude oil to lighter, more valuable products such as gasoline and diesel. FCC catalysts are designed specifically to meet the needs and objectives of refiners' specific FCC units. There are currently approximately 455 FCC units being operated worldwide, each of which is likely to use a specialized FCC catalyst. Because FCC catalysts need to fit the specifications of each cracking unit, the quality of the petroleum input and particular end-product specifications, technology and know-how, quality and reliability of supply are crucial to success in this market.

Stricter fuel quality standards, increasing petroleum product demand and generally deteriorating quality of crude oil feedstock as a result of the depletion of higher quality petroleum resources are expected to combine to result in increased demand for refining catalysts. Sales of refinery catalysts have been estimated as growing at an average rate of approximately 2.3%-3.4% per year between 2001 and 2007.

Polyolefin Catalysts. Polyolefin catalysts are essential components in the manufacture of certain polypropylene and polyethylene resins. These resins are used in products such as plastic film, high-performance plastic pipe and plastic household containers. Total global sales of polyolefin catalysts were estimated at \$1.0 billion in 2003. Sales of polyolefin catalysts are estimated to grow approximately 3% per annum over the next few years. The polyolefin catalysts business is technology-intensive and focuses on providing products formulated to meet customer specifications. Competition has recently intensified because of evolving technologies, particularly the use of metallocene/single-site catalysts, which allow manufacturers to design polymers with precise performance characteristics. Industry penetration by single-site catalysts is expected to double to 10% of the polyolefin catalyst market by 2008.

Fine Chemicals

The fine chemicals industry is comprised of a broad range of specialty chemicals, including pharmaceuticals and agrichemicals and intermediates and performance chemicals. The fine chemicals industry is generally less cyclical than the commodity chemicals industry. The profitability of fine chemicals varies widely, however, as the result of the success or failure of individual products and the degree of patent protection they receive. The fine chemicals market is highly fragmented and is capital intensive due to the need for continuous process improvement and new product development. In addition, certain components of the industry, including those in which we participate, have

Edgar Filing: ALBEMARLE CORP - Form S-3/A

recently experienced increased pricing pressure due to industry consolidation and increased competition from foreign producers, particularly from Asia.

Performance Chemicals. Within the performance chemical category, we produce elemental bromine, alkyl bromides, inorganic bromides, and a number of bromine fine chemicals. Bromides and bromine-based

S-69

Table of Contents

performance chemicals are used in a broad range of applications, including chemical synthesis, oil and gas well drilling and completion fluids, paper manufacturing, water purification, glass making, surfactants and biocides and various other industrial applications.

Other performance chemicals products include tertiary amines for surfactants and biocides, potassium- and chlorine-based products used in television glass making and various other industrial applications, alkenyl succinic anhydride used in paper-sizing formulations, urea formaldehyde resins used in coating applications, and aluminum oxides used in a wide variety of refractory, ceramic and polishing applications. These products are used in personal care products, coatings, automotive insulators and other industrial products.

Pharmaceuticals/Analgesics. Our bulk actives, ibuprofen and naproxen, are part of the nonsteroidal anti-inflammatory drug, or NSAID, group of active pharmaceuticals. NSAIDs are used for a number of indications, including relief of mild to moderate pain, minor febrile conditions and acute and chronic inflammatory conditions such as rheumatoid arthritis. Bulk ibuprofen and naproxen are formulated by pharmaceutical companies for sale in both the prescription and over-the-counter markets. As the population ages, sales of both prescription and over-the-counter NSAID products are expected to increase.

Agrichemical Intermediates. Agrichemical intermediates are used in pesticides and fertilizers. These products include orthoalkylated anilines for the acetanilide family of pre-emergent herbicides used on corn, soybeans and other crops; methyl bromide used as a soil fumigant; and organophosphorus products used in the manufacture of insecticides. The agrichemical industry is currently focused on the development of lower-volume pesticides with higher activity and fertilizers that increase food production, all more rapidly produced, as well as the development of products that are more environmentally friendly.

Business Segments

Our business is divided into three operating segments: Polymer Additives; Catalysts; and Fine Chemicals.

Polymer Additives

Our Polymer Additives segment consists of two product categories: flame retardants and other additives.

Products

Flame Retardants. Our flame retardants help materials in a wide variety of finished products meet fire-safety requirements. Some of the products that benefit from our flame retardants include plastic enclosures for consumer electronics, printed circuit boards, wire and cable, electrical connectors, foam seating in furniture and automobiles and textiles. We compete in all the major flame retardant markets: brominated, mineral and phosphorus. Our brominated fire retardants include products such as Saytex® and Pyro-Chek®, our mineral-based fire retardants include products such as Martinal® and Magnifin® and our phosphorus-based flame retardants include products such as Antiblaze® and Ncendx®. Our strategy is to have a broad range of chemistries applicable to each major flame retardant application. Although bromine products are the most cost-effective option in many applications, some customers require flame retardants that do not contain bromine or chlorine.

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Accordingly, we acquired the mineral-based and phosphorus-based flame retardants businesses of Martinswerk GmbH and Rhodia S.A.

Other Additives. We produce plastic and other additives, such as curatives, antioxidants and stabilizers, which are often specially developed and formulated for a customer's specific manufacturing requirements. Our plastic additives products include curatives for polyurethane and epoxy system polymerization, as well as for ultraviolet curing of various inks and coatings. This business also produces antioxidants and stabilizers to improve the performance integrity of thermoplastic resins.

Our Ethacure® curatives are used in cast elastomers, coatings, reaction injection molding (RIM) and specialty adhesives that are incorporated into products such as wheels, tires and rollers. Our line of Ethanox®

S-70

Table of Contents

antioxidants is used by manufacturers of polyolefins to maintain physical properties during the manufacturing process, including the color of the final product. These antioxidants are found in applications such as slit film, wire and cable, food packaging and pipes.

We also produce antioxidants used in fuels and lubricants. Our line of HiTEC® fuel and lubricant antioxidants are used by refiners and fuel marketers to extend fuel storage life and protect fuel systems, and by oil marketers and lubricant manufacturers to extend the useful life of lubricating oils, fluids and greases used in engines and various types of machinery.

Major Customers

The Polymer Additives segment offers more than 160 product groups to a variety of end-markets. We sell our products mostly to chemical manufacturers and processors, such as polymer resin suppliers, photographic companies and other specialty chemical companies, as well as lubricant manufacturers and refiners.

Sales of polymer additives are growing rapidly in Asia due to the underlying growth in consumer demand and the shift of the production of consumer electronics from the United States and Europe to Asia. In response to this development, we have established a sales and marketing network in China, Japan, Korea and Singapore with products sourced from the United States, Europe and the Middle East. In addition, we have a joint venture manufacturing site in China.

A number of customers of our Polymer Additives segment manufacture products for cyclical industries, including the consumer electronics, building and construction, and automotive industries. As a result, demand from our customers in such industries is also cyclical. However, because our Polymer Additives products are used in many different industries and for a wide variety of uses, there is little seasonal variation in revenues or earnings, except with respect to certain consumer electronics-related flame retardants.

Competition

The markets served by our Polymer Additives segment are highly competitive. We invest in research and development, product and process improvements and specialized customer services in order to compete effectively in the Polymer Additives marketplace.

Competition also arises from the substitution of different polymers in end-products in an effort to reduce costs or change product qualities. For flame retardants, competition can be introduced from alternative chemistries, which has caused us to expand our product portfolio to include bromine, phosphorus and mineral chemistries that are common in over 80% of end uses today. For other additives, competition is introduced by low-cost antioxidant suppliers. We have begun to offer our basic products from lower cost sources, and have pursued new blending technology to produce better, more easily processed forms of antioxidant blends.

Our most significant competitors in the brominated flame retardant business are Great Lakes Chemical Corporation and Dead Sea Bromine Group, and our most significant competitor in the phosphorus-based flame retardant business is Ripplewood Holdings LLC. Our major competitors in the mineral-based flame retardants business are Almatix, Kyowa Hakko Kogyo Co., Ltd and Nabaltec GmbH. Our most

significant competitor in the plastic additives business is Ciba Specialty Chemicals.

Raw Materials and Significant Supply Contracts

The major raw materials we use in our Polymer Additives operations are bromine, bisphenol-A and phenol, caustic soda, phosphorus oxychloride, aluminum trihydrate, polystyrene, isobutylene and phosphorous derivatives, most of which are readily available from numerous independent suppliers and are purchased under contracts at prices we believe are competitive. The cost of raw materials is generally based on market prices, although we may use contracts with price caps or other tools, as appropriate, to mitigate price volatility. Many of

S-71

Table of Contents

our customers operate under long-term supply contracts that provide for either the pass-through of raw material and energy cost changes, or pricing based on short-term tenders in which changing market conditions are quickly reflected in the pricing of the finished product.

The bromine we use in our Polymer Additives segment comes from our brine reserves in Arkansas, which are supported by an active brine rights leasing program. We believe that we have in excess of 40 years of proven bromine reserves in Arkansas. In addition, through our 50% interest in Jordan Bromine Company Ltd., a joint venture with operations in Safi, Jordan, we produce bromine from the Dead Sea.

Our subsidiary, Martinswerk GmbH, has certain contracts that require it to purchase certain minimum annual quantities of aluminum trihydrate from its suppliers. Our annual requirements for aluminum trihydrate currently exceed these minimum purchase requirements. We also entered into a range of phosphorus derivative supply agreements with Rhodia S.A. as part of the acquisition of the Rhodia polyurethane flame retardants business.

Catalysts

Our Catalysts segment includes refinery catalysts and polyolefin catalysts.

Products

Refinery Catalysts. Our two main catalyst product lines are:

hydroprocessing, or HPC, catalysts; and

fluidized catalytic cracking, or FCC, catalysts and additives.

We offer more than 90 different HPC catalysts products and more than 70 different FCC catalysts products to our customers. We and our joint ventures, collectively, are one of the largest global producers of HPC catalysts and FCC catalysts.

Polyolefin Catalysts. We believe that we are a leading global manufacturer of aluminum- and magnesium-alkyls. These alkyls are used as co-catalysts in the production of polyolefins, such as polypropylene and polyethylene used in plastic products, elastomers, alpha olefins, such as hexene, octene and decene, and organotin heat stabilizers and in the preparation of organic intermediates. We believe that we are also a leader in the production of metallocene/single-site catalysts, which aid in the development and production of new polymers that increase impact strength, clarity and melt characteristics of plastic films. We are continuing to build on our organometallics base, to expand the portfolio of products and capabilities we offer our customers, and to pursue the development and commercialization of polymers based on metallocene/single-site catalysts.

Major Customers

The customers of our Catalysts segment include multinational corporations such as ExxonMobil Corporation, Royal Dutch Petroleum Company and ChevronTexaco Corporation; independent petroleum refining companies such as Valero Energy Corporation and Tesoro Petroleum Corporation; and national petroleum refining companies such as Saudi Aramco Mobil Refinery Company Ltd. and Petróleos Mexicanos.

We estimate that there are currently approximately 455 FCC units being operated worldwide each of which requires a constant supply of FCC catalysts. In addition, we estimate that there are approximately 2,000 HPC units being operated worldwide each of which typically requires replacement HPC catalysts once every one to three years. We believe that our existing relationships with global petroleum refiners developed by our other business segments present opportunities to grow the market share of our new refinery catalysts business.

Competition

In the Catalysts segment, HPC and FCC catalysts competition is primarily from a select group of major catalyst companies. Our major competitors in the HPC catalysts market are Criterion Catalysts and Technologies

Table of Contents

and W.R. Grace & Co./Advanced Refining Technologies, and our major competitors in the FCC catalysts market are W.R. Grace & Co. and Engelhard Corporation. Some of the major catalysts companies have alliances with global major refiners to facilitate new product development and introduction. Our major competitors in the polyolefin market include Akzo Nobel N.V., Basell Service Company B.V., Crompton Corporation, Tosoh Corporation, Univation Technologies and W.R. Grace & Co.

We seek to enhance our competitive position by developing product and process improvements and specialized customer services. Through our research and development, we endeavor to develop value-added products and products based on proprietary technologies.

Raw Materials

The major raw materials we use in our Catalysts operations include aluminum, ethylene, alpha olefins, sodium silicate, sodium aluminate, paoline, molybdenum and cobalt carbonate, most of which are readily available from numerous independent suppliers and are purchased or provided under contracts at prices we believe are competitive. The cost of raw materials is generally based on market prices, although we may use contracts with price caps or other tools, as appropriate, to mitigate price volatility. Certain critical raw materials may nevertheless be subject to significant volatility. For example, molybdenum prices have already increased more than three-fold in 2004. Our profitability may be reduced if we are unable to pass along such price increases to our customers.

Fine Chemicals

Our Fine Chemicals segment consists of four product categories: performance chemicals; pharmaceuticals; agrichemicals; and fine chemistry services.

Products

Performance Chemicals. Performance chemicals include products such as elemental bromine, alkyl bromides, inorganic bromides and a number of bromine fine chemicals. Our products are used in chemical synthesis, oil and gas well drilling and completion fluids, paper manufacturing, water purification, glass manufacturing, photography and various other industrial applications. We are a leading global producer of bromine with geographically diverse production resources. In 2003, approximately 87% of the bromine that we produced was used internally in our Polymer Additives and Fine Chemicals segments and the remainder was sold into the merchant market. Other performance chemicals that we produce include tertiary amines for surfactants and biocides and disinfectants and sanitizers, potassium and chlorine-based products used in glass making and various other industrial applications, alkenyl, succinic anhydride used in paper-sizing formulations, and aluminum oxides used in a wide variety of refractory, ceramic and polishing applications. We sell these products to customers throughout the world for use in personal care products, automotive insulation, foundry bricks and other industrial products.

Pharmaceuticals. Our bulk actives, ibuprofen and naproxen, are widely used to provide temporary pain relief and fever reduction. Bulk ibuprofen and naproxen are formulated by pharmaceutical companies for sale in both the prescription and over-the-counter markets. These products compete against other painkillers, including aspirin and acetaminophen. We are one of the largest global producers of ibuprofen. We also produce a range of intermediates used in the manufacture of a variety of over-the-counter and prescription drugs.

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Agrichemicals. Our agrichemicals are sold to agrichemical manufacturers and distributors that produce and distribute finished agricultural herbicides, insecticides, fungicides and soil fumigants. Our products include orthoalkylated anilines used in the acetanilide family of pre-emergent herbicides used with corn, soybeans and other crops; methyl bromide, which is used as a soil fumigant; and organophosphorus products, which are used in the manufacture of insecticides. We also manufacture and supply a variety of custom chemical intermediates for the agricultural industry.

S-73

Table of Contents

In recent years, the market for methyl bromide has changed significantly, driven by the Montreal Protocol of 1991 and related regulation prompted by findings regarding the chemical's potential to deplete the ozone layer. Methyl bromide is injected into the soil by our customers before planting to eliminate bacteria, soil-born pathogens, nematodes, fungus and weeds. Methyl bromide is used on high-value crops, such as strawberries, tomatoes, melons, peppers and cut flowers.

Current regulations allow us to continue to sell methyl bromide into our current markets through 2005. Current regulations contemplate completion of the phase-out of methyl bromide as a fumigant in the United States, Western Europe and Japan in 2005, although certain aspects of the phase-out have been delayed under implementing regulations in these jurisdictions that permit the use of methyl bromide on a year-to-year basis until a feasible alternative is available. Certain other markets for methyl bromide, including quarantine and pre-shipment and chemical intermediate uses, are not restricted by the Montreal Protocol.

Fine Chemistry Services and Intermediates. In addition to supplying the specific fine chemical products and performance chemicals for the pharmaceutical and agricultural uses described above, our fine chemistry services and intermediates, or FCSI, business offers custom manufacturing, research and chemical scale-up services for downstream chemical and pharmaceutical companies. We cross-sell our fine chemistry services to our existing customers to whom we supply fine chemical products and performance chemicals, while also offering fine chemistry services and intermediates to others in the FCSI markets. We believe that these services position us to support customers in developing their new products, such as new drugs.

Major Customers

The Fine Chemicals segment manufactures more than 120 product groups, which are used in a variety of end-markets. Sales of products and services are mostly to chemical manufacturers and processors, including pharmaceutical, agricultural, drilling, water treatment and photographic companies, and to other specialty chemical companies.

Pricing for many of our fine chemicals is based upon negotiation with customers. The critical factors that affect prices are the level of technology differentiation we provide, the maturity of the product and the level of assistance required to bring a new product through a customer's developmental process.

Competition

Competition in the Fine Chemicals segment is intense and varies within each of our different product groups. In the bromine-based products groups, we primarily compete with two other integrated global bromine producers, Great Lakes Chemical Corporation and Dead Sea Bromine Group. In the pharmaceutical bulk actives product groups (*i.e.*, ibuprofen and naproxen), we primarily compete with a few major Western competitors, such as BASF Corporation; however, there is increasing competition from Asian sources. We are seeking to differentiate ourselves from our competitors by developing new innovative products, offering cost reductions and enhancing the services that we offer.

Raw Materials

Edgar Filing: ALBEMARLE CORP - Form S-3/A

The major raw materials we use in our Fine Chemicals operations include potassium chloride, chlorine, ammonia, aluminum chloride, alpha olefins, methyl amines and propylene, most of which are readily available from numerous independent suppliers.

The bromine that we use in our Fine Chemicals segment comes from two primary sources, Arkansas and Jordan. Our brine reserves in Arkansas are supported by an active brine rights leasing program. We believe that we have in excess of 40 years of proven bromine reserves in Arkansas. In addition, through our 50% interest in Jordan Bromine Company Ltd., a joint venture with operations in Safi, Jordan, we produce bromine from the Dead Sea.

S-74

Table of Contents

Sales, Marketing and Distribution

We have an international strategic account program that uses cross-functional teams to serve large global customers. This program emphasizes creative strategies to improve and strengthen strategic customer relationships with emphasis on creating value for customers and promoting post-sale service. We also use more than 50 selected distributors, commissioned sales representatives and specialists in specific market areas, some of which are subsidiaries of large chemical companies.

Research and Development

We believe that in order to maintain our margins and remain competitive, we must continually invest in research and development, product and process improvements and specialized customer services. Through research and development, we continue to seek increased margins by introducing value-added products and processes based on proprietary technologies.

Our research and development efforts support each of our business segments. The focus of research in Polymer Additives is divided among new and improved flame retardants, plastic and other additives and blends, and curing agents. Flame retardant research is focused primarily on developing new flame retardants and improving existing flame retardants to meet higher performance requirements required by today's polymer producers, formulators, and original equipment manufacturers. Plastic and other additives research is focused primarily on developing improved capabilities to deliver commodity and value added plastic and other additive blends to the polymer market. Curatives research is focused primarily on improving and extending our line of curing agents and formulations.

Catalysts research is focused on the needs of both our refinery catalysts customers and our polyolefin catalysts customers. Refinery catalysts research is focused primarily on the development of more effective catalysts and related additives to produce clean fuels and to maximize the production of the highest value refined products. In the polyolefin area, we are focused primarily on developing catalysts, cocatalysts and finished catalyst systems to polymer producers to meet the market's demand for improved polyolefin polymers and elastomers.

The primary focus of our Fine Chemicals research program is the development of efficient processes for the manufacture of chemical intermediates and actives for the pharmaceutical and agricultural industries. Another area of research is the development of biocides for industrial and recreational water treatment and other applications, especially products based on bromine chemistry.

We spent \$18.4 million, \$16.5 million and \$21.9 million in accordance with Statement of Financial Accounting Standards No. 2, Accounting for Research and Development Costs, in 2003, 2002 and 2001, respectively, on research and development. Total research and development department spending was \$29.2 million, \$26.4 million and \$27.2 million in 2003, 2002 and 2001, respectively. Total research and development costs of Akzo Nobel's refinery catalysts business were 20.7 million, 21.2 million and 19.9 million in 2003, 2002 and 2001, respectively.

Intellectual Property

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Our intellectual property, including our patents, licenses and trademarks is an important component of our business. As of September 30, 2004, we owned over 1,400 active U.S. and foreign patents and had over 850 pending U.S. and foreign patent applications. In addition, in connection with the acquisition, we obtained 50% interests in three joint ventures, each of which has its own intellectual property portfolio. In addition, we have acquired rights under the patents and inventions of others through licenses and license our patents and inventions to third parties.

Regulation

Our business is subject to a broad array of employee health and safety laws and regulations, including those under the Occupational Safety and Health Act, or OSHA. We also are subject to similar state laws and regulations, and foreign laws and regulations for our non-U.S. operations. We devote significant resources and

S-75

Table of Contents

have developed and implemented comprehensive programs to promote the health and safety of our employees. Over the past 10 years, we have consistently achieved an OSHA recordable injury incidence rate in the top 20% of all chemical companies who are members of the American Chemistry Council.

Our business and our customers also may be subject to significant new regulations under the European Commission's proposed Registration, Evaluation and Authorization of Chemicals, or REACH, proposal. As proposed, REACH would impose obligations on European Union manufacturers and importers of chemicals and other products into the European Union to compile and file comprehensive reports, including testing data, on each chemical substance, perform chemical safety assessments and obtain pre-market authorization with respect to certain substances of particularly high concern. While it is uncertain whether, when and in what form the REACH proposal will become law, the proposed new regulations would impose significant additional burdens on chemical producers and importers, and, to a lesser extent, downstream users of chemical substances and preparations. Our significant manufacturing presence and sales activities in the European Union would likely require us to incur significant additional compliance costs, including the hiring of additional employees to coordinate the additional reporting requirements, and may result in increases in the costs of raw materials we purchase and the products we sell. Increases in the costs of our products could result in a decrease in their overall demand.

Environmental Regulation

We are subject to numerous foreign, federal, state and local environmental laws and regulations, including those governing the discharge of pollutants into the air and water, the management and disposal of hazardous substances and wastes and the cleanup of contaminated properties. Ongoing compliance with such laws and regulations is an important consideration for us. Key aspects of our operations are subject to them, and we incur substantial capital and operating costs in our efforts to comply with them.

Liabilities associated with the investigation and cleanup of hazardous substances, as well as personal injury, property damages, or natural resource damages arising from the release of, or exposure to, such hazardous substances, may be imposed in many situations without regard to violations of laws or regulations or other fault, and may also be imposed jointly and severally (so that a responsible party may be held liable for more than its share of the losses involved, or even the entire loss). Such liabilities also may be imposed on many different entities with a relationship to the hazardous substances at issue, including, for example, entities that formerly owned or operated the property affected by the hazardous substances and entities that arranged for the disposal of the hazardous substances at the affected property, as well as entities that currently own or operate such property. We are subject to such laws, including the federal Comprehensive Environmental Response, Compensation and Liability Act, commonly known as CERCLA or Superfund, in the United States, and similar foreign and state laws. Our management is actively involved in evaluating environmental matters and, based on information currently available to it, has concluded that our outstanding environmental liabilities for unresolved waste sites currently known to us should not be material to operations.

We record accruals for environmental matters in accordance with the guidelines of the AICPA Statement of Position 96-1, Environmental Remediation Liabilities, when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated. Future developments, including developments affecting contractual indemnification rights we believe we have as well as contractual or other obligations that we may have, and increasingly stringent environmental laws and regulations could require us to make additional unforeseen environmental expenditures. We cannot assure you that, as a result of former, current or future operations, there will not be some future impact on us relating to new regulations or additional environmental remediation or restoration liabilities.

Legal Proceedings

Edgar Filing: ALBEMARLE CORP - Form S-3/A

On April 2, 2004, Albemarle Overseas Development Company, a wholly owned subsidiary of our company, initiated a Request for Arbitration against Aventis S.A., through the International Chamber of Commerce, International Court of Arbitration, Paris, France. The dispute arises out of a 1992 stock purchase agreement

S-76

Table of Contents

between a predecessor to Albemarle Overseas Development and a predecessor to Aventis under which 100% of the stock of Potasse et Produits Chimiques, S.A., now known as Albemarle PPC, was acquired by Albemarle Overseas Development. The dispute relates to a chemical facility in Thann, France owned by Albemarle PPC. Under the terms of the agreement, we believe that Aventis is obligated to indemnify Albemarle Overseas Development and Albemarle PPC, and hold them harmless from certain claims, losses, damages, costs or any other present or prospective liabilities arising out of soil and groundwater contamination at the site in Thann.

Beginning in May 2000, the French government, with respect to the management of pollution risk on the site of active industrial installations, required Albemarle PPC to conduct an environmental risk study of the Thann facility. In June 2002, the French government directed Albemarle PPC to undertake a more detailed risk study of groundwater contamination. The administrative process of the French government is still ongoing as of the present date. Albemarle Overseas Development has demanded indemnification from Aventis for the cost of the studies, but Aventis has refused to pay.

The Request for Arbitration requests indemnification of Albemarle Overseas Development by Aventis for all costs incurred by Albemarle PPC in connection with any environmental claims of the French government for the Albemarle PPC facility and a declaratory judgment as to the liability of Aventis under the agreement for costs to be incurred in the future by Albemarle PPC in connection with such claims.

At this time, it is not possible to predict what the French government will require with respect to the Thann facility, since this matter is in its initial stages and environmental matters are subject to many uncertainties. We believe, however, that we are entitled to be fully indemnified by Aventis for all liabilities arising from this matter but no assurance can be given that we will prevail in this matter. If we do not prevail in the arbitration and the government requires additional remediation, the costs of remediation could be significant.

On June 4, 2004, we initiated a petition for breach of contract and declaratory judgment against Amerisure Insurance Company and Amerisure Mutual Insurance Company (f/k/a Michigan Mutual Insurance Company) in the Nineteenth Judicial District Court, Parish of Baton Rouge, Louisiana on the grounds of the defendants' refusal to honor their respective obligations under certain insurance policies on which we were named an additional insured to reimburse us for certain damages incurred by us in the discontinuance of product support for and the withdrawal from a water treatment venture. This proceeding has been removed to United States District Court for the Middle District of Louisiana and the parties have agreed to non-binding arbitration. We have also initiated formal discussions related to such damages with our primary general commercial liability carrier. No assurance can be given that we will prevail in this matter.

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

Other Recent Acquisitions and Joint Ventures

Over the last five years, we have devoted a significant amount of resources to acquisitions, including the subsequent integration of acquired businesses, and to joint ventures. These acquisitions and joint ventures have expanded our base business, provided our customers with a wider array of products and presented new alternatives for discovery through additional chemistries. The following is a summary of our acquisitions and joint ventures, other than the acquisition of Akzo Nobel's refinery catalysts business and related joint ventures, during the last five years:

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Effective January 1, 2004, we acquired the business assets, customer lists and other intangibles of Taerim International Corporation for approximately \$3 million and formed Albemarle Korea Corporation, which is located in Seoul, South Korea.

S-77

Table of Contents

On December 2, 2003, we acquired the bromine fine chemicals business of Atofina Chemicals, Inc. for approximately \$10 million plus the assumption of certain liabilities. The acquisition included Atofina's production facility in Port de Bouc, France, as well as a long-term supply agreement with Atofina for certain fine chemicals. The acquisition provided us with flexibility in raw material supply and complemented our existing network of bromine-based facilities.

On July 23, 2003, we acquired the phosphorus-based polyurethane flame retardants businesses of Rhodia S.A., which included a production site in Avonmouth in the United Kingdom, and supply contracts for flame retardants and intermediates manufactured at Rhodia's sites in Charleston, South Carolina, and in Oldbury and Widnes in the United Kingdom. The acquisition purchase price totaled approximately \$80 million in cash plus the assumption of certain liabilities.

On January 21, 2003, we acquired Ethyl Corporation's fuel and lubricant antioxidants working capital, patents and other intellectual property for approximately \$27 million in cash plus the assumption of certain liabilities.

On April 1, 2002, Stannica LLC, a joint venture with Atofina was formed. This joint venture, in which we own a 60% interest, supplies organotin intermediates, which are used in polyvinyl chloride and other applications.

On July 1, 2001, we acquired the custom and fine chemicals businesses of ChemFirst Inc. for approximately \$79 million in cash plus expenses and the assumption of certain liabilities.

On May 31, 2001, we acquired Martinswerk GmbH for approximately \$34 million in cash plus expenses and the assumption of approximately \$55 million of liabilities. The assets acquired included Martinswerk's manufacturing facilities and headquarters in Bergheim, Germany and its 50% stake in Magnifin Magnesiaprodukte GmbH, which has manufacturing facilities at St. Jakobs/Breitenau, Austria.

On June 29, 2000, we acquired from Ferro Corporation the PYRO-CHEK[®] Flame Retardant business, along with a plant at Port-de-Bouc, France, for a purchase price of approximately \$35 million.

On June 7, 2000, we formed a joint venture with Ninghai County Jinhai Chemical and Industry Company Limited creating the Ningbo Jinhai Albemarle Chemical and Industrial Company Limited of which we own 25%. The joint venture manufactures antioxidants and polymer intermediates and other mutually agreed upon fine chemicals for sale in China and for export.

In May 1999, we entered into a joint venture agreement with The Arab Potash Company Limited and Jordan Dead Sea Industries Company Limited to form the Jordan Bromine Company Limited, or JBC. We own 50% of JBC, which manufactures and markets bromine and bromine derivatives from a world-scale complex in Jordan, near the Dead Sea. JBC units near Safi, Jordan produce bromine, tetrabromobisphenol-A flame retardant and calcium bromide.

Employees

Edgar Filing: ALBEMARLE CORP - Form S-3/A

As of September 30, 2004, we had approximately 3,700 employees of whom approximately 2,100, or 55%, are employed in the United States, approximately 1,600, or 43%, are employed in Europe, and approximately 80, or 2%, are employed in Asia. Approximately 20% of our U.S. employees are unionized. We have bargaining agreements at three of our U.S. locations:

Baton Rouge, Louisiana Paper, Allied-Industrial, Chemical & Energy Workers International Union, or PACE;

Orangeburg, South Carolina International Brotherhood of Teamsters Industrial Trades Division; and

Pasadena, Texas PACE; Sheet Metal Workers International Association; United Association of Journeymen & Apprentices of Plumbing and Pipefitting Industry; and International Brotherhood of Electrical Workers.

S-78

Table of Contents

We believe that we have good working relationships with these unions, and we have operated without a labor work stoppage at each of these locations for more than 10 years. Two of our bargaining agreements expire in 2005 and one expires in 2007.

We have four works councils representing the majority of our European sites Amsterdam and Amersfoort, the Netherlands; Thann and Port-de-Bouc, France; and Bergheim, Germany covering approximately 1,300 employees. In addition, approximately 60 employees at our manufacturing facility in Avonmouth, United Kingdom are represented by unions through a current collective bargaining agreement. We believe that our relationship with these councils and bargaining representatives is generally good.

Properties

We operate on a worldwide basis. We believe that our production facilities, research and development facilities, and administrative and sales offices are generally well maintained and effectively used and are adequate to operate our business.

Set forth below is information at September 30, 2004 regarding the production facilities, research and development facilities, and administrative and sales offices operated by us and our joint ventures:

<u>Location</u>	<u>Principal Use</u>	<u>Owned/Leased</u>
Amersfoort, the Netherlands	Administrative and marketing offices	Leased
Amsterdam, the Netherlands	Production of refinery catalysts, research and product development activities	Owned
Avonmouth, United Kingdom	Production of flame retardants	Owned
Baton Rouge, Louisiana	Research and product development activities, and production of flame retardants, catalysts and additives	Two facilities; one on leased land
Baton Rouge, Louisiana	Administrative offices	Leased
Bergheim, Germany	Production of flame retardants and specialty products based on aluminum trihydrate and aluminum oxide, and research and product development activities	Owned
Beijing, China	Regional sales and administrative offices	Leased
Dayton, Ohio	Research, product development and small-scale production of fine chemicals	Leased land
Feluy, Belgium	Production of aluminum alkyls	Leased by BP p.l.c. in 1996 under a 99-year lease, but operated by us
Gela, Italy	Catalyst regeneration services	Leased by Eco-Rigen Srl, a joint venture in which Eurecat S.A. indirectly owns 70% and ECONOVA owns 30%. Eurecat S.A. is a joint venture owned 50% by each of IFP Investissements and us
Houston, Texas	Marketing offices	Leased

Table of Contents

<u>Location</u>	<u>Principal Use</u>	<u>Owned/Leased</u>
Jin Shan District, Shanghai, China	Production and marketing of catalysts and related specialty products, by-products and derivatives	Owned by Shanghai Jinhai Albemarle, a joint venture with Shanghai BoNing Investment and Development Company, Ltd, and Shanghai Yonghui Science and Technology Company, Limited, in which we own a 30% interest
Jubail, Saudi Arabia	Refinery catalysts regeneration and recycling services	Owned by Al-Bilod Catalysts Co. Ltd., a joint venture in which each of Eurecat S.A. and Partenaires Moren Orient owns a 50% interest
Louvain-la-Neuve, Belgium	Regional offices and research and customer technical service activities	Owned
La Voulte, France	Refinery catalysts regeneration and treatment, research and development activities	Owned by Eurecat S.A., a joint venture owned 50% by IFP Investissements and us
Magnolia, Arkansas (South Plant)	Production of flame retardants, bromine, inorganic bromides, agricultural intermediates and tertiary amines	Owned
Magnolia, Arkansas (West Plant)	Production of flame retardants and bromine	Owned
Marysville, Arkansas	Production of bromine	Owned
Niihama, Japan	Production of refinery catalysts	Leased by Nippon Ketjen Co., Ltd., a joint venture owned 50% by each of Sumitomo Metal Mining Co., Ltd. and us
Ninghai County, Zhejiang Province, China	Production of antioxidants and polymer intermediates	Leased by Ningbo Jinhai Albemarle Chemical and Industrial Company Limited, a joint venture with Ninghai County Jinhai Chemical and Industry Company Limited in which we own a 25% interest
Orangeburg, South Carolina	Production of flame retardants, aluminum alkyls and fine chemicals, including pharmaceutical actives, fuel additives, orthoalkylated phenols, polymer modifiers and phenolic antioxidants	Owned
Pasadena, Texas	Production of aluminum alkyls, alkenyl succinic anhydride, orthoalkylated anilines, and other specialty chemicals	Owned

Table of Contents

<u>Location</u>	<u>Principal Use</u>	<u>Owned/Leased</u>
Pasadena, Texas	Production of refinery catalysts, research and development activities	Owned
Pasadena, Texas	Refinery catalyst regeneration services	Owned by Eurecat U.S. Incorporated, a corporation in which we directly own a 25% interest, Eurecat S.A., a joint venture in which we own a 50% interest, owns a 65% interest and IFP Investissements, a 50% owner of Eurecat S.A., indirectly owns a 42.5% interest
Port-de-Bouc, France	Production of flame retardants, fine chemicals and bromine	Owned
Richmond, Virginia	Principal executive offices	Leased
Safi, Jordan	Production of bromine and derivatives and flame retardants	Leased by Jordan Bromine Company Ltd., a joint venture owned 50% by each of Arab Potash Company Limited and us
Santa Cruz, Brazil	Production of catalysts, research and product development activities	Owned by Fábrica Carioca de Catalisadores S.A, a joint venture owned 50% by each of Petrobras Química S.A. and us
Seoul, South Korea	Administrative offices	Leased
Shanghai, China	Regional sales and administrative offices	Leased
Singapore	Regional sales and administrative offices	Leased
St. Jakobs/Breitenau, Austria	Production of specialty magnesium hydroxide products	Leased by Magnifin GmbH & Co. KG, a joint venture owned 50% by Radex Heraklith Industriebeteiligung AG and 50% by us
Takaishi City, Osaka, Japan	Production of aluminum alkyls	Owned by Nippon Aluminum Alkyls, a joint venture owned 50% by Mitsui Chemicals, Inc. and us
Teesport, United Kingdom	Production of fine chemicals, including emulsifiers, corrosion inhibitors, scale inhibitors and esters	Owned
Thann, France	Production of fine chemicals including pharmaceutical and agrichemical intermediates, photographic intermediates, high-purity caustic potash, potassium carbonate and chlorine	Owned

Table of Contents

<u>Location</u>	<u>Principal Use</u>	<u>Owned/Leased</u>
Tokyo, Japan	Regional sales and administrative offices	Leased
Tokyo, Japan	Administrative offices	Leased by Nippon Ketjen Co., Ltd., a joint venture 50% owned by Sumitomo Metal Mining Co. Ltd. and us
Tyrone, Pennsylvania	Production of custom fine chemicals, agricultural intermediates, performance polymer products and research and development activities	Owned

S-82

Table of Contents**MANAGEMENT**

The following table presents the name, age and position of each of our directors and executive officers as of September 30, 2004:

Name	Age	Position
William M. Gottwald	56	Chairman of the Board of Directors
Floyd D. Gottwald, Jr.	82	Vice Chairman of the Board of Directors and Chairman of the Executive Committee
Mark C. Rohr	53	President and Chief Executive Officer
Paul F. Rocheleau	50	Senior Vice President and Chief Financial Officer
George A. Newbill	61	Senior Vice President Manufacturing Operations
John M. Steitz	46	Senior Vice President Business Operations
William B. Allen, Jr.	40	Corporate Controller
John Dabkowski	55	Vice President Polymer Additives
Jack P. Harsh	52	Vice President Human Resources
Ray Hurley	52	Vice President Catalysts
Luther C. Kissam, IV	40	Vice President, General Counsel and Secretary
John J. Nicols	40	Vice President Fine Chemicals
Michael D. Whitlow	52	Vice President Investor Relations and External Affairs
C. Kevin Wilson	42	Treasurer
Ronald C. Zumstein	43	Vice President Health, Safety and Environment
Lloyd B. Andrew	80	Director
J. Alfred Broaddus, Jr.	65	Director
John D. Gottwald	50	Director
Richard L. Morrill	65	Director
Seymour S. Preston III	71	Director
John Sherman, Jr.	58	Director
Charles E. Stewart	68	Director
Anne Marie Whittemore	58	Director

William M. Gottwald was elected Chairman of our board of directors on March 28, 2001, having previously served as Vice President Corporate Strategy of our company since 1996. Dr. Gottwald joined our company in 1996 after being associated with Ethyl Corporation (provider of value-added manufacturing and supply solutions to the chemical industry and subsidiary of NewMarket Corporation) for 15 years in several assignments, including Senior Vice President and President of Whitby, Inc., an Ethyl subsidiary. Dr. Gottwald has been a member of our board of directors since 1999. He is also a director of Tredegar Corporation.

Floyd D. Gottwald, Jr. was elected Vice Chairman of our board of directors and Chairman of our Executive Committee on October 1, 2002, having previously served as Chairman of our Executive Committee and Chief Executive Officer of our company from March 28, 2001 through September 30, 2002, and Chairman of our board of directors and Executive Committee and Chief Executive Officer of our company prior thereto. Mr. Gottwald has been a member of our board of directors since 1994. He is also a director of Tredegar Corporation.

Mark C. Rohr was elected President and Chief Executive Officer of our company effective October 1, 2002. Mr. Rohr served as President and Chief Operating Officer of our company from January 1, 2000 through September 30, 2002. Previously, Mr. Rohr served as Executive Vice President Operations of our company from March 22, 1999 through December 31, 1999. Before joining our company, Mr. Rohr served as Senior Vice President, Specialty Chemicals of Occidental Chemical Corporation (chemical manufacturer with interests in basic chemicals, vinyls, petrochemicals and specialty products and subsidiary of Occidental Petroleum Corporation).

Table of Contents

Paul F. Rocheleau joined our company effective June 15, 2002 as Senior Vice President and Chief Financial Officer. Before joining our company, he was appointed to our board of directors and had served as a consultant to our company and to CCA Industries, Inc. (a private equity firm). From 1997 to 2000, Mr. Rocheleau served as Chief Executive Officer of Albright & Wilson plc (developer and manufacturer of value-added chemicals acquired by Rhodia SA in 2000).

George A. Newbill was promoted to Senior Vice President Manufacturing Operations of our company effective January 1, 2004. He served as Vice President Manufacturing Operations of our company from May 1, 2003 until his promotion, having previously served as Vice President Sourcing Organization from January 1, 2000 until May 1, 2003 and Vice President Manufacturing since 1993. Mr. Newbill joined our company in June 1965.

John M. Steitz was appointed to Senior Vice President Business Operations of our company effective January 1, 2004. Mr. Steitz served as Vice President Business Operations of our company from October 2002 until his current appointment. From July 2000 until October 2002, Mr. Steitz served as Vice President Fine Chemicals on a global basis. Before joining our company, he was Vice President and General Manager Pharmaceutical Chemicals of Mallinckrodt, Incorporated (global provider of specialty healthcare products in the areas of diagnostic imaging, respiratory care and pain relief, and business unit of Tyco Healthcare) for 22 years.

William B. Allen, Jr. was promoted to Corporate Controller of our company effective September 1, 2003. Previously, Mr. Allen served as the Director of Financial Analysis and Planning from July 2002 until September 2003, and as the Finance Director for European, Middle East and African operations from April 1998 until July 2002. Mr. Allen joined our company in 1994.

John Dabkowski joined our company in June 1973 and has served as Vice President Polymer Additives since September 23, 2004, having previously served as Vice President Polymer Chemicals of our company since September 1997. Previously, he served as Vice President and General Manager of Specialty Chemicals from March 1994 until September 1997.

Jack P. Harsh was elected Vice President Human Resources of our company effective December 1, 1998. Mr. Harsh joined our company effective November 16, 1998, from Union Carbide Corporation (producer of chemicals and polymers and subsidiary of The Dow Chemical Company), where he directed human resources for the solvents, intermediates and monomers business and supply-chain planning organization.

Ray Hurley was elected Vice President Catalysts on September 23, 2004. Before our acquisition of Akzo Nobel's refinery catalysts business, Mr. Hurley served as President of the Akzo Catalyst Business. Mr. Hurley joined Akzo Nobel as Technology Manager for Metal Soaps, Coatings and PVC in 1983, having previously spent five years as chemist/lab manager with Tenneco Chemicals. He serves on the board of the joint ventures in which we acquired interests as a result of our acquisition of the refinery catalysts business.

Luther C. Kissam, IV joined our company and was elected Vice President, General Counsel and Secretary of our company effective September 30, 2003. Before joining our company, Mr. Kissam served as Vice President, General Counsel and Secretary of Merisant Co. (manufacturer and marketer of sweetener and consumer food products), having previously served as Associate General Counsel of Monsanto Company (provider of agricultural products and solutions).

John J. Nicols joined our company in February 1990 and has served as Vice President Fine Chemicals of our company since June 2002. Previously, Mr. Nicols served as a Divisional Vice President since March 2002, and Global Business Director since February 1999.

Michael D. Whitlow was elected Vice President Investor Relations and External Affairs of our company effective January 1, 2003. Previously, Mr. Whitlow served as Vice President Americas Sales since May 1, 1999. Mr. Whitlow joined our company in 1989.

S-84

Table of Contents

C. Kevin Wilson joined our company in May 2004 and was elected Treasurer effective July 1, 2004. Before joining our company, Mr. Wilson served as Vice President and Treasurer of Solutia Inc. (specialty chemicals manufacturer) from January 2001 until May 2004, having previously served as Assistant Treasurer and Director, Finance of Solutia from August 1997 until January 2001. Previously, Mr. Wilson served as the Director of International Treasury for Mallinckrodt Incorporated from 1994 until August 1997.

Ronald C. Zumstein was elected Vice President Health, Safety and Environment of our company effective March 1, 2003. Previously, Dr. Zumstein served as Plant Manager since March 1, 1999.

Lloyd B. Andrew has been a member of our board of directors since October 1, 2002, having previously served as a director from 1994 through 1995. Mr. Andrew is a consultant, having previously served as Chief Financial Officer and Executive Vice President of Ethyl Corporation from 1984 through 1989.

J. Alfred Broaddus, Jr. has been a member of our board of directors since August 18, 2004. Mr. Broaddus is currently retired, having previously served as President of the Federal Reserve Bank of Richmond from 1993 until July 31, 2004. While serving as President, he served as a rotating member of the Federal Open Market Committee of the Federal Reserve System. Mr. Broaddus initially joined the Federal Reserve Bank's research staff as an economist in 1970 and was named senior vice president and director of research in 1985. Mr. Broaddus is also a director of Owens & Minor, Inc., Markel Corporation and T. Rowe Price Group, Inc.

John D. Gottwald has been a member of our board of directors since 1994. Mr. Gottwald has served as Chairman of the Board of Tredegar Corporation (global manufacturer of plastic films and aluminum extrusions and a developer and marketer of bone graft substitutes) since September 11, 2001, having previously served as President and Chief Executive Officer of Tredegar Corporation from 1989 through September 10, 2001. Mr. Gottwald is also a director of Tredegar Corporation.

Richard L. Morrill has been a member of our board of directors since 2002. Mr. Morrill has served as Chancellor and Distinguished University Professor of Ethics and Democratic Values University of Richmond since July 1, 1998, having previously served as President of the University of Richmond. Mr. Morrill is also a director of Tredegar Corporation.

Seymour S. Preston III has been a member of our board of directors since 1996. Mr. Preston serves as President of The Millrace Group (consulting services), having previously served as Chairman of the Board and Chief Executive Officer of AAC Engineered Systems, Inc. (manufacturer of centrifugal deburring and finishing machinery) from December 1994 through August 2003. Mr. Preston is also a director of Tufco Technologies Inc.

John Sherman, Jr. has been a member of our board of directors since September 24, 2003. Mr. Sherman has served as Vice Chairman of Scott & Stringfellow, Inc. (regional brokerage) since October 1, 2002, having previously served as President and Chief Executive Officer of Scott & Stringfellow prior thereto. Mr. Sherman is also a director of Anthem, Inc.

Charles E. Stewart has been a member of our board of directors since 1997. Mr. Stewart is a consultant, having been a partner of BTC Partners LLP (investment and acquisitions consultants) from June 1996 through June 1999 and having previously served as Executive Vice President of Occidental Chemical Corporation.

Anne Marie Whittemore has been a member of our board of directors since 1996. Ms. Whittemore is a Partner of McGuireWoods LLP (law firm). Ms. Whittemore is also a director of Owens & Minor, Inc. and T. Rowe Price Group, Inc.

Certain Relationships

William M. Gottwald, Chairman of our board of directors, and John D. Gottwald, a member of our board of directors, are sons of Floyd D. Gottwald, Jr., Vice Chairman of our board of directors and Chairman of the Executive Committee of our board of directors.

S-85

Table of Contents**SELLING SHAREHOLDERS**

The following table provides information regarding the number of shares of our common stock that are being offered under this prospectus supplement and the beneficial ownership of our common stock as of November 30, 2004, before and after giving effect to this offering, by the selling shareholders named below. The selling shareholders named below acquired substantially all of their shares of our common stock either directly or indirectly through the distribution by Ethyl Corporation, the former sole shareholder of Albemarle, to its shareholders of all of the shares of Albemarle common stock previously owned by it. The selling shareholders named below also acquired shares of our common stock through open market purchases, gifts and our non-employee directors' stock compensation plan, which has been terminated.

Name	Shares Beneficially Owned before Offering				Shares Beneficially Owned after Offering				
	Number of Shares with Sole Voting and Investment Power	Number of Shares with Shared Voting and Investment Power	Total	Percent	Number of Shares Offered Hereby	Number of Shares with Sole Voting and Investment Power	Number of Shares with Shared Voting and Investment Power	Total	Percent
	John D. Gottwald ⁽¹⁾	702,474	1,653,415 ⁽²⁾	2,355,889	5.63%	200,000	502,474	1,560,365	2,062,839
Westham Partners, L.P. ⁽³⁾	3,695,370		3,695,370	8.83%	195,370	3,500,000		3,500,000	7.63%
William M. Gottwald, John D. Gottwald and James T. Gottwald, as Trustees of Floyd, Jr.'s Trust under the will of Floyd D. Gottwald ⁽⁴⁾	1,593,050		1,593,050	3.80%	93,050	1,500,000		1,500,000	3.27%
Total	5,990,894	1,653,415	6,051,259⁽⁵⁾	14.45%⁽⁵⁾	488,420	5,502,474	1,560,365	5,562,839⁽⁶⁾	12.13%⁽⁶⁾

* Represents beneficial ownership of less than 1%.

(1) John D. Gottwald is a member of our board of directors.

(2) John D. Gottwald disclaims beneficial ownership of all 1,653,415 of such shares. The 1,653,415 shares include the following shares John D. Gottwald may be deemed to own beneficially: 1,593,050 shares that constitute his interest as a beneficiary of Floyd, Jr.'s Trust under the will of Floyd D. Gottwald of which he is a co-trustee; 17,508 shares owned by his wife; 27,845 shares owned by the William M. Gottwald Trust of which he is a co-trustee; 9,526 shares owned by the James M. Gottwald Trust of which he is a co-trustee; and 5,486 shares owned by the Sarah W. Gottwald Trust of which he is a co-trustee.

(3) Floyd D. Gottwald, Jr., Vice Chairman of our board of directors and Chairman of the Executive Committee of our board of directors, and Conagret Corporation are the general partners of Westham Partners, L.P. William M. Gottwald, Chairman of our board of directors, is the president of Conagret Corporation.

(4) William M. Gottwald, Chairman of our board of directors, John D. Gottwald and James T. Gottwald are the trustees and beneficiaries of Floyd, Jr.'s Trust under the will of Floyd D. Gottwald.

(5) The overlap in beneficial ownership of the 1,593,050 shares has been eliminated in calculating the 6,051,259 shares and 14.45%. This overlap, however, has not been eliminated in calculating the amount and percentage of outstanding shares beneficially owned by John D. Gottwald and by Floyd, Jr.'s Trust under the will of Floyd D. Gottwald.

(6) The overlap in beneficial ownership of the 1,500,000 shares has been eliminated in calculating the 5,562,839 shares and the 12.13%. This overlap, however, has not been eliminated in calculating the amount and percentage of outstanding shares beneficially owned by John D. Gottwald and by Floyd, Jr.'s Trust under the will of Floyd D. Gottwald.

Table of Contents

CERTAIN U.S. FEDERAL TAX CONSEQUENCES FOR NON-U.S. HOLDERS

The following describes the material U.S. federal income and estate tax consequences of the purchase, ownership and disposition of common stock by a Non-U.S. Holder who holds the common stock as a capital asset. A Non-U.S. Holder is a beneficial owner of the common stock that is not, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States; (ii) a corporation, or partnership or other entity treated as a corporation or partnership for U.S. federal income tax purposes, that is created or organized in or under the laws of the United States, the District of Columbia or any state in the United States; (iii) an estate, if U.S. federal income taxation is applicable to the income of that estate regardless of the income's source; or (iv) a trust, if a U.S. court is able to exercise primary supervision over the trust's administration and one or more U.S. persons have the authority to control all of the trust's substantial decisions (or if a valid election is in effect to treat the trust as a U.S. person under applicable U.S. Treasury regulations).

This discussion does not purport to be a comprehensive description of all aspects of U.S. federal income taxes and does not address foreign, state and local consequences that could be relevant to Non-U.S. Holders in light of their personal circumstances. Special rules might apply to certain Non-U.S. Holders, such as controlled foreign corporations, passive foreign investment companies, corporations that accumulate earnings to avoid U.S. federal income tax, partnerships, and U.S. expatriates. Non-U.S. Holders should consult their own tax advisers to determine the U.S. federal, state, local and other tax consequences that might be relevant to them.

If a partnership holds common stock, the tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. If you are a partner in a partnership holding common stock, you should consult your tax adviser.

This discussion is based on the provisions of the Internal Revenue Code of 1986, as amended, which we refer to as the Code, and U.S. Treasury regulations, rulings and judicial decisions as of the date of this offering. Those authorities are subject to change, possibly with retroactive effect. Except where noted, this discussion does not address any aspect of U.S. federal gift or estate tax, or state, local or non-U.S. tax laws.

You should consult your own tax adviser regarding the U.S. federal, state, local and non-U.S. income and other tax consequences of purchasing, owning and disposing of common stock.

Dividends

Distributions on the common stock will constitute dividends for U.S. federal income tax purposes to the extent of our current or accumulated earnings and profits as determined under U.S. federal income tax principles. In general, dividends paid to you will be subject to withholding of U.S. federal income tax at a 30% rate or a lower rate specified by an applicable income tax treaty. To claim the benefit of an applicable treaty, you will be required to satisfy certain certification and other requirements.

Dividends that are effectively connected with your conduct of a trade or business within the U.S. and, where a tax treaty applies, are attributable to a U.S. permanent establishment or fixed base, are not subject to U.S. withholding tax. Instead, those dividends are subject to U.S. federal income tax on a net income basis at applicable graduated individual or corporate rates. Certain certification and disclosure requirements must be complied with for effectively connected income to be exempt from withholding. If you are a foreign corporation, effectively connected dividends might be subject to an additional, branch profits tax at a 30% rate or a lower rate specified by an applicable income tax treaty.

Edgar Filing: ALBEMARLE CORP - Form S-3/A

If you are eligible for an exemption from, or a reduced rate of, U.S. withholding tax pursuant to an income tax treaty, you may obtain a refund of any excess amounts withheld by filing an appropriate claim for refund with the Internal Revenue Service.

S-87

Table of Contents

Sale or Other Disposition of Common Stock

You will not be subject to U.S. federal income tax on gain realized on a sale or other taxable disposition of common stock unless:

the gain is effectively connected with your conduct of a trade or business in the United States and, where a tax treaty applies, is attributable to a U.S. permanent establishment or fixed base;

you are a non-resident alien individual and are present in the United States for 183 or more days in the taxable year of the disposition and either (i) you have a tax home (as defined for U.S. federal income tax purposes) in the United States or (ii) the gain is attributable to an office or other fixed place of business maintained by you in the United States; or

we are or have been a United States real property holding corporation within the meaning of Section 897(c)(2) of the Code and you held more than 5% of our outstanding common stock, directly or indirectly, at any time within the shorter of the five-year period preceding such disposition or your holding period for the common stock.

We believe that we are not currently, and do not expect to become, a United States real property holding corporation.

An individual described in the second bullet point above will be subject to a flat 30% U.S. federal income tax on the gain derived from the sale, which may be offset by U.S. source capital losses, even though he or she is not considered a resident of the United States. An individual described in the first or third bullet points above will be subject to U.S. federal income tax at regular graduated rates on the gain derived from the sale. A foreign corporation described in the first or third bullet points above will be subject to tax on gain under regular graduated U.S. federal income tax rates, and if described in the first bullet point, may be subject to the additional branch profits tax.

Federal Estate Tax

An individual Non-U.S. Holder who is treated as the owner of, or has made certain lifetime transfers of, an interest in the common stock will be required to include the value of that interest in his or her gross estate for U.S. federal estate tax purposes and might be subject to U.S. federal estate tax unless an applicable estate tax treaty provides otherwise.

Information Reporting and Backup Withholding

We must report annually to you and the Internal Revenue Service the amount of dividends paid to you and any tax withheld from those dividends even if no withholding was required. Under the provisions of an applicable income tax treaty, copies of the information returns reporting dividends and withholding might also be made available to the tax authorities in the country in which you reside.

Edgar Filing: ALBEMARLE CORP - Form S-3/A

You will be subject to backup withholding on dividends paid to you unless applicable certification requirements are met. The backup withholding rate is currently 28%. Any amounts withheld under the backup withholding rules will be allowed as a refund or credit against your U.S. federal income tax liability (if any) provided the required information is furnished to the Internal Revenue Service.

Payment of the proceeds of a sale of common stock within the United States or conducted through certain U.S.-related financial intermediaries is subject to information reporting and, depending on the circumstances, backup withholding unless you certify under penalties of perjury that you are a Non-U.S. Holder and the payer does not know or have reason to know that you are a U.S. person, or you otherwise establish an exemption.

S-88

Table of Contents

UNDERWRITING

Under the terms and subject to the conditions contained in an underwriting agreement among the underwriters and us, each of the underwriters named below, through their representatives, Bear, Stearns & Co. Inc., UBS Securities LLC and Banc of America Securities LLC, have severally agreed to purchase from us and the selling shareholders the aggregate number of shares of common stock set forth opposite its name below:

<u>Underwriters</u>	<u>Number of Shares</u>
Bear, Stearns & Co. Inc.	
UBS Securities LLC	
Banc of America Securities LLC	
Total	4,488,420

The underwriting agreement provides that the obligations of the several underwriters are subject to approval of various legal matters by their counsel and to various other conditions, including delivery of legal opinions by our counsel and by counsel to the selling shareholders, the delivery of letters by our independent registered public accounting firm and the independent public accounting firm of the refinery catalysts business of Akzo Nobel and the accuracy of the representations and warranties made by us and by the selling shareholders in the underwriting agreement. Under the underwriting agreement, the underwriters are obliged to purchase and pay for all of the above shares of our common stock if any are purchased.

Public Offering Price

The underwriters propose to offer the shares of common stock directly to the public at the offering price set forth on the cover page of this prospectus supplement and at that price less a concession not in excess of \$ _____ per share to other dealers who are members of the National Association of Securities Dealers, Inc. The underwriters may allow, and those dealers may reallow, concessions not in excess of \$ _____ per share to other dealers. After this offering, the offering price, concessions and other selling terms may be changed by the underwriters. The shares of our common stock are offered subject to receipt and acceptance by the underwriters and subject to other conditions, including the right to reject orders in whole or in part.

The following table summarizes the per share and total public offering price of the shares of common stock in the offering, the underwriting compensation to be paid to the underwriters by us and the selling shareholders and the proceeds of the offering to us (before expenses) and to the selling shareholders. The information presented assumes either no exercise or full exercise by the underwriters of their over-allotment option.

	<u>Per Share</u>	<u>Total</u>	
		<u>Without Over-Allotment</u>	<u>With Over-Allotment</u>
Public offering price	\$	\$	\$
Underwriting discounts and commissions			

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Paid by us	\$	\$	\$
Paid by the selling shareholders	\$	\$	\$
Proceeds to us (before expenses)	\$	\$	\$
Proceeds to selling shareholders	\$	\$	\$

The underwriting discount and commission per share is equal to the public offering price per share of common stock less the amount paid by the underwriters to us and the selling shareholders per share of common stock.

In compliance with guidelines of the National Association of Securities Dealers, Inc., the maximum compensation to the underwriters or dealers in connection with the sale of common stock pursuant to this prospectus supplement will not exceed 8% of the aggregate total public offering price of the common stock offered.

We estimate total expenses payable by us in connection with this offering, other than the underwriting discounts and commissions referred to above, will be approximately \$0.4 million.

S-89

Table of Contents

Over-Allotment Option to Purchase Additional Shares

We have granted a 30-day over-allotment option to the underwriters to purchase up to an aggregate of 600,000 additional shares of common stock exercisable at the offering price less the underwriting discounts and commissions, each as set forth on the cover page of this prospectus supplement. If the underwriters exercise this option in whole or in part, then each of the underwriters will be obliged to purchase additional shares of common stock in proportion to their respective purchase commitments as shown in the table set forth above, subject to various conditions.

Indemnification and Contribution

The underwriting agreement provides that we will indemnify the underwriters against liabilities specified in the underwriting agreement under the Securities Act, including liabilities arising from material misstatements or omissions in connection with disclosures, or will contribute to payments that the underwriters may be required to make in respect of those liabilities.

Lock-Up Agreements

Our directors and executive officers, the selling shareholders and certain other shareholders have agreed that, for a period of 90 days from the date of this prospectus supplement, subject to extension in certain circumstances, they will not, without the prior written consent of Bear, Stearns & Co. Inc., UBS Securities LLC and Banc of America Securities LLC, offer, sell or agree to sell, directly or indirectly, or otherwise dispose of any shares of common stock or any security convertible into, or exercisable or exchangeable for, common stock or any other such security (each a Relevant Security) other than in connection with the cashless exercise of outstanding common stock options (but not the shares of common stock issued in respect of such cashless exercise) that are scheduled to expire during the 90-day period, establish or increase any put equivalent position or liquidate or decrease any call equivalent position or otherwise enter into any swap, derivative or other transaction or arrangement that transfers to another, in whole or in part, any economic consequence of ownership of a Relevant Security, other than the sale by the selling shareholders of their common stock in the offering.

In addition, we have agreed that for a period of 90 days from the date of this prospectus supplement, subject to extension in certain circumstances, we will not, without the prior written consent of Bear, Stearns & Co. Inc., UBS Securities LLC and Banc of America Securities LLC, offer, sell or otherwise dispose of any Relevant Security, establish or increase any put equivalent position or liquidate or decrease any call equivalent position or otherwise enter into any swap, derivative or other transaction or arrangement that transfers to another, in whole or in part, any economic consequence of ownership of a Relevant Security, other than the sale by us of the common stock in the offering and the issuance by us of common stock upon (A) the exercise of currently outstanding options; (B) the exercise of any currently outstanding warrants; and (C) the grant and exercise of options under, or the issuance and sale of shares pursuant to, employee stock option plans in effect on the date hereof. In addition, we have agreed that we will not file a registration statement under the Securities Act in connection with any transaction by us or any person that is prohibited pursuant to the foregoing, except for registration statements on Form S-8 relating to employee benefit plans.

Stabilization and Syndicate Short Position

In order to facilitate the offering of shares of our common stock, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the market price of our shares of common stock.

The underwriters may over-allot shares of our common stock in connection with this offering, thus creating a short position for their own account. Short sales involve the sale by the underwriters of a greater number of shares than they are committed to purchase in the offering. A short position may involve either covered short sales or naked short sales. Covered short sales are sales made in an amount not greater than the underwriters' over-allotment option to purchase additional shares in the offering described above. The underwriters may close out any covered short position by either exercising their over-allotment option or purchasing shares in the open market. In determining the source of shares to close the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared with the price at

S-90

Table of Contents

which they may purchase shares through the over-allotment option. Naked short sales are sales in excess of the over-allotment option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.

Accordingly, to cover these short sales positions or to stabilize the market price of shares of our common stock, the underwriters may bid for, and purchase, shares of our common stock in the open market. These transactions may be effected on the NYSE or otherwise. Additionally, the representatives, on behalf of the underwriters, may also reclaim selling concessions allowed to an underwriter or dealer. Similar to other purchase transactions, the underwriters purchases to cover the syndicate short sales or to stabilize the market price of shares of our common stock may have the effect of raising or maintaining the market price of shares of our common stock or preventing or mitigating a decline in the market price of shares of our common stock. As a result, the price of shares of our common stock may be higher than the price that might otherwise exist in the open market. No representation is made as to the magnitude or effect of any such stabilization or other activities. The underwriters are not required to engage in these activities and, if commenced, may end any of these activities at any time.

Our common stock is listed on the NYSE under the symbol ALB.

NASD Matters

This offering is being conducted pursuant to Conduct Rule 2710(h) of the National Association of Securities Dealers.

Electronic Delivery

In connection with this offering, certain of the underwriters or securities dealers may distribute prospectuses electronically.

Bear, Stearns & Co. Inc., UBS Securities LLC and Banc of America Securities LLC have each served in the past as a financial advisor to our company, for which they have each received customary fees, and may do so again in the future. Bear, Stearns & Co. Inc., UBS Securities LLC and Banc of America Securities LLC are among the underwriters in the notes offering. Affiliates of UBS Securities LLC and Banc of America Securities LLC are also lenders under our senior credit agreement. In addition, affiliates of Bear, Stearns & Co. Inc., UBS Securities LLC and Banc of America Securities LLC are lenders under our 364-day loan agreement. It is expected that these affiliates will receive a portion of the proceeds from this offering and the notes offering used to repay all or substantially all of the borrowings outstanding under our 364-day loan agreement.

LEGAL MATTERS

Edgar Filing: ALBEMARLE CORP - Form S-3/A

The validity of the shares of our common stock has been passed upon for us by Hunton & Williams LLP, Richmond, Virginia. Simpson Thacher & Bartlett LLP is counsel for the underwriters in connection with the offering.

EXPERTS

The consolidated financial statements of Albemarle Corporation as of December 31, 2003 and 2002 and for the years ended December 31, 2003, 2002 and 2001 included in this prospectus supplement have been so included in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

The combined financial statements of Akzo Nobel Catalysts, a former business of Akzo Nobel N.V., as of December 31, 2003 and 2002, and for each of the years in the three-year period ended December 31, 2003 have been included herein in reliance on the report of KPMG Accountants N.V., an independent public accounting firm, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing.

S-91

Table of Contents

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the SEC. Our SEC filings are available to the public over the Internet at the SEC's web site at <http://www.sec.gov>. You may also read and copy any document we file at the SEC's public reference room in Washington, D.C., 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Our common stock is traded on the NYSE under the symbol ALB. You may inspect the reports, proxy statements and other information concerning us at the offices of the NYSE, 20 Broad Street, New York, New York 10005.

DOCUMENTS INCORPORATED BY REFERENCE

The SEC allows us to incorporate by reference the information we file with it, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this prospectus supplement, and information that we file later with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below and filings that we make after the date of filing the initial registration statement and prior to the effectiveness of that registration statement, and any future filings made by us with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act, all of which are contained, or will be contained, in SEC File No. 1-12658, until the offering of the securities under this prospectus supplement is completed or withdrawn:

our Annual Report on Form 10-K for the fiscal year ended December 31, 2003;

our Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2004, June 30, 2004 and September 30, 2004;

our definitive proxy statement filed with the SEC on March 1, 2004;

our Current Reports on Form 8-K filed with the SEC on April 19, 2004, July 16, 2004, August 2, 2004, August 24, 2004, October 14, 2004 and November 19, 2004;

our Current Report on Form 8-K/A filed with the SEC on October 13, 2004; and

the description of our common stock included in our Form 10/A, filed with the SEC on February 11, 1994.

You may request a copy of these filings at no cost, by writing or telephoning us at the following address: Corporate Secretary, Albemarle Corporation, 330 South Fourth Street, Richmond, Virginia 23219; (804) 788-6000.

Table of Contents

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus supplement and the accompanying prospectus. You must not rely on any unauthorized information or representations. This prospectus supplement and the accompanying prospectus is an offer to sell only the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus supplement and the accompanying prospectus is current only as of its date.

TABLE OF CONTENTS

	Page
Prospectus Supplement	
<u>About This Prospectus Supplement</u>	S-i
<u>Market and Industry Data</u>	S-i
<u>Non-GAAP Financial Measure</u>	S-i
<u>Pro Forma Financial Information</u>	S-ii
<u>Exchange Rates</u>	S-iii
<u>Forward-Looking Statements</u>	S-iii
<u>Prospectus Supplement Summary</u>	S-1
<u>Risk Factors</u>	S-13
<u>Use of Proceeds</u>	S-26
<u>Price Range of Common Stock and Dividends</u>	S-27
<u>Dividend Policy</u>	S-27
<u>Capitalization</u>	S-28
<u>Unaudited Pro Forma Combined Financial Information</u>	S-29
<u>Selected Historical Consolidated Financial Information of Albemarle</u>	S-36
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations of Albemarle</u>	S-38
<u>Selected Historical Combined Financial Information of Akzo Nobel's Refinery Catalysts Business</u>	S-59
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations of Akzo Nobel's Refinery Catalysts Business</u>	S-61
<u>Business</u>	S-64
<u>Management</u>	S-83
<u>Selling Shareholders</u>	S-86
<u>Certain U.S. Federal Tax Consequences for Non-U.S. Holders</u>	S-87
<u>Underwriting</u>	S-89
<u>Legal Matters</u>	S-91
<u>Experts</u>	S-91
<u>Where You Can Find More Information</u>	S-92
<u>Documents Incorporated by Reference</u>	S-92
Prospectus	
<u>About This Prospectus</u>	1
<u>Forward-Looking Statements</u>	1
<u>Albemarle Corporation</u>	2
<u>Ratios of Earnings to Fixed Charges</u>	3
<u>Use of Proceeds</u>	3
<u>Description of Debt Securities</u>	4
<u>Description of Preferred Stock</u>	20
<u>Description of Common Stock</u>	23
<u>Selling Shareholders</u>	27
<u>Plan of Distribution</u>	28
<u>Validity of Securities</u>	29

<u>Experts</u>	29
<u>Where You Can Find More Information</u>	29
<u>Documents Incorporated by Reference</u>	29
<u>Index to Consolidated Financial Statements</u>	F-1

4,488,420 Shares

Common Stock

PROSPECTUS SUPPLEMENT

, 2004

Bear, Stearns & Co. Inc.

UBS Investment Bank

Banc of America Securities LLC

Table of Contents

The information in this prospectus supplement is not complete and may be changed. We may not sell these securities until the Securities and Exchange Commission declares our registration statement effective. This prospectus supplement and the accompanying prospectus are not an offer to sell these securities and they are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED DECEMBER 10, 2004

PROSPECTUS SUPPLEMENT

(to Prospectus dated , 2004)

\$300,000,000

% Senior Notes due 2014

Albemarle Corporation is offering \$300.0 million aggregate principal amount of % Senior Notes due 2014. Interest on the notes will be paid semi-annually on and of each year, beginning on , 2005. The notes will mature on , 2014.

We can redeem the notes at any time, in whole or in part, at the redemption price set forth in this prospectus supplement in the section entitled Description of the Notes Optional Redemption. The notes are not subject to any mandatory sinking fund.

The notes will be our senior unsecured obligations and will rank equally with all of our existing and future senior unsecured indebtedness.

See Risk Factors beginning on page S-14 of this prospectus supplement to read about the risks you should consider before buying shares of our common stock.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus supplement or the accompanying prospectus. Any representation to the

contrary is a criminal offense.

	Per Note	Total
	<hr/>	<hr/>
Public Offering Price (1)	%	\$
Underwriting Discount	%	\$
Proceeds, before Expenses, to Albemarle	%	\$
<hr/>		

(1) Plus accrued interest if any, from _____, 2004, if settlement occurs after that date.

Delivery of the notes will be made on or about _____, 2004 in book-entry form only through the facilities of The Depository Trust Company.

Banc of America Securities LLC

UBS Investment Bank

Bear, Stearns & Co. Inc.

The date of this prospectus supplement is _____, 2004.

Table of Contents

GLOBAL LOCATIONS

AMERICAS

Executive Offices

330 South Fourth Street*

Richmond, Virginia 23219

804-788-6000

Operations Offices

451 Florida Street*

Baton Rouge, Louisiana 70801

225-388-8011

Sales and General Offices

Baton Rouge, Louisiana*

225-388-7402

Houston, Texas*

281-480-4747

Research and

Development Facilities

Baton Rouge, Louisiana

Dayton, Ohio*

Pasadena, Texas

Santa Cruz, Brazil**

Tyrone, Pennsylvania

Plants

Baton Rouge, Louisiana

Dayton, Ohio*

Magnolia, Arkansas (3 locations)

Orangeburg, South Carolina

Pasadena, Texas (2 locations)

Pasadena, Texas**

Santa Cruz, Brazil**

Tyrone, Pennsylvania

EUROPE/MIDDLE

EAST/AFRICA

Sales and General Offices

Amersfoort, Netherlands*

31 33 467 6310

Bergheim, Germany

49 2271 902 0

Louvain-La-Neuve, Belgium

32 10 48 1711

Research and

Development Facilities

Amsterdam, the Netherlands

Bergheim, Germany

Louvain-La-Neuve, Belgium

Thann, France

Plants

Amsterdam, the Netherlands

Avonmouth, United Kingdom

Bergheim, Germany

Feluy, Belgium*

Gela, Italy**

Jubail, Saudi Arabia**

La Voulte, France**

Port-de-Bouc, France

Safi, Jordan**

St. Jakob/Breitenau, Austria**

Teesport, United Kingdom

Thann, France

ASIA-PACIFIC

Sales and General Offices

Beijing, China

106 505 4153

Seoul, South Korea*

82 2 555 3005

Shanghai, China*

86 21 5306 1360

Singapore*

65 6732 6286

Tokyo, Japan*

81 3 5251 0791

Research and

Development Facilities

Niihama, Japan**

Plants

Jin Shan District, Shanghai,

China**

Ninghai County, Zhejiang

Province, China**

Niihama, Japan**

Takaishi City, Osaka, Japan **

** Leased Location*

***Joint Venture*

Table of Contents

ABOUT THIS PROSPECTUS SUPPLEMENT

This document consists of two parts. The first part is the prospectus supplement, which describes the specific terms of this offering and certain other matters relating to Albemarle Corporation. The second part, the accompanying prospectus, gives more general information, some of which does not apply to this offering. Generally, when we refer to the prospectus, we are referring to both parts of this document combined. If the description in the prospectus supplement differs from the description in the accompanying prospectus, the description in the prospectus supplement supersedes the description in the accompanying prospectus.

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. Neither we, the selling shareholders nor the underwriters have authorized anyone to provide you with information other than that contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. The information in this prospectus supplement and the accompanying prospectus may be accurate only as of their respective dates.

We and the underwriters are not making an offer to sell the common stock in jurisdictions where the offer or sale is not permitted. The distribution of this prospectus supplement and the accompanying prospectus and the offering of the notes in certain jurisdictions may be restricted by law. Persons who come into possession of this prospectus supplement and the accompanying prospectus must inform themselves about and observe any restrictions relating to the offering of the notes and the distribution of this prospectus supplement and the accompanying prospectus. This prospectus supplement and the accompanying prospectus do not constitute, and may not be used in connection with, an offer to sell, or a solicitation of an offer to buy, any securities offered by this prospectus supplement and the accompanying prospectus by any person in any jurisdiction in which it is unlawful for a person to make an offer or solicitation.

Unless the context otherwise indicates, the terms Albemarle, we, us, our or the company mean Albemarle Corporation and its consolidated subsidiaries.

MARKET AND INDUSTRY DATA

This prospectus supplement and the accompanying prospectus include market share and industry data and forecasts that we obtained from internal company surveys, market research, publicly available information and industry publications and surveys. Industry publications and surveys generally state that the information contained therein has been obtained from sources believed to be reliable. We have not independently verified any of the data from third-party sources nor have we ascertained the underlying economic assumptions relied upon therein. Similarly, internal company surveys, forecasts and market research, which we believe to be reliable based upon management's knowledge of the industry, have not been verified by any independent sources. Except where otherwise noted, statements as to our position relative to our competitors or as to market position or share refer to the most recently available data.

NON-GAAP FINANCIAL MEASURE

In this prospectus supplement, we present EBITDA, which is a supplemental financial measure that is not required by, or presented in accordance with, accounting principles generally accepted in the United States, or U.S. GAAP. Our management believes EBITDA is more reflective of our operations as it provides transparency to investors and enhances period-to-period comparability of operations and financial performance. See footnote 6 in the section of this prospectus supplement titled Prospectus Supplement Summary Summary Historical and Pro

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Forma Consolidated Financial Information of Albemarle for the definition of EBITDA and related disclosure.

S-i

Table of Contents

EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our financial results prepared in accordance with U.S. GAAP. Some of these limitations are:

EBITDA does not reflect our cash expenditures, future requirements for capital expenditures or contractual commitments;

EBITDA does not reflect changes in, or cash requirements for, our working capital needs;

EBITDA does not reflect the significant interest expense, or the cash requirements necessary to make interest or principal payments, on our debts;

although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA does not reflect any cash requirements for such replacements; and

other companies in our industry may calculate EBITDA differently than we do, limiting its usefulness as a comparative measure.

Because of these limitations, EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business.

PRO FORMA FINANCIAL INFORMATION

This prospectus supplement contains various references to pro forma financial information. This pro forma financial information is included in, or is derived from, the Unaudited Pro Forma Combined Financial Information that has been prepared in conformity with Regulation S-X. This unaudited pro forma financial information, included in this prospectus supplement, gives effect to (1) the acquisition of the refinery catalysts business of Akzo Nobel N.V., (2) the financing of the purchase price through borrowings under our new senior credit agreement and 364-day loan agreement, including amounts borrowed to refinance our then-existing credit agreement and to pay related fees and expenses, and (3) to the extent appropriate, the completion of this offering and our concurrent offering of shares of our common stock and the application of the net proceeds as described under Use of Proceeds, as if such transactions had occurred on January 1, 2003. Unless indicated otherwise, the information contained in this prospectus supplement and the accompanying prospectus assumes that the over-allotment option granted to the underwriters in the common stock offering is not exercised. Our Current Report on Form 8-K/A that we filed with the Securities and Exchange Commission, or the SEC, on October 13, 2004, which is incorporated by reference in this prospectus supplement, includes pro forma financial information as of June 30, 2004 and for the year ended December 31, 2003 and the six months ended June 30, 2004 and 2003. The pro forma financial information set forth in the Current Report on Form 8-K/A reflects the acquisition and related financings as if they had occurred on January 1, 2003, in the case of income data, or on June 30, 2004, in the case of balance sheet data, which differs in presentation from what is included in this prospectus supplement because (1) it does not give effect to the completion of this offering and the common stock offering and the application of the net proceeds as described under Use of Proceeds and (2) it provides information as of June 30, 2004 and the six months ended June 30, 2004 and 2003. The term pro forma also reflects, to the extent appropriate, the realignment of our polyolefin catalysts business from our Polymer Chemicals segment, which we renamed Polymer Additives, to our new Catalysts segment.

Table of Contents**EXCHANGE RATES**

The combined financial statements of Akzo Nobel's refinery catalysts business contained in this prospectus supplement are denominated in European Union euros. The following chart shows for certain periods from January 1, 2001 through December 8, 2004, the average, high and low noon buying rates in The City of New York for cable transfers of euros as certified for customs purposes by the Federal Reserve Bank of New York expressed as U.S. dollars per euro, or the noon buying rate. The noon buying rate on December 8, 2004, was \$1.3252 per 1.00. We make no representation that the euro or U.S. dollar amounts referred to in this prospectus supplement have been, could have been or could, in the future, be converted into U.S. dollars or euros, as the case may be, at any particular rate, if at all.

(dollars per euro)

Year	Low	High	Average ⁽¹⁾	Period End
2001	0.8370	0.9535	0.8952	0.8901
2002	0.8594	1.0485	0.9454	1.0485
2003	1.0361	1.2597	1.1315	1.2597
Month	Low	High	Average ⁽¹⁾	Period End
March 2004	1.2088	1.2431	1.2261	1.2292
April 2004	1.1802	1.2358	1.1989	1.1975
May 2004	1.1801	1.2274	1.2000	1.2217
June 2004	1.2006	1.2320	1.2146	1.2179
July 2004	1.2032	1.2437	1.2266	1.2032
August 2004	1.2025	1.2368	1.2191	1.2183
September 2004	1.2052	1.2417	1.2214	1.2417
October 2004	1.2271	1.2783	1.2507	1.2746
November 2004	1.2703	1.3288	1.2997	1.3259
December 2004 (through December 8, 2004)	1.3252	1.3437	1.3348	1.3252

(1) The average of the noon buying rates in The City of New York for cable transfers of euros as certified for customs purposes by the Federal Reserve Bank of New York on the last day of each month that are published on the website maintained by the Federal Reserve Bank of New York.

FORWARD-LOOKING STATEMENTS

Some of the information presented in this prospectus supplement and the accompanying prospectus, 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, should, will and variations of such words and similar expressions to identify such forward-looking statements. These forward-looking statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions, which are difficult to predict and many of which are beyond our control. There can be no assurance, therefore, that our actual results will not differ materially from the results and expectations expressed or implied in the forward-looking statements. Factors that could cause actual results to differ materially include, without limitation:

the timing of orders received from customers;

the gain or loss of significant customers;

competition from other manufacturers;

changes in the demand for our products;

changes in our margins;

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

S-iii

Table of Contents

changes in our manufacturing processes;

changes in our markets in general;

fluctuations in foreign currencies;

changes in new product introductions resulting in increases in capital project requests and approvals leading to additional capital spending;

changes in laws and regulations;

the occurrence of claims or litigation;

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

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

changes in accounting standards;

the integration of the Akzo Nobel refinery catalysts business into our operations;

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

changes in interest rates, to the extent they (1) affect our ability to raise capital or increase our cost of funds, (2) have an impact on the overall performance of our pension fund investments and (3) increase our pension expense and funding obligations; and

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

We assume no obligation to provide revisions to any forward-looking statements should circumstances change, except as otherwise required by securities and other applicable laws.

Table of Contents

PROSPECTUS SUPPLEMENT SUMMARY

The following section summarizes more detailed information presented later in this prospectus supplement and the accompanying prospectus. You should read this entire prospectus supplement and the accompanying prospectus carefully, including the section entitled Risk Factors, before making an investment decision.

Albemarle Corporation

We are a leading global developer, manufacturer and marketer of highly-engineered specialty chemicals. Our products enhance the value of our customers' end-products by improving performance, providing essential product attributes, lowering cost and simplifying processing. We sell a highly diversified mix of products to a wide range of customers, including manufacturers of electronics, building and construction materials, automotive parts, packaging, pharmaceuticals and agrichemicals and to petroleum refiners. We believe that our commercial and geographic diversity, technical expertise, flexible, low-cost global manufacturing base, strong cash flows and experienced management team enable us to maintain leading market positions in those areas of the specialty chemicals industry in which we operate.

We and our joint ventures currently operate 38 production facilities, research and development facilities, and administrative and sales offices in North and South America, Europe and Asia and serve more than 3,400 customers in approximately 100 countries. In 2003, we generated net sales of \$1,515.2 million, operating profit of \$139.9 million, net income (before cumulative effect of a change in accounting principle) of \$96.4 million and earnings before interest, taxes, depreciation and amortization, or EBITDA, of \$266.2 million, in each case on a pro forma basis. The following chart presents the geographic balance of our 2003 pro forma net sales.

In recent years, we have expanded through acquisitions and joint ventures as well as organic growth. Management estimates that sales from businesses, including the refinery catalysts business of Akzo Nobel, acquired and joint ventures completed over the past five years comprised approximately \$707 million, or 47%, of our total 2003 pro forma net sales.

Refinery Catalysts Acquisition. On July 31, 2004, we acquired the refinery catalysts business of Akzo Nobel N.V. for 615.7 million (approximately \$763 million at applicable exchange rates) in cash. We financed the acquisition with borrowings under our new senior credit agreement and 364-day loan agreement. We believe that this acquisition significantly enhances our business by giving us a strong new operating segment. Key attributes of the acquired refinery catalysts business are:

leading global market positions;

strong industry fundamentals;

proprietary technology and service-driven business model; and

attractive margins and cash flows.

S-1

Table of Contents

Following the refinery catalysts acquisition, we transferred our existing polyolefin catalysts business from our Polymer Chemicals segment, which we renamed Polymer Additives, to a newly created Catalysts segment, which includes the assets we acquired from Akzo Nobel. Our operations are now managed and reported as three operating segments: Polymer Additives; Catalysts; and Fine Chemicals. The following chart presents the contributions of our three segments based on our 2003 pro forma net sales.

Polymer Additives

Our Polymer Additives business consists of the following two product categories:

Flame Retardants. We are a leading global producer of brominated, mineral-based and phosphorous flame retardants. These flame retardants comprise the bulk of the global flame retardant market, which is estimated at more than \$2.0 billion. Our flame retardants help materials in a wide variety of finished products meet fire-safety requirements. Some of the products that benefit from our flame retardants include plastic enclosures for consumer electronic products, printed circuit boards, wire and cable, electrical connectors, foam seating in furniture and automobiles, and textiles. We believe that the key drivers for growth of demand for our flame retardants are the increasing demand for electrical and electronic equipment, new construction and increasingly stringent fire-safety regulations in many countries around the world.

Other Additives. We produce plastic and other additives, such as curatives, antioxidants and stabilizers, which are often specially developed and formulated for a customer's specific manufacturing requirements. Our additives improve the performance characteristics of inks and coatings, adhesives, bullet-proof glass and numerous plastic products by enhancing strength, durability, color stability and other performance qualities. We also produce antioxidants used in fuels and lubricants, which are sold to lubricant manufacturers and refiners, some of which are also customers of our Catalysts segment.

Catalysts

Our Catalysts business consists of the following two product categories:

Refinery Catalysts. We and our joint ventures, collectively, are one of the leading global producers of hydroprocessing, or HPC, catalysts and fluidized catalytic cracking, or FCC, catalysts. HPC catalysts are primarily used to reduce the quantity of sulfur and other impurities in petroleum products. FCC catalysts assist in the cracking of petroleum streams into derivative, higher-value products such as gasoline, diesel and raw material components. In 2002, worldwide sales of HPC and FCC catalysts accounted for approximately 80% of the estimated \$2.0 billion refinery catalysts market. We believe the key drivers for the growth of demand for refinery catalysts are the increasing global demand for petroleum products, the generally deteriorating quality of crude oil feedstocks and the implementation of more stringent fuel quality requirements in many countries around the world as part of anti-pollution initiatives.

Table of Contents

Polyolefin Catalysts. We are a leading global manufacturer of aluminum- and magnesium-alkyls. These alkyls are used in the production of plastic products such as food wrap, stretch films, trash bags and a variety of plastic films. We are also a leader in the production of metallocene/single-site catalysts, which aid in the development and production of new polymers that increase impact strength, clarity and melt characteristics of plastic films. We expect that our extensive experience in polyolefin catalysts will present synergistic opportunities with our refinery catalysts business, particularly with respect to increasing our business with petroleum and petrochemical processing customers.

Fine Chemicals

Our Fine Chemicals business consists of the following four product categories:

Performance Chemicals. We are a leading global producer of bromine with geographically diverse production resources. In 2003, approximately 87% of the bromine that we produced was used internally in our Polymer Additives and Fine Chemicals segments and the remainder was sold into the merchant market. We also produce a number of bromides and bromine-based performance chemicals, which are used in a broad range of applications, including chemical synthesis, oil and gas well drilling and completion fluids, paper manufacturing, water purification, glass manufacturing and photography.

Pharmaceuticals. Our bulk actives, ibuprofen and naproxen, are widely used to provide temporary pain relief and fever reduction. Bulk ibuprofen and naproxen are formulated by pharmaceutical companies for sale in both the prescription and over-the-counter markets. These products compete against other painkillers, including aspirin and acetaminophen. We are one of the largest global producers of ibuprofen. We also produce other intermediates used in the manufacture of a variety of over-the-counter and prescription drugs.

Agrichemicals. We sell a diverse portfolio of chemical intermediates and active ingredients used in the manufacture of crop protection products, such as herbicides, insecticides, fungicides and soil fumigants. Our agrichemicals customers include major global agrichemical manufacturers and distributors.

Fine Chemistry Services and Intermediates. Our fine chemistry services and intermediates business offers custom manufacturing, research and scale-up services for downstream chemical and pharmaceutical companies. We support our customers' product development efforts by offering discovery-through-commercialization services, including cGMP manufacturing capabilities.

Competitive Strengths

We believe we benefit from the following competitive strengths:

Leading Market Positions in Major Product Categories. We believe that we have leading global market positions in our major product categories, including bromine and bromine-based products, flame retardants and refinery catalysts. We have achieved these positions as a result of the performance characteristics of our products, long-standing customer relationships and our ability to develop and effectively market new generations of value-added products.

Commercial and Geographic Diversity. We, along with our joint ventures, sell our products to over 3,400 customers across a diverse range of end-use markets in approximately 100 countries worldwide. Our broad product range allows us to serve customers in a wide variety of industries, including petroleum refining, consumer electronics, building and construction materials, automotive parts, pharmaceuticals and agrichemicals. We believe that the diversity of our operations fosters stability in our operating performance through reduced reliance on any one customer, industry, product or geographic area.

Technological Expertise. We are a technological innovator within the markets we serve and are committed to maintaining a leadership position with respect to technological innovation, expertise and service.

Table of Contents

At September 30, 2004, we had over 1,400 patents as well as over 850 pending patent applications. At September 30, 2004, our research and development effort was supported by approximately 350 employees, of whom approximately one-third had PhDs. Examples of our innovative products and services include:

reactive brominated flame retardants that, when incorporated into commonly used resin systems, help electronic devices meet fire-safety requirements;

advanced mineral-based flame retardants for extreme temperature applications, such as automotive electrical connectors;

highly active HPC catalysts that help petroleum refiners meet more stringent fuel quality requirements without significant capital expenditures or reductions in refining capacity; and

in conjunction with a pharmaceutical company, a novel polymeric drug release coating for use in a recently approved medical device.

Strong Underlying Industry Fundamentals. We believe we are well positioned to capitalize on favorable trends within the areas of the specialty chemicals industry in which we operate. We expect our Polymer Additives segment to benefit from the increasing demand for electrical and electronic equipment, new construction and increasingly more stringent fire-safety regulations. We expect demand for our refinery catalysts to grow as a result of the increasing global demand for petroleum products, the generally deteriorating quality of crude oil feedstocks and the implementation of more stringent fuel quality requirements in many countries around the world as a part of anti-pollution initiatives. We expect our Fine Chemicals segment to continue to benefit from the rapid pace of innovation and the introduction of new products coupled with a movement by pharmaceutical companies to outsource certain research, product development and manufacturing functions.

Flexible, Low-Cost Global Manufacturing Base. We believe our manufacturing base affords us a competitive advantage by virtue of its breadth, cost position and flexibility. We and our joint ventures operate 27 manufacturing plants, with major facilities in North and South America, Europe and Asia. This global footprint allows us to provide timely service to our customers and supply our products to rapidly growing regions such as Asia. We are also vertically integrated in bromine. We believe that we are one of the lowest-cost producers of the bromine used in our brominated flame retardants and bromine derivative products. In addition, our pilot facilities provide us with the flexibility to commercialize newly developed products rapidly and cost efficiently. The ability to move quickly from product innovation to large-scale, commercial production contributes to our ability to capitalize on our product development efforts. For example, our Orangeburg, South Carolina facility currently is scaling up to produce commercial quantities of a new antioxidant for fuels after initial market-trial quantities were successfully produced at our Tyrone, Pennsylvania facility.

Strong Cash Flows. We have generated strong cash flows from operations even through adverse business cycles and periods of challenging chemical sector fundamentals. We generated average net cash provided from operations of approximately \$150 million per year between 1999 and 2003. In 2003, Akzo Nobel's refinery catalysts business had net cash provided from operations of approximately 41.1 million (approximately \$51 million based on an exchange rate of 1.00=€1.2417, the noon buying rate for euros on September 30, 2004). Our ability to generate strong cash flows is principally attributable to the diversity of our product lines, our strong margins and the effective management of working capital. We believe that our strong cash flow will help us to reduce our indebtedness and implement our growth strategies discussed below.

Experienced Management Team. We have a highly experienced management team throughout our organization, including our Catalysts segment, which includes all of the incumbent managers of Akzo Nobel's refinery catalysts business. Our senior management team has an average of 29 years of experience in the chemicals business and a proven track record of developing and marketing new chemical products. Members of this team also have significant experience in executing and integrating acquisitions, including the acquisitions of eight businesses or product lines during the last five years.

Table of Contents

Growth Strategy

Our key objectives are to increase our revenues and our profitability and to broaden our product offerings. Our strategies to achieve these objectives include:

Develop New Value-Added Products and New Applications for Existing Products. We believe that significant opportunities exist for us to generate additional high margin business through the introduction of new value-added products and processes. We estimate that approximately 14% of our 2003 net sales were from products newly introduced or re-engineered during the preceding five years.

Expand Our Global Reach. We intend to grow domestically and internationally by expanding our product sales to new and existing multinational customers, particularly as they target high-growth regions and markets. We believe that our relationships with large multinational customers will provide access to new geographic and end-use product markets. We intend to add personnel focused on sales, marketing and research and development in selected regions and to expand our infrastructure to respond to the needs of our customers. We also plan on making selective acquisitions and participating in joint ventures consistent with this strategy. For example, we recently acquired a significant distributor in Korea, giving us direct access to a growing market for many of our Polymer Additives products.

Focus on Operational Improvement. In 2002, we launched a three-year \$50 million manufacturing cost reduction program to reduce our fixed cost base. As of September 30, 2004, we believe that this program has yielded estimated savings of approximately \$27 million. We expect to implement additional cost-saving initiatives focused on achieving operational efficiencies by continuing to invest in flexible manufacturing equipment and processes, to optimize process control technologies and to reduce fixed costs through the rationalization of manufacturing capacity and the efficient management of capital spending.

Cultivate Strategic Collaborations and Alliances. We believe that strategic collaborations and alliances, including joint ventures, afford us the opportunity to develop and expand our business with less capital investment and lower risk. We currently have joint ventures in Austria, Brazil, France, Japan, Jordan, the People's Republic of China and the United States. By entering into collaborations and alliances, we can leverage the technology and research and development skills of our partners, extend our business reach, gain greater access to important raw materials and benefit from our partners' knowledge of the local business environment.

Pursue Disciplined Acquisition Strategy. We intend to continue to explore possible acquisitions in areas that allow us to build upon our product and technology portfolio, expand our customer base, and leverage our sales and distribution infrastructure and existing customer relationships. We intend to target acquisitions that are expected to contribute to sustainable cash flow and that are consistent with maintaining our investment grade credit rating.

Table of Contents

Common Stock Offering

We intend to offer 4,000,000 shares (4,600,000 shares if the underwriters in the common stock offering exercise their over-allotment option in full) of our common stock as part of a public offering conducted concurrently with this offering. Certain of our shareholders are also offering 488,420 shares of their common stock in the offering. We will receive no proceeds from the sale of shares of our common stock by the selling shareholders. We will use the net proceeds that we receive from the common stock offering, together with the proceeds from this offering, to retire all or substantially all of the indebtedness that we incurred under our 364-day loan agreement to finance our acquisition of Akzo Nobel's refinery catalysts business. To the extent that the net proceeds from this offering, together with the net proceeds from the common stock offering, are insufficient to retire all of the indebtedness outstanding under our 364-day loan agreement, we intend to incur additional borrowings under our \$300 million revolving credit facility to retire the remaining amount of indebtedness outstanding under our 364-day loan agreement. The common stock offering will be conducted as a separate public offering by means of a separate prospectus supplement. In this prospectus supplement, we refer to our offering of the common stock described above as the common stock offering.

The completion of this offering is contingent on the completion of the common stock offering but the completion of the common stock offering is not contingent on the completion of this offering.

We were incorporated in Virginia in 1993. Our principal executive offices are located at 330 South Fourth Street, Richmond, Virginia 23219, and our telephone number is (804) 788-6000.

Table of Contents**The Offering**

Issuer	Albemarle Corporation
Securities Offered	\$300,000,000 aggregate principal amount of % Senior Notes due 2014.
Maturity	, 2014.
Interest	The notes will bear interest at a rate of % per year from the date of issue, payable semi-annually in arrears on and each year, commencing on , 2005.
Ranking	The notes will be our senior unsecured obligations and will rank equally with all of our other senior unsecured indebtedness from time to time outstanding. The notes will be effectively subordinated to any of our future secured indebtedness and to existing and future indebtedness of our subsidiaries. As of September 30, 2004, after giving pro forma effect to the completion of this offering and the common stock offering and the application of the net proceeds therefrom as described in Use of Proceeds and assuming that we incur additional borrowings under our \$300 million revolving credit facility to retire the remaining amount of indebtedness outstanding under our 364-day loan agreement, we would have had \$807.0 million of indebtedness outstanding, including guarantees of approximately \$465 million of indebtedness incurred by our subsidiaries, all of which would rank equally with the notes. As of September 30, 2004, we did not have any secured indebtedness. As of September 30, 2004, our subsidiaries had approximately \$935.8 million of liabilities (excluding intercompany liabilities).
Optional Redemption	The notes will be redeemable prior to maturity, in whole at any time or in part from time to time, at a redemption price equal to the greater of (1) 100% of the principal amount of the notes to be redeemed or (2) the sum of the present values of the remaining scheduled payments of principal and interest thereon (exclusive of interest accrued to the date of redemption) discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus basis points, plus, in each case, accrued interest thereon to the date of redemption. See Description of the Notes Optional Redemption.
Sinking Fund	None.
Use of Proceeds	We expect to use the net proceeds from this offering, together with the net proceeds from the common stock offering, to retire all or substantially all of the outstanding short-term debt that we incurred to finance our acquisition of Akzo Nobel's refinery catalysts business. The completion of this offering is contingent on the completion of the common stock offering but the completion of the common stock offering is not contingent upon the completion of this offering.
Form	The notes will be issued in book-entry form and will be represented by one or more global securities that will be deposited with and registered in the name of The Depository Trust

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Company, New York,

S-7

Table of Contents

New York, or its nominee. Beneficial interests in any of the notes will be shown on, and transfers will be effected only through, records maintained by The Depository Trust Company or its nominee and any such interest may not be exchanged for certificated securities, except in limited circumstances.

Absence of a Public Market for the Notes

The notes are new securities for which there is currently no public market. We cannot assure you that any active or liquid market will develop for the notes. See Underwriting.

S-8

Table of Contents**Summary Historical and Pro Forma Consolidated Financial Information of Albemarle**

The following table sets forth summary historical consolidated financial information of Albemarle as of and for the years ended December 31, 2003, 2002 and 2001, which have been derived from our audited consolidated financial statements, and as of and for the nine months ended September 30, 2004 and 2003, which have been derived from our unaudited consolidated financial statements. In the opinion of our management, the unaudited consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and include all adjustments necessary for a fair presentation of the information set forth therein. Interim results are not necessarily indicative of full year results.

The following table also sets forth summary unaudited pro forma financial information, which gives effect to (1) our acquisition of Akzo Nobel's refinery catalysts business, (2) the financing of the purchase price through borrowings under our new senior credit agreement and 364-day loan agreement, including amounts borrowed to refinance our then-existing credit agreement and to pay related fees and expenses and (3) the completion of this offering and the common stock offering and the application of the net proceeds therefrom as described under Use of Proceeds. The unaudited pro forma financial information is based on our historical consolidated financial statements and the historical combined financial statements of the refinery catalysts business and includes, in the opinion of our management, all adjustments necessary for a fair presentation of the information set forth therein. The pro forma adjustments are based on information and assumptions we believe are reasonable. The unaudited pro forma financial information is presented for informational purposes only and does not purport to represent what our results of operations or financial position would have been had the transactions reflected occurred on the dates indicated or to project our financial position as of any future date or our results of operations for any future period.

You should read the information in this table together with Summary Historical Combined Financial Information of Akzo Nobel's Refinery Catalysts Business, Unaudited Pro Forma Combined Financial Information, Selected Historical Consolidated Financial Information of Albemarle, Management's Discussion and Analysis of Financial Condition and Results of Operations of Albemarle, our historical consolidated financial statements and the related notes and the historical combined financial statements of the refinery catalysts business and related notes contained elsewhere in this prospectus supplement and the other information contained in the documents incorporated by reference in this prospectus supplement. See Where You Can Find More Information and Documents Incorporated by Reference.

	Pro Forma		Historical				
	Nine Months		Nine Months		Year Ended		
	Ended	Year Ended	Ended September 30,		December 31,		
	September 30,	December 31,	2004	2003	2003	2002	2001
		(unaudited)	(unaudited)	(unaudited)	(unaudited)	(restated)(1)	
(in thousands, except per share amounts and ratios)							
Statements of Income Data:							
Net sales	\$ 1,345,639	\$ 1,515,187	\$ 1,062,672	\$ 815,113	\$ 1,110,237	\$ 1,007,918	\$ 942,752
Cost of goods sold	1,046,187	1,143,408	845,952	640,331	871,727	775,388	721,417
Acquisition-related cost			13,400				
Gross profit	299,452	371,779	203,320	174,782	238,510	232,530	221,335
Selling, general and administrative expenses	147,182	179,037	106,078	85,026	117,226	111,676	98,915
Research and development (R&D) expenses	33,766	39,760	18,768	14,133	18,411	16,485	21,919

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Purchased in-process R&D charges		3,000	3,000				
Special items (2)	4,858	10,049	4,858	7,503	10,049	1,550	2,051
Operating profit	113,646	139,933	70,616	68,120	92,824	102,819	98,450
Interest and financing expenses	(23,835)	(32,286)	(9,168)	(4,043)	(5,376)	(5,070)	(5,536)
Other income (expense), net including minority interest	5,992	9,558	(13,532)	594	607	3,358	4,282
Income before income taxes and cumulative effect of a change in accounting principle, net	95,803	117,205	47,916	64,671	88,055	101,107	97,196
Income taxes	26,518	21,867	12,714	7,294	13,890	28,086	29,029
Income before cumulative effect of a change in accounting principle, net	69,285	95,338	35,202	57,377	74,165	73,021	68,167
Cumulative effect of change in accounting principle, net (3)		(2,220)		(2,220)	(2,220)		
Net income (4)	\$ 69,285	\$ 93,118	\$ 35,202	\$ 55,157	\$ 71,945	\$ 73,021	\$ 68,167

S-9

Table of Contents

	Pro Forma		Historical				
	Nine Months		Nine Months		Year Ended		
	Ended	Year Ended	Ended September 30,		December 31,		
	September 30,	December 31,	2004	2003	2003	2002	2001
		(unaudited)	(unaudited)	(unaudited)	(unaudited)	(restated)(1)	
(in thousands, except per share amounts and ratios)							
Basic earnings per share:							
Income before cumulative effect of a change in accounting principle, net	\$ 1.52	\$ 2.11	\$ 0.85	\$ 1.39	\$ 1.79	\$ 1.73	\$ 1.49
Cumulative effect of a change in accounting principle, net (3)		(0.05)		(0.05)	(0.05)		
Net income	\$ 1.52	\$ 2.06	\$ 0.85	\$ 1.34	\$ 1.74	\$ 1.73	\$ 1.49
Diluted earnings per share:							
Income before cumulative effect of a change in accounting principle, net	\$ 1.50	\$ 2.07	\$ 0.83	\$ 1.36	\$ 1.76	\$ 1.69	\$ 1.47
Cumulative effect of a change in accounting principle, net (3)		(0.05)		(0.05)	(0.05)		
Net income (4)	\$ 1.50	\$ 2.02	\$ 0.83	\$ 1.31	\$ 1.71	\$ 1.69	\$ 1.47
Other Financial Data:							
Net cash provided from operating activities			\$ 131,217	\$ 107,787	\$ 150,098	\$ 144,771	\$ 143,864
Depreciation and amortization	\$ 88,986	\$ 116,727	69,288	61,765	84,014	80,603	77,610
Capital expenditures	48,834	58,928	37,602	30,307	41,058	38,382	49,903
Ratio of earnings to fixed charges (5)	4.0x	3.8x	4.6x	N/A	9.2x	11.1x	10.1x
Balance Sheet Data (as of end of period):							
Cash and cash equivalents			\$ 60,817	\$ 34,984	\$ 35,173	\$ 47,784	\$ 30,585
Working capital			(77,025)	265,178	271,298	256,481	79,824
Total assets			2,429,140	1,343,153	1,387,291	1,200,398	1,138,272
Total debt			953,266	240,660	228,579	190,628	170,215
Total liabilities			1,765,537	732,120	751,070	626,061	538,649(1)
Shareholders' equity			663,603	611,033	636,221	574,337	599,623(1)
Non-GAAP Financial Data:							
EBITDA (6)	\$ 208,624	\$ 266,218	\$ 126,372	\$ 130,479	\$ 177,445	\$ 186,780	\$ 180,342

- (1) We restated our financial statements for the year ended December 31, 2002 to move the recognition of revenue of a fourth quarter 2002 transaction from December 31, 2002 results to the first quarter and second quarter of 2003. In addition, the December 31, 2002 and prior years' consolidated balance sheets and statements of changes in shareholders' equity were restated to reflect an increase in additional paid-in capital and a decrease in deferred income tax liability. The results for the year ended December 31, 2002 and prior years included above reflect the restatement. For more information on the restatement, see our consolidated financial statements and related notes included elsewhere in this prospectus supplement and the discussion of the restatement included in our Annual Report on Form 10-K incorporated by reference in this prospectus supplement.
- (2) We reported a \$550 pre-tax charge for the nine months ended September 30, 2004 related to the shutdown of our zeolite plant in Pasadena, Texas. For the year ended December 31, 2003, we incurred a \$7,503 pre-tax charge associated with a voluntary severance program. Additionally, for the year ended December 31, 2003, we recorded a one-time charge of \$2,546 for real estate held for sale. For the years ended December 31, 2002 and 2001, we recorded \$1,550 and \$2,051, respectively, in special charges related to work force reduction programs at certain of our facilities.
- (3) On January 1, 2003, we implemented SFAS No. 143 Accounting for Asset Retirement Obligations, which addressed financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The cumulative effect of the change in accounting principle resulting from the implementation of this standard was \$2,220.
- (4) The following significant non-recurring income and expense items have been included in the Albemarle pro forma statements of income presented:

Edgar Filing: ALBEMARLE CORP - Form S-3/A

	Year Ended December 31, 2003		Nine Months Ended September 30, 2004	
	Pre-tax	After- tax	Pre-tax	After- tax
	(unaudited)			
	(in thousands)			
Albemarle reported special items impacting operating profit	\$ 10,049	\$ 6,402	\$ 4,858	\$ 3,095
Albemarle income tax refunds and related interest	(4,308)	(13,816)		
Refinery catalysts business provisions liability additions/reversals activity, net	(44)	(28)	(444)	(282)
Refinery catalysts business foreign exchange hedging gains and losses	(6,459)	(4,102)	(1,728)	(1,097)
Insurance settlement gain			(6,945)	(4,424)
Valuation reserve on claim receivable			3,396	2,163

S-10

Table of Contents

- (5) For purposes of computing the ratios of earnings to fixed charges, earnings consist of pre-tax income from continuing operations before adjustment for minority interests in consolidated subsidiaries or income or loss from equity investees plus fixed charges and amortization of capitalized interest less interest capitalized and minority interest in pre-tax income of subsidiaries that have not incurred fixed charges. Fixed charges consist of interest expense (before capitalized interest) and a portion of rental expense that we believe to be representative of interest.
- (6) EBITDA, which represents earnings before depreciation and amortization, interest and financing expense, income taxes and cumulative effect of a change in accounting principle, net, is a supplemental measure of performance that is not required by, or presented in accordance with, U.S. GAAP. We present EBITDA because we consider it an important supplemental measure of our operations and financial performance. Our management believes EBITDA is more reflective of our operations as it provides transparency to investors and enhances period-to-period comparability of operations and financial performance. EBITDA should not be considered as an alternative to net income determined in accordance with U.S. GAAP. Set forth below is a reconciliation of EBITDA, a non-GAAP financial measure, to net income, the most directly comparable financial measure calculated and reported in accordance with U.S. GAAP. Our calculation of EBITDA may not be comparable to the calculation of similarly titled measures reported by other companies.

	Pro Forma		Historical				
	Nine Months	Year Ended	Nine Months		Year Ended		
	Ended September 30,	December 31,	Ended September 30,		December 31,		
	2004	2003	2004	2003	2003	2002	2001
	(unaudited)	(unaudited)	(unaudited)	(unaudited)			
	(in thousands)						
Net income	\$ 69,285	\$ 93,118	\$ 35,202	\$ 55,157	\$ 71,945	\$ 73,021	\$ 68,167
Add:							
Depreciation and amortization	88,986	116,727	69,288	61,765	84,014	80,603	77,610
Interest and financing expense	23,835	32,286	9,168	4,043	5,376	5,070	5,536
Income taxes	26,518	21,867	12,714	7,294	13,890	28,086	29,029
Cumulative effect of a change in accounting principle, net		2,220		2,220	2,220		
EBITDA	\$ 208,624	\$ 266,218	\$ 126,372	\$ 130,479	\$ 177,445	\$ 186,780	\$ 180,342

Table of Contents**Summary Historical Combined Financial Information of Akzo Nobel's Refinery Catalysts Business**

The following table sets forth summary historical combined financial information of Akzo Nobel's refinery catalysts business, which we acquired on July 31, 2004, as of and for the three years ended December 31, 2003, 2002 and 2001, which have been derived from the audited combined financial statements of the refinery catalysts business, and as of and for the six months ended June 30, 2004 and 2003, which have been derived from the unaudited combined financial statements of the refinery catalysts business. In the opinion of management, the unaudited combined financial statements have been prepared on the same basis as the audited financial statements and include all adjustments necessary for a fair presentation of the information set forth therein. Interim results are not necessarily indicative of full year results.

The historical combined financial statements of Akzo Nobel's refinery catalysts business contained in this prospectus supplement were prepared in accordance with accounting principles generally accepted in the Netherlands, or Dutch GAAP. There are significant differences between Dutch GAAP and U.S. GAAP. See footnote 23 of the historical combined financial statements Akzo Nobel's refinery catalysts business contained elsewhere in this prospectus supplement for additional information regarding the differences between Dutch GAAP and U.S. GAAP as they relate to such financial statements and for a reconciliation of net income and divisional equity from Dutch GAAP to U.S. GAAP.

You should read the information in this table together with Management's Discussion and Analysis of Financial Condition and Results of Operations of Akzo Nobel's Refinery Catalysts Business and the historical combined financial statements of the refinery catalysts business and related notes contained elsewhere in this prospectus supplement.

	Six Months			Year Ended			
	Ended June 30,			December 31,			
	2004(1)	2004	2003	2003(1)	2003	2002	2001
	(unaudited)	(unaudited)	(unaudited)	(unaudited)			
	(in thousands)						
Dutch GAAP:							
Statements of Income Data:							
Net sales	\$ 234,222	192,316	179,118	\$ 423,314	347,577	378,831	365,438
Cost of sales	172,044	141,263	120,780	292,045	239,794	262,281	284,932
Gross profit	62,178	51,053	58,338	131,269	107,783	116,550	80,506
Selling, general and administrative expenses	29,611	24,313	22,954	58,651	48,157	52,653	47,322
Research and development expenses	13,648	11,206	9,797	25,271	20,750	21,218	19,890
Operating income	18,919	15,534	25,587	47,347	38,876	42,679	13,294
Other income (expense), net	4,068	3,340	2,861	8,351	6,857	4,017	2,551
Interest expense, net	(1,127)	(925)	(1,889)	(4,264)	(3,501)	(5,499)	(9,847)
Income before income taxes and equity results from associated companies	21,860	17,949	26,559	51,434	42,232	41,197	5,998
Income taxes	7,674	6,301	9,524	18,522	15,208	15,433	1,663
Equity results from associated companies	6,085	4,996	5,419	10,596	8,700	9,068	9,366
Net income	\$ 20,271	16,644	22,454	\$ 43,508	35,724	34,832	13,701
Other Financial Data:							

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Net cash provided (used) by operations	\$ (7,512)	(6,168)	27,159	\$ 50,058	41,102	62,320	29,314
Depreciation and amortization	16,621	13,647	14,758	35,907	29,483	32,254	33,419
Capital expenditures	(8,941)	(7,341)	(6,036)	(19,243)	(15,800)	(22,667)	(16,226)
U.S. GAAP:							
Net income	\$ 19,667	16,148	21,164	\$ 41,348	33,950	37,830	N/A
Divisional equity	285,529	234,444	N/A	247,992	203,623	220,241	N/A
Non-GAAP Financial Data:							
EBITDA (2)	\$ 45,693	37,517	48,625	\$ 102,201	83,916	88,018	58,630

- (1) We converted the amounts in this column from euros into U.S. dollars solely for your convenience at an exchange rate of \$1.2179 = 1.00, the noon buying rate for euros on June 30, 2004. Please note that these convenience translations are not Dutch GAAP or U.S. GAAP and, accordingly, these translated U.S. dollar amounts have not been audited. These translations should not be construed as a representation that the euro amounts represent, or have been or could be converted into, U.S. dollars at that or any other rate. These convenience translations have been made at a rate different from the rates used in the preparation of the Unaudited Pro Forma Combined Financial Information.

Table of Contents

(2) EBITDA, which represents earnings before depreciation and amortization, interest expense, net and income taxes is a supplemental measure of performance that is not required by, or presented in accordance with, U.S. GAAP or Dutch GAAP. We present EBITDA because we consider it an important supplemental measure of our operations and financial performance. Our management believes EBITDA is more reflective of our operations as it provides transparency to investors and enhances period-to-period comparability of operations and financial performance. EBITDA should not be considered as an alternative to net income determined in accordance with U.S. GAAP or Dutch GAAP. Set forth below is a reconciliation of EBITDA, a non-GAAP financial measure, to net income, the most directly comparable financial measure calculated and reported in accordance with U.S. GAAP or Dutch GAAP. Our calculation of EBITDA may not be comparable to the calculation of similarly titled measures reported by other companies.

	Six Months			Year Ended			
	Ended June 30,			December 31,			
	2004(A)	2004	2003	2003(A)	2003	2002	2001
	(unaudited)	(unaudited)	(unaudited)	(unaudited)			
	(in thousands)						
Net income	\$ 20,271	16,644	22,454	\$ 43,508	35,724	34,832	13,701
Add:							
Depreciation and amortization	16,621	13,647	14,758	35,907	29,483	32,254	33,419
Interest expense, net	1,127	925	1,889	4,264	3,501	5,499	9,847
Income taxes	7,674	6,301	9,524	18,522	15,208	15,433	1,663
EBITDA	\$ 45,693	37,517	48,625	\$ 102,201	83,916	88,018	58,630

(A) We converted the amounts in this column from euros into U.S. dollars solely for your convenience at an exchange rate of \$1.2179 = 1.00, the noon buying rate for euros on June 30, 2004. Please note that these convenience translations are not Dutch GAAP or U.S. GAAP and, accordingly, these translated U.S. dollar amounts have not been audited. These translations should not be construed as a representation that the euro amounts represent, or have been or could be converted into, U.S. dollars at that or any other rate. These convenience translations have been made at a rate different from the rates used in the preparation of the Unaudited Pro Forma Combined Financial Information.

Table of Contents

RISK FACTORS

An investment in the notes involves risks. You should consider carefully the following risks in addition to the other information contained in this prospectus supplement and the accompanying prospectus, including the documents incorporated by reference, before deciding to purchase any of the notes.

Risks Related to Our Business

Our inability to pass through increases in costs and expenses for raw materials and energy, on a timely basis or at all, could have a material adverse effect on the margins of our products.

In 2003, our raw material and energy costs increased approximately 8% and approximately 25%, respectively, compared to 2002. Raw material costs and energy costs have continued to increase significantly in 2004. The increases are primarily driven by significantly tighter market conditions and major increases in pricing of basic building blocks for our products such as crude oil, chlorine and metals, including molybdenum, which is used in the refinery catalysts business. In 2003, management estimates that molybdenum represented approximately 10% of the cost of goods sold in the refinery catalysts business and from January 1, 2004 until November 30, 2004, the price of molybdenum increased from approximately \$8 to approximately \$28 per pound. We generally attempt to pass changes in the prices of raw materials and energy to our customers, but we may be unable to or be delayed in doing so. Our inability to pass through price increases or any limitation or delay in our passing through price increases could adversely affect our margins.

In addition to raising prices, raw material suppliers may extend lead times or limit supplies. For example, in the aftermath of Hurricane Ivan, certain chlorine producers took actions that limited supplies of chlorine. Constraints on the supply or delivery of critical raw materials could disrupt production and adversely affect the performance of our business.

We face intense competition from other specialty chemical companies, which places downward pressure on the prices and margins of our products.

We operate in a highly competitive marketplace, competing against a number of domestic and foreign specialty chemical producers. Competition is based on several key criteria, including product performance and quality, product price, product availability and security of supply, responsiveness of product development in cooperation with customers and customer service. Some of our competitors are larger than we are and have greater financial resources. These competitors may also be able to maintain significantly greater operating and financial flexibility than we do. As a result, these competitors may be better able to withstand changes in conditions within our industry, changes in the prices of raw materials and energy and in general economic conditions. Additionally, competitors' pricing decisions could compel us to decrease our prices, which could affect our margins and profitability adversely. Our ability to maintain or increase our profitability is, and will continue to be, dependent upon our ability to offset decreases in the prices and margins of our products by improving production efficiency and volume, shifting to higher margin chemical products and improving existing products through innovation and research and development. If we are unable to do so or to otherwise maintain our competitive position, we could lose market share to our competitors.

Downturns in our customers' cyclical industries could adversely affect our sales and profitability.

Downturns in the businesses that use our specialty chemicals will adversely affect our sales. Many of our customers are in industries, including the electronics, building and construction, and automotive industries, that are cyclical in nature and sensitive to changes in general economic conditions. Historically, downturns in general economic conditions have resulted in diminished product demand, excess manufacturing capacity and lower average selling prices, and we may experience similar problems in the future. A decline in economic conditions in our customers cyclical industries may have a material adverse effect on our sales and profitability.

S-14

Table of Contents

Our results are subject to fluctuation because of irregularities in the demand for our HPC catalysts and certain of our agrichemicals.

Our HPC catalysts are used by petroleum refiners in their processing units to reduce the quantity of sulfur and other impurities in petroleum products. The effectiveness of HPC catalysts diminishes with use, requiring the HPC catalysts to be replaced, on average, once every one to three years. The sales of our HPC catalysts, therefore, are largely dependent on the useful life cycle of the HPC catalysts in the processing units. Sales of our agrichemicals are also subject to fluctuation as demand varies depending on environmental conditions, such as droughts, which may prevent farming for extended periods.

Changes in our customers' products can reduce the demand for our specialty chemicals.

Our specialty chemicals are used for a broad range of applications by our customers. Changes in our customers' products or processes may enable our customers to reduce consumption of the specialty chemicals that we produce or make our specialty chemicals unnecessary. Customers may also find alternative materials or processes that no longer require our products. For example, many of our flame retardants are incorporated into resin systems to enhance the flame retardancy of a particular polymer. Should a customer decide to use a different polymer due to price, performance or other considerations, we may not be able to supply a product that meets the customer's new requirements. Consequently, it is important that we develop or acquire new products to replace the sales of products that mature and decline in use. Our business, results of operations, cash flows and margins could be materially adversely affected if we are unable to manage successfully the maturation of our existing products and the introduction of new products.

Our research and development efforts may not succeed and our competitors may develop more effective or successful products.

The specialty chemicals industry is subject to periodic technological change and ongoing product improvements. In order to maintain our margins and remain competitive, we must successfully develop, manufacture and market new or improved products. As a result, we must commit substantial resources each year to research and development. Ongoing investments in research and development for future products could result in higher costs without a proportional increase in revenues. Additionally, for any new product program, there is a risk of technical or market failure in which case we may not be able to develop the new commercial products needed to maintain our competitive position or we may need to commit additional resources to new product development programs. Moreover, new products may have lower margins than the products they replace.

We also expect competition to increase as our competitors develop and introduce new and enhanced products. For example, the Fine Chemicals segment is experiencing increased competition from large-scale producers of pharmaceuticals, particularly from Asian sources. In our Catalysts segment, our petroleum refinery customers are processing crude oil feedstocks of declining quality, while at the same time operating under increasingly stringent regulations requiring the gasoline, diesel and other fuels they produce to contain fewer impurities, including sulfur. As a result, our petroleum refining customers are demanding more effective and efficient catalyst products, and the average life cycle for new catalyst products has declined. As new products enter the market, our products may become obsolete or competitors' products may be marketed more effectively than our products. If we fail to develop new products, maintain or improve our margins with our new products or keep pace with technological developments, our business, financial condition, results of operations and cash flows will suffer.

Our inability to protect our intellectual property rights could have a material adverse effect on our business, financial condition and results of operations.

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Protection of our proprietary processes, methods and compounds and other technology is important to our business. We generally rely on patent, trade secret, trademark and copyright laws of the United States and certain other countries in which our products are produced or sold, as well as licenses and nondisclosure and confidentiality agreements, to protect our intellectual property rights. The patent, trade secret, trademark and

S-15

Table of Contents

copyright laws of some countries may not protect our intellectual property rights to the same extent as the laws of the United States. Failure to protect our intellectual property rights may result in the loss of valuable proprietary technologies. Additionally, some of our technologies are not covered by any patent or patent application and, even if a patent application has been filed, it may not result in an issued patent. If patents are issued to us, those patents may not provide meaningful protection against competitors or against competitive technologies. We cannot assure you that our intellectual property rights will not be challenged, invalidated, circumvented or rendered unenforceable.

We could face patent infringement claims from our competitors or others alleging that our processes or products infringe on their proprietary technologies. If we are found to be infringing on the proprietary technology of others, we may be liable for damages, and we may be required to change our processes, to redesign our products partially or completely, to pay to use the technology of others or to stop using certain technologies or producing the infringing product entirely. Even if we ultimately prevail in an infringement suit, the existence of the suit could prompt customers to switch to products that are not the subject of infringement suits. We may not prevail in any intellectual property litigation and such litigation may result in significant legal costs or otherwise impede our ability to produce and distribute key products.

We also rely upon unpatented proprietary manufacturing expertise, continuing technological innovation and other trade secrets to develop and maintain our competitive position. While we generally enter into confidentiality agreements with our employees and third parties to protect our intellectual property, we cannot assure you that our confidentiality agreements will not be breached, that they will provide meaningful protection for our trade secrets and proprietary manufacturing expertise or that adequate remedies will be available in the event of an unauthorized use or disclosure of our trade secrets or manufacturing expertise.

Our substantial international operations subject us to risks of doing business in foreign countries, which could adversely affect our business, financial condition and results of operations.

We conduct a substantial portion of our business outside of the United States. We and our joint ventures currently have 25 production facilities, research and development facilities, and administrative and sales offices located outside the United States, including facilities and offices located in Austria, Belgium, Brazil, France, Germany, Italy, Japan, Jordan, the Netherlands, the People's Republic of China, Saudi Arabia and the United Kingdom. In 2003, more than half of our pro forma net sales were to markets outside the United States. We expect sales from international markets to continue to represent a significant portion of our net sales and the net sales of our joint ventures. Accordingly, our business is subject to risks related to the differing legal, political, social and regulatory requirements and economic conditions of many jurisdictions. Risks inherent in international operations include the following:

agreements may be difficult to enforce and receivables difficult to collect;

foreign customers may have longer payment cycles;

foreign countries may impose additional withholding taxes or otherwise tax our foreign income, or adopt other restrictions on foreign trade or investment, including currency exchange controls;

foreign operations may experience staffing difficulties and labor disputes;

transportation and other shipping costs may increase;

Edgar Filing: ALBEMARLE CORP - Form S-3/A

foreign governments may nationalize private enterprises;

unexpected adverse changes in export duties, quotas and tariffs and difficulties in obtaining export licenses;

intellectual property rights may be more difficult to enforce;

fluctuations in exchange rates may affect product demand and may adversely affect the profitability in U.S. dollars of products and services we provide in international markets where payment for our products and services is made in the local currency;

S-16

Table of Contents

general economic conditions in the countries in which we operate could have an adverse effect on our earnings from operations in those countries;

our business and profitability in a particular country could be affected by political or economic repercussions on a domestic, country specific or global level from terrorist activities and the response to such activities;

unexpected adverse changes in foreign laws or regulatory requirements may occur; and

compliance with a variety of foreign laws and regulations may be burdensome.

In addition, certain of our joint ventures operate in high-risk regions of the world such as the Middle East and South America. Unanticipated events, such as geopolitical changes, could result in a write-down of our investment in the effected joint venture. Our success as a global business will depend, in part, upon our ability to succeed in differing legal, regulatory, economic, social and political conditions by developing, implementing and maintaining policies and strategies that are effective in each location where we and our joint ventures do business.

We are exposed to fluctuations in foreign exchange rates, which may adversely affect our operating results and net income.

We conduct our business and incur costs in the local currency of most of the countries in which we operate. The financial condition and results of operations of each foreign operating subsidiary and joint venture are reported in the relevant local currency and then translated to U.S. dollars at the applicable currency exchange rate for inclusion in our consolidated financial statements. Changes in exchange rates between these foreign currencies and the U.S. dollar will affect the recorded levels of our assets and liabilities as foreign assets and liabilities that are translated into U.S. dollars for presentation in our financial statements as well as our net sales, cost of goods sold and operating margins and could result in exchange losses. The main foreign currencies for which we have exchange rate fluctuation exposure are the European Union euro, Japanese yen and British pound sterling. Exchange rates between these currencies and the U.S. dollar in recent years have fluctuated significantly and may do so in the future. Significant changes in these foreign currencies relative to the U.S. dollar could also have an adverse effect on our ability to meet interest and principal payments on any foreign currency-denominated debt outstanding. In addition to currency translation risks, we incur currency transaction risks whenever one of our operating subsidiaries or joint ventures enters into either a purchase or a sales transaction using a different currency from the currency in which it receives revenues. Our operating results and net income may be affected by any volatility in currency exchange rates and our ability to manage effectively our currency transaction and translation risks.

We incur substantial costs in order to comply with extensive environmental, health and safety laws and regulations.

In the jurisdictions in which we operate, we are subject to numerous federal, state and local environmental, health and safety laws and regulations, including those governing the discharge of pollutants into the air and water, the management and disposal of hazardous substances and wastes and the cleanup of contaminated properties. Ongoing compliance with such laws and regulations is an important consideration for us and we incur substantial capital and operating costs in our compliance efforts. Environmental laws have become increasingly strict in recent years. We expect this trend to continue and anticipate that compliance will continue to require increased capital expenditures and operating costs.

Violations of environmental, health and safety laws and regulations may subject us to fines, penalties and other liabilities and may require us to change certain business practices.

If we violate environmental, health and safety laws or regulations, in addition to being required to correct such violations, we can be held liable in administrative, civil or criminal proceedings for substantial fines and other sanctions could be imposed that could disrupt or limit our operations. Liabilities associated with the

S-17

Table of Contents

investigation and cleanup of hazardous substances, as well as personal injury, property damages or natural resource damages arising out of such hazardous substances, may be imposed in many situations without regard to violations of laws or regulations or other fault, and may also be imposed jointly and severally (so that a responsible party may be held liable for more than its share of the losses involved, or even the entire loss). Such liabilities may also be imposed on many different entities with a relationship to the hazardous substances at issue, including, for example, entities that formerly owned or operated the property affected and entities that arranged for the disposal of the hazardous substances at the affected property, as well as entities that currently own or operate such property. Such liabilities can be difficult to identify and the extent of any such liabilities can be difficult to predict. We use, and in the past have used, hazardous substances at many of our facilities, and we have in the past, and may in the future, be subject to claims relating to exposure to hazardous materials and the associated liabilities may be material. We also have generated, and continue to generate, hazardous wastes at a number of our facilities. Some of our facilities also have lengthy histories of manufacturing or other activities that have resulted in site contamination. We have also given contractual indemnities for environmental conditions relating to facilities we no longer own or operate. The nature of our business, including historical operations at our current and former facilities, exposes us to risks of liability under these laws and regulations due to the production, storage, use, transportation and sale of materials that can cause contamination or personal injury if released into the environment. Additional information may arise in the future concerning the nature or extent of our liability with respect to identified sites, and additional sites may be identified for which we are alleged to be liable, that could cause us to materially increase our environmental accrual or the upper range of the costs we believe we could reasonably incur for such matters.

Contractual indemnities may be ineffective in protecting us from environmental liabilities.

At several of our properties where hazardous substances are known to exist (including some sites where hazardous substances are being investigated or remediated), we believe we are entitled to contractual indemnification from one or more former owners or operators; however, in the event we make a claim, the indemnifier may disagree with us. We recently commenced an arbitration proceeding against Aventis S.A. concerning its obligations with respect to contamination at our Thann, France facility after Aventis refused to accept our demands for indemnification under the contract pursuant to which we acquired the facility. If those who currently or in the future disagree with us about the scope of their indemnity obligations prevail in their interpretation, our accrual and/or our costs for the investigation and cleanup of hazardous substances could increase materially.

Concern about the impact of some of our products on human health or the environment may lead to regulation, or reaction in our markets independent of regulation, that could reduce or eliminate markets for such products.

We manufacture a number of products that are or have been the subject of attention by regulatory authorities and environmental interest groups. For example, for many years we have produced methyl bromide, a chemical that is particularly effective as a soil fumigant. In recent years, the market for methyl bromide has changed significantly, driven by the Montreal Protocol of 1991 and related regulation prompted by findings regarding the chemical's potential to deplete the ozone layer. The current regulations contemplate completion of the phase-out of methyl bromide as a fumigant in 2005, although certain aspects of the phase-out have been delayed under implementing regulations that permit the use of methyl bromide on a year-to-year basis until a feasible alternative is available.

In addition, there has been increased scrutiny by regulatory authorities and environmental interest groups of polybrominated diphenylethers, or PBDEs, which are used as flame retardants, in light of concerns about their potential impacts on human health and the environment. We manufacture decabrom-PDE, a type of PBDE compound. In 2003, our net sales of decabrom-PDE were less than 5% of total net sales. Government regulation, if it occurs or studies evaluating the possibility of regulation, even if governmental regulation does not occur, may result in a decline in our net sales of decabrom-PDE.

Table of Contents

We could be subject to damages based on claims brought against us by our customers or lose customers as a result of the failure of our products to meet certain quality specifications.

Our products provide important performance attributes to our customers' products. If a product fails to perform in a manner consistent with quality specifications or has a shorter useful life than guaranteed, a customer could seek replacement of the product or damages for costs incurred as a result of the product failing to perform as guaranteed. These risks apply to our refinery catalysts in particular because, in certain instances, we sell our refinery catalysts under agreements that contain limited performance and life cycle guarantees. A successful claim or series of claims against us could have a material adverse effect on our financial condition and results of operations and could result in a loss of one or more customers.

Our substantial indebtedness could adversely affect our financial health and limit our ability to react to changes in our industry or to implement our strategic initiatives.

In connection with our recent acquisition of Akzo Nobel's refinery catalysts business, we entered into (1) a new senior credit agreement, consisting of a \$300 million revolving credit facility and a \$450 million five-year term loan facility, and (2) a \$450 million 364-day loan agreement. We used the initial borrowings under the senior credit agreement and the 364-day loan agreement to consummate the acquisition, refinance our then-existing credit agreement and pay fees and expenses in connection therewith. As of September 30, 2004, we had total indebtedness of \$953.3 million and we had also guaranteed \$37.1 million of indebtedness incurred by certain of our joint ventures. As of September 30, 2004, after giving pro forma effect to the completion of this offering and the common stock offering and the application of the net proceeds therefrom as described in "Use of Proceeds" and assuming that we incur additional borrowings under our \$300 million revolving credit facility to retire the remaining amount of indebtedness outstanding under our 364-day loan agreement, we would have had \$807.0 million of indebtedness outstanding, including guarantees of approximately \$465 million of indebtedness incurred by our subsidiaries, all of which would rank *pari passu* with the notes. As of September 30, 2004, we did not have any secured indebtedness. However, the indenture governing the notes described in this prospectus supplement will, subject to certain limitations, permit us to incur secured indebtedness and the notes will be effectively subordinated to any secured indebtedness that we incur to the extent of the value of the assets securing such indebtedness. The notes also will be effectively subordinated to all indebtedness and other liabilities of our subsidiaries. As of September 30, 2004, our subsidiaries had approximately \$935.8 million of liabilities (excluding intercompany liabilities).

Our substantial indebtedness could have important consequences to you. For example, it could:

require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, research and development efforts and other general corporate purposes;

limit our ability to secure additional financing to implement our strategic initiatives;

increase the amount of our interest expense because most of our borrowings are at variable rates of interest, which, if interest rates increase or our credit ratings decline, will result in higher interest expense;

increase our vulnerability to general adverse economic and industry conditions;

limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

place us at a disadvantage compared to our competitors that have proportionately less debt;

restrict us from making strategic acquisitions, introducing new technologies or otherwise exploiting business opportunities;

make it more difficult for us to satisfy our obligations with respect to our existing indebtedness; and

S-19

Table of Contents

limit, along with the financial and other restrictive covenants in our indebtedness, among other things, our ability to borrow additional funds, dispose of assets or pay cash dividends.

In addition, we may be able to incur substantial additional indebtedness in the future. The terms of the senior credit agreement, 364-day loan agreement and the indentures governing the debt securities described in the accompanying prospectus do not prohibit us from incurring substantial additional indebtedness. If new debt is added to our current debt levels, the related risks that we now face could intensify.

We will need a significant amount of cash to service our indebtedness and our ability to generate cash depends on many factors beyond our control.

Our ability to generate sufficient cash flow from operations to make scheduled payments on our debt depends on a range of economic, competitive and business factors, many of which are outside our control. Based on an average interest rate of 2.82% at September 30, 2004 and outstanding borrowings at that date of \$953.3 million, our annual interest expense would be \$26.9 million. Giving pro forma effect to the completion of this offering and the common stock offering and the application of the net proceeds therefrom as described in Use of Proceeds and assuming that we incur additional borrowings under our \$300 million revolving credit facility to retire the remaining amount of indebtedness outstanding under our 364-day loan agreement and assuming an interest rate of 5.50% for the notes and 2.80% for borrowings of \$462.5 million under our senior credit agreement (the pro forma amount outstanding at September 30, 2004), our annualized interest expense would be \$29.5 million. A change of 0.125% in the interest rate applicable to the notes would change our annualized interest expense by \$0.4 million and a change of 0.125% in the interest rate applicable to such borrowings under our senior credit agreement would change our annualized interest expense by \$0.6 million. Our business may not generate sufficient cash flow from operations to service our debt obligations, particularly if currently anticipated cost savings and operating improvements are not realized on schedule or at all. If we are unable to service our debt obligations, we may need to refinance all or a portion of our indebtedness on or before maturity, reduce or delay capital expenditures, sell assets or raise additional equity. We may not be able to refinance any of our indebtedness, sell assets or raise additional equity on commercially reasonable terms or at all, which could cause us to default on our obligations and impair our liquidity. Our inability to generate sufficient cash flow to satisfy our debt obligations, or to refinance our obligations on commercially reasonable terms, could have a material adverse effect on our business and financial condition.

Restrictive covenants in our debt instruments may adversely affect our business.

Our senior credit agreement and 364-day loan agreement contain restrictive covenants. These covenants will constrain our activities and limit our operational and financial flexibility. The failure to comply with the covenants in the senior credit agreement, the 364-day loan agreement and the agreements governing other indebtedness, including indebtedness incurred in the future, could result in an event of default, which, if not cured or waived, could have a material adverse effect on our business, financial condition and results of operations.

A downgrading of the ratings on our debt or an increase in interest rates will cause our debt service obligations to increase.

Borrowings under our senior credit agreement and 364-day loan agreement bear interest at floating rates. The rates are subject to adjustment based on the ratings of our senior unsecured long-term debt by Standard & Poor's Ratings Services, or S&P, and Moody's Investors Services, or Moody's. S&P has rated our senior unsecured long-term debt as BBB- and Moody's has rated our senior unsecured long-term debt as Baa3. S&P and/or Moody's may, in the future, downgrade our ratings. The downgrading of our ratings or an increase in benchmark interest rates would result in an increase of our interest expense on borrowings under our senior credit agreement and 364-day loan agreement. In addition, the downgrading of our ratings could adversely affect our future ability to obtain funding or materially increase the cost of any additional funding. Any downgrading of our ratings would also have an adverse effect on the trading prices for the notes.

Table of Contents

Our business is subject to hazards common to chemical businesses, any of which could interrupt our production and adversely affect our results of operations.

Our business is subject to hazards common to chemical manufacturing, storage, handling and transportation, including explosions, fires, inclement weather, natural disasters, mechanical failure, unscheduled downtime, transportation interruptions, remediation, chemical spills, discharges or releases of toxic or hazardous substances or gases and other risks. These hazards can cause personal injury and loss of life, severe damage to, or destruction of, property and equipment and environmental contamination. In addition, the occurrence of material operating problems at our facilities due to any of these hazards may diminish our ability to meet our output goals. Accordingly, these hazards, and their consequences could have a material adverse effect on our operations as a whole, including our results of operations and cash flows, both during and after the period of operational difficulties.

The insurance that we maintain may not fully cover all potential exposures.

We maintain property, business interruption and casualty insurance but such insurance may not cover all risks associated with the hazards of our business and is subject to limitations, including deductibles and maximum liabilities covered. We may incur losses beyond the limits, or outside the coverage, of our insurance policies, including liabilities for environmental remediation. In addition, from time to time, various types of insurance for companies in the specialty chemical industry have not been available on commercially acceptable terms or, in some cases, have not been available at all. In the future, we may not be able to obtain coverage at current levels, and our premiums may increase significantly on coverage that we maintain.

We may not be able to consummate future acquisitions or successfully integrate the refinery catalysts business of Akzo Nobel or future acquisitions into our business, which could result in unanticipated expenses and losses.

As part of our business growth strategy, we have acquired businesses and entered into joint ventures in the past and intend to pursue acquisitions and joint venture opportunities in the future. Our ability to implement this component of our growth strategy will be limited by our ability to identify appropriate acquisition or joint venture candidates and our financial resources, including available cash and borrowing capacity. The expense incurred in consummating acquisitions or entering into joint ventures, the time it takes to integrate an acquisition or our failure to integrate businesses successfully, could result in unanticipated expenses and losses. Furthermore, we may not be able to realize any of the anticipated benefits from acquisitions or joint ventures.

As described under **Business Acquisition of Refinery Catalysts Business**, we acquired the refinery catalysts business of Akzo Nobel on July 31, 2004. This acquisition is the largest in our history and successful integration of this business is important to our future.

The process of integrating acquired operations into our existing operations may result in unforeseen operating difficulties and may require significant financial resources that would otherwise be available for the ongoing development or expansion of existing operations. Some of the risks associated with the integration of acquisitions include:

potential disruption of our ongoing business and distraction of management;

Edgar Filing: ALBEMARLE CORP - Form S-3/A

unforeseen claims and liabilities, including unexpected environmental exposures;

unforeseen adjustments, charges and write-offs;

problems enforcing the indemnification obligations of sellers of businesses or joint venture partners for claims and liabilities;

unexpected losses of customers of, or suppliers to, the acquired business;

difficulty in conforming the acquired business standards, processes, procedures and controls with our operations;

S-21

Table of Contents

variability in financial information arising from the implementation of purchase price accounting;

inability to coordinate new product and process development;

loss of senior managers and other critical personnel and problems with new labor unions; and

challenges arising from the increased scope, geographic diversity and complexity of our operations.

The financial statements for the refinery catalysts business are derived from the accounting records of Akzo Nobel and may not be an accurate reflection of the financial condition or performance of the refinery catalysts business as a separate stand-alone company.

The financial information for the refinery catalysts business that we acquired from Akzo Nobel included in this prospectus supplement is derived from Akzo Nobel's accounting records and is presented on a carve-out basis of the historical operations applicable to the refinery catalysts business as operated by Akzo Nobel. This financial information reflects the assets, liabilities, revenues and expenses that were directly related to the refinery catalyst business as it was operated by Akzo Nobel, including certain dormant assets that we did not acquire. Additionally, this financial information includes allocations for various expenses, including corporate administrative and indirect expenses, as well as certain assets and liabilities historically maintained by Akzo Nobel and not recorded in the accounts of the refinery catalysts business. This financial information does not necessarily reflect what the results of operations, financial position and cash flows would have been if the refinery catalysts business had been operated as a separate stand-alone company during the periods presented or what our results of operations, financial position or cash flows would have been had we operated this business during the periods presented or what they will be in the future.

We may be unable to satisfactorily complete the evaluations and obtain the attestations required with respect to our internal controls over financial reporting.

We have invested significant resources to document and analyze our system of internal controls over financial reporting, and we are continuing our evaluation of such internal controls versus the standards adopted by the Public Company Accounting Oversight Board. In the course of our ongoing evaluation, we have identified certain areas of our internal controls requiring improvement, and are in the process of designing enhanced processes and controls to address issues identified through this review. We believe that our efforts will allow management and our independent registered public accounting firm to complete the procedures, certification and attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002 in connection with our Annual Report for the fiscal year ended December 31, 2004; however, we cannot guarantee such outcome. In the event that we are unable to complete the evaluation of our internal controls or our independent registered public accounting firm is unable to deliver an attestation, our Annual Report on Form 10-K would be defective and we may be subject to sanctions and may lose the ability to use registration statements on Form S-3.

We are not required to assess the effectiveness of the internal controls over financial reporting of the refinery catalysts business until 2005.

Section 404 of the Sarbanes-Oxley Act of 2002 and the rules of the SEC promulgated thereunder require issuer annual reports to contain a report of management's assessment of the effectiveness of internal controls over financial reporting and an attestation of the issuer's independent registered public accounting firm as to that management report. For our company, the first management internal controls report, as well as the first auditor attestation of that report, will be required to be included starting in our Annual Report Form 10-K for the fiscal year ended December 31, 2004. The SEC has clarified that the staff will not object if management's Section 404 report does not cover the internal controls of

Edgar Filing: ALBEMARLE CORP - Form S-3/A

companies or businesses acquired during the fiscal year of the report where it is not possible for management to conduct a timely assessment following the consummation of the acquisition. Based on the staff's position, we intend to exclude the refinery catalysts business from our Section 404 certification for 2004. Therefore, we will not be required to determine the effectiveness of the internal accounting controls for the refinery catalysts business until we complete our assessment for 2005.

S-22

Table of Contents

We may be unable to achieve, or may be delayed in achieving, our cost-reduction goals.

We have put in place workplace initiatives throughout our businesses in an effort to reduce operating expenses and increase organizational efficiency. To achieve these goals, we have reduced our workforce, and we are attempting to streamline and further automate processing, consolidate manufacturing processes and reduce general and administrative expenses. We expect to continue to implement programs intended to achieve cost savings and improve operational results. If we are unable to achieve, or if we meet any unexpected delays in achieving, these goals, our results of operations and cash flows may be adversely affected. Additionally, even if we achieve our operational goals, we may not receive the expected financial benefits of our initiatives, or the costs of implementing these cost-reduction measures, including any related reduction in workforce charges or write-down of assets, could exceed the benefits of these initiatives.

We may incur significant charges in the event we close all or part of a manufacturing plant or facility.

We periodically assess our manufacturing operations in order to manufacture and distribute our products in the most efficient manner. Based on our assessments, we may make capital improvements to modernize certain units, move manufacturing or distribution capabilities from one plant or facility to another plant or facility, discontinue manufacturing or distributing certain products or close all or part of a manufacturing plant or facility. We also have shared services agreements at several of our plants and if such agreements are terminated or revised, we would assess and potentially adjust our manufacturing operations. The closure of all or part of a manufacturing plant or facility could result in future charges which could be significant.

If we are unable to retain key personnel or attract new skilled personnel, it could have an adverse effect on our business.

The unanticipated departure of any key member of our management team could have an adverse effect on our business. In addition, because of the specialized and technical nature of our business, our future performance is dependent on the continued service of, and on our ability to attract and retain, qualified management, scientific, technical, marketing and support personnel. Competition for such personnel is intense, and we may be unable to continue to attract or retain such personnel.

Some of our employees are unionized, represented by workers councils or are employed subject to local laws that are less favorable to employers than the laws of the United States.

As of September 30, 2004, we had approximately 3,700 employees. Approximately 20% of our 2,100 U.S. employees are unionized. Two of our collective bargaining agreements expire in 2005 and one expires in 2007. In addition, a large number of our employees are employed in countries in which employment laws provide greater bargaining or other rights to employees than the laws of the United States. Such employment rights require us to work collaboratively with the legal representatives of the employees to effect any changes to labor arrangements. For example, most of our employees in Europe are represented by workers councils that must approve any changes in conditions of employment, including salaries and benefits and staff changes, and may impede efforts to restructure our workforce. Although we believe that we have a good working relationship with our employees, a strike, work stoppage or slowdown by our employees or significant dispute with our employees could result in a significant disruption of our operations or higher ongoing labor costs.

Our joint ventures may not operate according to their business plans if our partners fail to fulfill their obligations, which may adversely affect our results of operations and may force us to dedicate additional resources to these joint ventures.

We currently participate in a number of joint ventures and may enter into additional joint ventures in the future. The nature of a joint venture requires us to share control with unaffiliated third parties. If our joint venture partners do not fulfill their obligations, the effected joint venture may not be able to operate according to its business plan. In that case, our results of operations may be adversely affected and we may be required to increase the level of our commitment to the joint venture. Also, differences in views among joint venture

S-23

Table of Contents

participants may result in delayed decisions or failures to agree on major issues. If these differences cause the joint ventures to deviate from their business plans, our results of operations could be adversely affected.

Although our pension plans are currently adequately funded, events could occur that would require us to make significant contributions to the plans and reduce the cash available for our business.

We have several defined benefit pension plans around the world, including in the United States, the Netherlands, Germany, Japan and Belgium, covering most of our employees. The U.S. plans represent approximately 80% of the total liabilities of the plans worldwide. We are required to make cash contributions to our pension plans to the extent necessary to comply with minimum funding requirements imposed by the various countries' benefit and tax laws. The amount of any such required contributions will be determined annually based on an actuarial valuation of the plans as performed by the plans' actuaries.

During 2003, we contributed \$11.3 million in cash to our U.S. defined benefit pension plans, of which \$10.0 million was voluntary. With this contribution, our U.S. defined benefit pension plans in aggregate were approximately 128% funded on a U.S. Internal Revenue Service funding basis as of December 31, 2003 and, as a result, there are no minimum required cash contributions to the U.S. pension plans in 2004. However, the actual amount of contributions made subsequent to 2003 will depend upon asset returns, then-current interest rates, and a number of other factors. The amount we may elect or be required to contribute to our pension plans in the future may increase significantly. Specifically, if year-end accumulated obligations exceed assets, we may elect to make a voluntary contribution, over and above the minimum required, in order to avoid additional minimum liability charges to our balance sheet and consequent reductions to shareholders' equity. These contributions could be substantial and would reduce the cash available for our business.

The occurrence or threat of extraordinary events, including domestic and international terrorist attacks, may disrupt our operations and decrease demand for our products.

Chemical-related assets may be at greater risk of future terrorist attacks than other possible targets in the United States and throughout the world. Federal legislation is under consideration that could impose significant new site security requirements specifically on chemical manufacturing facilities which may increase our over-head expenses. New federal regulations have already been adopted to increase the security of the transportation of hazardous chemicals in the United States.

The occurrence of extraordinary events, including future terrorist attacks and the outbreak or escalation of hostilities, cannot be predicted, and their occurrence can be expected to continue to affect negatively the economy in general, and specifically the markets for our products. The resulting damage from a direct attack on our assets or assets used by us could include loss of life and property damage. In addition, available insurance coverage may not be sufficient to cover all of the damage incurred or, if available, may be prohibitively expensive.

Risks Related to The Notes

Because a significant portion of our operations is conducted through our subsidiaries and joint ventures, our ability to service our debt is largely dependent on our receipt of distributions or other payments from our subsidiaries and joint ventures.

Edgar Filing: ALBEMARLE CORP - Form S-3/A

A significant portion of our operations is conducted through our subsidiaries and joint ventures. As a result, our ability to service our debt is largely dependent on the earnings of our subsidiaries and joint ventures and the payment of those earnings to us in the form of dividends, loans or advances and through repayment of loans or advances from us. Payments to us by our subsidiaries and joint ventures will be contingent upon our subsidiaries or joint ventures earnings and other business considerations and may be subject to statutory or contractual restrictions. In addition, there may be significant tax and other legal restrictions on the ability of non-U.S. subsidiaries or joint ventures to remit money to us.

S-24

Table of Contents

The claims of creditors of our subsidiaries and joint ventures will be effectively senior to claims of holders of the notes.

Our subsidiaries and joint ventures are separate and distinct legal entities. To the extent that we do not control our joint ventures, we may not be able to cause our joint ventures to provide us with funds to meet our payment obligations on the notes, whether in the form of dividends, distributions or other payments, even if they are contractually obligated to do so. Our right to receive any assets of any of our subsidiaries or joint ventures upon the insolvency, liquidation or reorganization of any of our subsidiaries or joint ventures, and therefore the right of the holders of the notes to participate in those assets, will be effectively subordinated to the claims of that subsidiary's or joint venture's creditors. In addition, even if we are a creditor of any of our subsidiaries or joint ventures, our rights as a creditor would be subordinate to any security interest in the assets of our subsidiaries and joint ventures and any indebtedness of our subsidiaries or joint ventures senior to that held by us.

The notes will be effectively subordinated to all of our secured debt.

The notes will not be secured by any of our property or assets. Thus, by owning a debt security, holders of the notes offered by this prospectus supplement will be our unsecured creditors. As of September 30, 2004, we did not have any secured indebtedness. However, the indenture governing the notes described in this prospectus supplement will, subject to some limitations, permit us to incur secured indebtedness and the notes will be effectively subordinated to any secured indebtedness we may incur to the extent of the value of the collateral securing such indebtedness. In addition, the notes will be structurally subordinated to the guarantees of certain of our subsidiaries provided in support of our obligations under our senior credit agreement and 364-day loan agreement. The notes will rank equally with all of our other unsecured and unsubordinated debt.

You cannot be sure that an active trading market will develop for the notes, which could make it more difficult for holders of the notes to sell their notes and/or result in a lower price at which holders would be able to sell their notes.

There is currently no established trading market for the notes, and there can be no assurance as to the liquidity of any markets that may develop for the notes, the ability of the holders of the notes to sell their notes or the price at which such holders would be able to sell their notes. If such a market were to exist, the notes could trade at prices that may be lower than the initial market values of the notes depending on many factors, including prevailing interest rates and our business performance. Certain of the underwriters have advised us that they currently intend to make a market in the notes after the consummation of this offering, as permitted by applicable laws and regulations. However, none of the underwriters are obligated to do so, and any market making with respect to the notes may be discontinued at any time without notice. See Underwriting.

The interests of our principal shareholders may conflict with your interests, and they could act in a manner detrimental to you.

As of November 30, 2004, Floyd D. Gottwald, Jr., the Vice Chairman of our board of directors and Chairman of the Executive Committee of our board of directors, and his sons, William M. Gottwald, the Chairman of our board of directors, John D. Gottwald, a member of our board of directors, and James T. Gottwald, beneficially owned approximately 9.1 million shares, or 21.8%, of the outstanding shares of our common stock. John D. Gottwald and certain entities controlled by the Gottwalds are selling 488,420 shares of our common stock in the common stock offering and may sell up to an aggregate of 1,111,580 shares of our common stock in one or more additional offerings under applicable prospectus supplements. Assuming that all of these shares are sold, the Gottwalds will continue to own approximately 7.5 million shares beneficially, or 16.4%, of the outstanding shares of our common stock. By virtue of their stock ownership, the Gottwalds have the power to influence the outcome of matters submitted to shareholders for approval, including the election of directors, the approval of mergers and other business combination transactions and the amendment of our amended and restated articles of incorporation or amended bylaws. The interests of the Gottwalds may not coincide with the interests of our other securityholders, and they could take actions that advance their own interests to the

detriment of our other securityholders.

S-25

Table of Contents

USE OF PROCEEDS

The net proceeds to Albemarle from the sale of the notes in this offering are estimated to be approximately \$297.3 million after deducting the underwriting discount and estimated offering expenses.

We expect to use the net proceeds that we receive from this offering, together with an estimated \$149.0 million of net proceeds from the common stock offering at an assumed public offering price of \$39.16 per share, to retire all or substantially all of the indebtedness that we incurred under our 364-day loan agreement to finance our acquisition of Akzo Nobel's refinery catalysts business. To the extent that the net proceeds from this offering, together with the net proceeds from the common stock offering, are insufficient to retire all of the indebtedness outstanding under our 364-day loan agreement, we intend to incur additional borrowings under our \$300 million revolving credit facility to retire the remaining amount of indebtedness outstanding under our 364-day loan agreement. As of September 30, 2004, we had \$450 million of indebtedness outstanding under our 364-day loan agreement. Our borrowings under the 364-day loan agreement bear interest at floating rates based on an average London interbank offered rate, or LIBOR, for deposits in the relevant currency plus 1.0% and mature on July 28, 2005. As of September 30, 2004, borrowings under the 364-day loan agreement were accruing interest at the rate of 2.69% per annum. The completion of this offering is contingent on the completion of the common stock offering but the common stock offering is not contingent on the completion of this offering.

Affiliates of Banc of America Securities LLC, UBS Securities LLC and Bear, Stearns & Co. Inc. are lenders under our 364-day loan agreement. It is expected that these affiliates will receive a portion of the proceeds from this offering and the common stock offering used to repay all or substantially all of the borrowings outstanding under our 364-day loan agreement.

Table of Contents**CAPITALIZATION**

The table below shows our cash and cash equivalents and capitalization as of September 30, 2004:

on an actual basis;

on a pro forma as adjusted basis to give effect to the sale of the 4,000,000 shares of our common stock in the common stock offering at an assumed public offering price of \$39.16 per share, assuming no exercise of the related over-allotment option, and the application of the net proceeds as described in Use of Proceeds; and

on a pro forma as further adjusted basis also to give effect to the sale of \$300.0 million aggregate principal amount of notes offered by this prospectus supplement at par and the application of the net proceeds therefrom as described in Use of Proceeds.

You should read the information in this table together with Unaudited Pro Forma Combined Financial Information, Selected Historical Consolidated Financial Information of Albemarle, Management's Discussions and Analysis of Financial Condition and Results of Operations of Albemarle and our historical consolidated financial statements and the related notes included elsewhere in this prospectus supplement.

	As of September 30, 2004		
	Actual	As Adjusted for Common Stock Offering	As Further Adjusted for Notes Offering
	(in thousands)		
Cash and cash equivalents	\$ 60,817	\$ 60,817	\$ 60,817
Short-term debt			
364-day loan	\$ 450,000	\$ 300,965	\$
Current maturities of long-term debt	45,047	45,047	45,047
Total short-term debt	495,047	346,012	45,047
Long-term debt			
Senior credit agreement revolving loan facility	20,000	20,000	23,715
Senior credit agreement term loan	393,750	393,750	393,750
New senior notes			300,000
Variable rate bank loans	28,059	28,059	28,059
Industrial revenue bonds	11,000	11,000	11,000
Foreign borrowings	4,545	4,545	4,545
Other debt	865	865	865
Total long-term debt	458,219	458,219	761,934
Total debt	953,266	804,231	806,981
Shareholders' equity			

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Common stock, \$.01 par value (authorized 150,000,000), 41,657,017, 45,657,017 and 45,657,017 issued and outstanding	417	457	457
Additional paid-in capital	9,432	158,427	158,427
Accumulated other comprehensive income	25,197	25,197	25,197
Retained earnings	628,557	628,094	627,171
	<u>663,603</u>	<u>812,175</u>	<u>811,252</u>
Total shareholders equity	663,603	812,175	811,252
Total capitalization	<u>\$ 1,616,869</u>	<u>\$ 1,616,406</u>	<u>\$ 1,618,233</u>

S-27

Table of Contents

UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION

The following unaudited pro forma combined financial statements are based on our historical consolidated financial statements as of and for the year ended December 31, 2003 and the nine months ended September 30, 2004, which are included elsewhere in this prospectus supplement, and the historical combined financial statements of Akzo Nobel's refinery catalysts business, which we acquired on July 31, 2004, as of and for the year ended December 31, 2003, which are included elsewhere in this prospectus supplement, and the seven months ended July 31, 2004, which are not included in this prospectus supplement. The unaudited pro forma combined financial statements should be read in conjunction with our audited consolidated financial statements and related notes for the year ended December 31, 2003, our unaudited condensed consolidated financial statements and related notes for the nine months ended September 30, 2004 and the audited combined financial statements and related notes of the refinery catalysts business for the year ended December 31, 2003, each included elsewhere in this prospectus supplement.

The unaudited pro forma combined financial statements give effect to (1) the acquisition of the refinery catalysts business, (2) the financing of the purchase price through borrowings of approximately \$510 million under our senior credit agreement and of \$450 million under our 364-day loan agreement, including amounts borrowed to refinance approximately \$233 million outstanding under our then-existing credit agreement and to pay related fees and expenses and (3) the completion of this offering and the common stock offering and the application of the net proceeds therefrom as described in Use of Proceeds.

The unaudited pro forma combined financial statements give effect to the above transactions as if they had occurred on January 1, 2003. The acquisition of the refinery catalysts business has been accounted for as a purchase in conformity with Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations. The total cost of the acquisition has been allocated to the preliminary estimates of assets acquired and liabilities assumed based on their respective estimated fair values as of July 31, 2004. The excess of the purchase price over the preliminary fair values of the net assets acquired has been allocated to goodwill. The preliminary allocation of the purchase price is subject to adjustment until it is finalized, which is expected to occur no later than the first quarter of 2005. Accordingly, the final purchase price allocation and the resulting effect on income from operations may differ from the pro forma amounts included in this prospectus supplement. The unaudited pro forma combined financial statements do not give effect to any working capital purchase price adjustment provided for in the sale agreement, the amount of which has not yet been finalized. The unaudited pro forma combined financial statements presented below do not reflect any anticipated operating efficiencies or cost savings from the integration of the refinery catalysts business into our business. The unaudited pro forma combined statements of income do not include the cumulative effect of the change in accounting resulting from our adoption of SFAS No. 143, Accounting for Asset Retirement Obligation, in 2003.

In connection with the acquisition, we incurred during the third quarter of 2004 certain one-time after-tax costs and expenses, including foreign exchange hedging losses of \$10.0 million on contracts entered into for the purpose of hedging the euro-denominated purchase price for the acquired business, additional cost of sales charges of \$8.5 million as a result of inventory write-ups, \$3.0 million as a result of purchased in-process research and development write-offs and unamortized financing costs write-offs of \$0.4 million. These costs and expenses resulted in an aggregate one-time after-tax charge of \$21.9 million, which is included in the unaudited pro forma combined financial statements for the nine months ended September 30, 2004.

The unaudited pro forma combined financial statements reflect pro forma adjustments that are described in the accompanying notes and are based on available information and certain assumptions our management believes are reasonable, but are subject to change. We have made, in the opinion of our management, all adjustments that are necessary to present fairly the unaudited pro forma combined financial information. The unaudited pro forma combined financial statements do not purport to represent what our results of operations or financial position actually would have been had the acquisition and related transactions occurred on the dates indicated or to project our financial position as of any future date or our results of operations for any future period.

Table of Contents**ALBEMARLE CORPORATION****UNAUDITED PRO FORMA COMBINED STATEMENT OF INCOME****For the Year Ended December 31, 2003****(in thousands, except per share data)**

	Albemarle Corporation	Refinery Catalysts U.S. GAAR	Refinery Catalysts Reclassification	Pro Forma Acquisition Adjustments	Albemarle Pro Forma for Acquisition	Pro Forma Common Stock Offering Adjustments	Albemarle Pro Forma for Acquisition and Common Stock Offering	Pro Forma Notes Offering Adjustments	Albemarle Pro Forma for Acquisition, Common Stock Offering and Notes Offering
	(1)	(2)	(3)	(4)	(5)(6)	(7)	Offering	(8)	Offering
Net sales	\$ 1,110,237	\$ 404,950	\$	\$	\$ 1,515,187	\$	\$ 1,515,187	\$	\$ 1,515,187
Cost of goods sold	871,727	278,660	(6,459)A	(520)B	1,143,408		1,143,408		1,143,408
Gross profit	238,510	126,290	6,459	520	371,779		371,779		371,779
Selling, general and administrative expenses	117,226	61,827		(16)C	179,037		179,037		179,037
Research and development (R&D) expenses	18,411	21,365		(16)D	39,760		39,760		39,760
Purchased in-process R&D charges				3,000 E	3,000		3,000		3,000
Special items	10,049				10,049		10,049		10,049
Operating profit	92,824	43,098	6,459	(2,448)	139,933		139,933		139,933
Interest and financing expenses	(5,376)	(3,960)		(21,292)F	(30,628)	5,034 I	(25,594)	(6,692)J	(32,286)
Other income (expense), net including minority interest	607	15,410	(6,459)A	G	9,558		9,558		9,558
Income before income taxes and cumulative effect of a change in accounting principle, net	88,055	54,548		(23,740)	118,863	5,034	123,897	(6,692)	117,205
Income taxes	13,890	16,151		(7,570)H	22,471	1,838	24,309	(2,442)	21,867
Income before cumulative effect of a change in accounting principle, net	\$ 74,165	\$ 38,397	\$	\$ (16,170)	\$ 96,392	\$ 3,196	\$ 99,588	\$ (4,250)	\$ 95,338
Basic earnings per share: Income before cumulative effect of a change in accounting principle, net	\$ 1.79				\$ 2.34		\$ 2.20		\$ 2.11
Diluted earnings per share: Income before cumulative effect of a change in	\$ 1.76				\$ 2.29		\$ 2.16		\$ 2.07

Edgar Filing: ALBEMARLE CORP - Form S-3/A

accounting principle, net				
Weighted average shares outstanding basic	41,255	41,255	45,255	45,255
Weighted average shares outstanding diluted	42,146	42,146	46,146	46,146

S-29

Table of Contents**ALBEMARLE CORPORATION****UNAUDITED PRO FORMA COMBINED STATEMENT OF INCOME****For the Nine Months Ended September 30, 2004****(in thousands, except per share data)**

	Albemarle Corporation	Refinery Catalysts U.S. GAAR	Refinery Catalysts Reclassification	Pro Forma Acquisition Adjustments	Albemarle Pro Forma for Acquisition	Pro Forma Common Stock Offering Adjustments	Albemarle Pro Forma for Acquisition and Common Stock Offering	Pro Forma Notes Offering Adjustments	Albemarle Pro Forma for Acquisition, Common Stock Offering and Notes Offering
	(1)	(2)	(3)	(4)	(5)(6)	(7)	Offering	(8)	Notes Offering
Net sales	\$ 1,062,672	\$ 282,967	\$	\$	\$ 1,345,639	\$	\$ 1,345,639	\$	\$ 1,345,639
Cost of goods sold	845,952	201,751	(1,728) A	212 B	1,046,187		1,046,187		1,046,187
Acquisition-related cost	13,400			(13,400)					
Gross profit	203,320	81,216	1,728	13,188	299,452		299,452		299,452
Selling, general and administrative expenses	106,078	41,100		4 C	147,182		147,182		147,182
Research and development (R&D) expenses	18,768	14,994		4 D	33,766		33,766		33,766
Purchased in-process R&D charges	3,000			(3,000) E					
Special items	4,858				4,858		4,858		4,858
Operating profit	70,616	25,122	1,728	16,180	113,646		113,646		113,646
Interest and financing expenses	(9,168)	(1,345)		(12,145) F	(22,658)	3,772 I	(18,886)	(4,949) J	(23,835)
Other income (expense), net including minority interest	(13,532)	8,404	(1,728) A	12,848 G	5,992		5,992		5,992
Income before income taxes and cumulative effect of a change in accounting principle, net	47,916	32,181		16,883	96,980	3,772	100,752	(4,949)	95,803
Income taxes	12,714	9,167		5,067 H	26,948	1,376	28,324	(1,806)	26,518
Income before cumulative effect of a change in accounting principle, net	\$ 35,202	\$ 23,014	\$	\$ 11,816	\$ 70,032	\$ 2,396	\$ 72,428	\$ (3,143)	\$ 69,285
Basic earnings per share: Income before cumulative effect of a change in accounting principle, net	\$ 0.85				\$ 1.69		\$ 1.59		\$ 1.52
Diluted earnings per share: Income before cumulative effect of a change in accounting principle, net	\$ 0.83				\$ 1.65		\$ 1.56		\$ 1.50

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Weighted average shares outstanding basic	41,497	41,497	45,497	45,497
Weighted average shares outstanding diluted	42,342	42,342	46,342	46,342

S-30

Table of Contents**ALBEMARLE CORPORATION****NOTES TO UNAUDITED PRO FORMA COMBINED STATEMENTS OF INCOME****For the Year Ended December 31, 2003 and Nine Months Ended September 30, 2004****(in thousands)**

- (1) This column represents Albemarle's historical consolidated income statements as reported for the periods presented.
- (2) This column represents the historical income statements of the refinery catalysts business under U.S. GAAP stated in euros and translated to U.S. dollars for pro forma purposes using estimated average U.S. dollars to euro exchange rates of \$1.131 and \$1.228 to 1 for the income statements of the refinery catalysts business for the 12 months ending December 31, 2003 and seven months ending July 31, 2004, respectively, which was the exchange rate used by management of the refinery catalysts business for the purpose of converting U.S. dollar amounts to euros in connection with the preparation of the euro-denominated financial statements of the refinery catalysts business. Such translations should not be construed as a representation that the euro amounts represent, or have been or could be converted into, U.S. dollars at that or any other rate.
- (3) The adjustments in this column represent the reclassifications necessary to conform the historical refinery catalysts business amounts to the Albemarle statement of income presentation.

Note	Year Ended December 31, 2003	Nine Months Ended September 30, 2004	
A	\$ (6,459)	\$ (1,728)	To reclassify foreign exchange gains and losses from other income to cost of goods sold to conform to Albemarle's application of U.S. GAAP reporting for this item

- (4) This column represents the adjustments necessary to give pro forma effect to the acquisition of the refinery catalysts business as if the acquisition had taken place on January 1, 2003. The majority of these adjustments relate to a preliminary allocation of the acquisition purchase price, which is expected to be finalized within one year of the acquisition date. See description of these adjustments below:

Note	Year Ended December 31, 2003	Nine Months Ended September 30, 2004	
B	\$ (601)	\$ 145	Represents adjustments to depreciation and amortization expense included in cost of goods sold for differences between estimated fair values assigned to refinery catalysts business tangible assets (average 15 year depreciation lives) and intangible assets (average 15 year amortization lives) versus historical depreciation and amortization amounts reported

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Represents adjustments to amortization of capitalized interest differences between assumed interest capitalized under pro forma debt interest assumptions described in Note F below versus historical amounts reported

81	67
\$ (520)	\$ 212

The assumed one-time impact to cost of goods sold of Albemarle's estimated purchase accounting adjustment to step up finished goods and work-in-progress inventories acquired in the refinery catalysts business acquisition of \$13,400 has not been included in the unaudited pro forma combined statements of income presented.

Table of Contents**ALBEMARLE CORPORATION****NOTES TO UNAUDITED PRO FORMA COMBINED STATEMENTS OF INCOME (Continued)****For the Year Ended December 31, 2003 and Nine Months Ended September 30, 2004****(in thousands)**

Total pro forma depreciation and amortization expense totaled \$116,727 and \$88,986 for the year ended December 31, 2003 and nine months ended September 30, 2004, respectively.

Note	Year Ended December 31, 2003	Nine Months Ended September 30, 2004	
C	\$ (16)	\$ 4	Represents adjustments to estimated depreciation expense included in selling, general and administrative expense for differences between estimated fair values assigned to refinery catalysts business tangible assets (average 15 year depreciation lives) versus historical depreciation amounts reported
D	\$ (16)	\$ 4	Represents adjustments to estimated depreciation expense included in research and development expense for differences between estimated fair values assigned to refinery catalysts business tangible assets (average 15 year depreciation lives) versus historical depreciation amounts reported
E	\$ 3,000	\$ (3,000)	To record (1) estimated purchased in-process research and development assumed to be charged to expense immediately upon the January 1, 2003 pro forma effective acquisition date for the twelve months ended December 31, 2003 and (2) corresponding reversal of historical amounts recorded in the nine-month period ended September 30, 2004
F	Pro forma interest expense adjustments are detailed as follows:		
	\$ 3,960	\$ 1,345	Reversal of historical net interest and financing expenses of the refinery catalysts business as reported for the periods presented
	5,376	9,168	Reversal of Albemarle historical net interest and financing expenses as reported for the periods presented
	964	998	Estimated capitalized interest expense associated with the new debt structure
	(220)	(165)	Estimated interest expense associated with Albemarle's existing industrial revenue bond and foreign loans
	(1,763)	(1,322)	Estimated interest expense associated with the \$300 million revolving credit facility bearing interest at 2.55%
	(12,600)	(9,450)	

Edgar Filing: ALBEMARLE CORP - Form S-3/A

		Estimated interest expense associated with the \$450 million 364-day loan agreement at 2.8%, assumed outstanding for entirety of all periods presented
(12,600)	(9,450)	Estimated interest expense associated with the \$450 million five-year term loan facility bearing interest at 2.8%
(3,509)	(2,632)	Amortization of estimated debt issuance costs on new financing (amounts exclude write off of \$575,000 of estimated deferred loan costs associated with Albemarle's previous credit facilities replaced by the debt facilities described above)
(150)	(75)	Additional commitment fees and other recurring costs associated with new financing structure
(750)	(562)	Reflects commitment fees of 0.25% on the \$300 million revolving credit facility
<u>\$ (21,292)</u>	<u>\$ (12,145)</u>	Total

S-32

Table of Contents**ALBEMARLE CORPORATION****NOTES TO UNAUDITED PRO FORMA COMBINED STATEMENTS OF INCOME (Continued)****For the Year Ended December 31, 2003 and Nine Months Ended September 30, 2004****(in thousands)**

Note a 0.125% increase or decrease in the weighted average interest rate applicable to Albemarle's indebtedness outstanding under its new financing structure would impact the estimated pro forma interest expense for the year ended December 31, 2003 and nine months ended September 30, 2004, by the following amounts:

	Year Ended December 31, 2003	Nine Months Ended September 30, 2004	
	\$ 1,211	\$ 909	
Note	Year Ended December 31, 2003	Nine Months Ended September 30, 2004	
G	\$	\$ 12,848	Adjustment represents elimination of Albemarle's euro hedging contract net losses recorded related to hedge contracts entered into in connection with the refinery catalysts business acquisition
H	\$ (7,570)	\$ 5,067	Adjustments represent pro forma income tax impacts of the pro forma adjustments based on the estimated applicable statutory tax rates at 36.5% (excluding purchased in-process research and development charges deemed non-tax deductible)

(5) This column represents the unaudited pro forma combined statements of income of Albemarle giving effect to the July 31, 2004 acquisition of the refinery catalysts business as if the acquisition occurred on January 1, 2003. These amounts are derived by summing the columns captioned Albemarle Corporation, Refinery Catalysts U.S. GAAP, Refinery Catalysts Reclassification and Pro Forma Acquisition Adjustments.

(6) See the table below detailing the following significant non-recurring (income) and expense items which have been included in the Albemarle unaudited pro forma combined statements of income for the periods presented:

Year Ended December 31, 2003	Nine Months Ended September 30, 2004
---------------------------------	---

Edgar Filing: ALBEMARLE CORP - Form S-3/A

<u>Pre-tax</u>	<u>After-tax</u>	<u>Pre-tax</u>	<u>After-tax</u>	
\$ 10,049	\$ 6,402	\$ 4,858	\$ 3,095	Albemarle's reported special items impacting operating profit
(4,308)	(13,816)			Albemarle income tax refunds and related interest
(44)	(28)	(444)	(282)	Refinery catalysts business provisions liability additions/reversals activity, net
(6,459)	(4,102)	(1,728)	(1,097)	Refinery catalysts business foreign exchange hedging gains and losses
		(6,945)	(4,424)	Insurance settlement gain
		3,396	2,163	Valuation reserve on claim receivable

(7) This column reflects the use of estimated net proceeds of \$149.0 million from the sale of 4,000,000 shares of our common stock in the common stock offering at an assumed public offering price of \$39.16 per share after deducting the underwriting discount and estimated offering expenses of \$0.4 million to retire a corresponding amount of the indebtedness that Albemarle incurred under the 364-day loan agreement. For purposes of this column, it is assumed that the underwriters do not exercise their related over-allotment option.

S-33

Table of Contents

ALBEMARLE CORPORATION

NOTES TO UNAUDITED PRO FORMA COMBINED STATEMENTS OF INCOME (Continued)

For the Year Ended December 31, 2003 and Nine Months Ended September 30, 2004

(in thousands)

Note	Nine Months		
	Year Ended December 31, 2003	Ended September 30, 2004	
I	\$ 4,174	\$ 3,130	Represents estimated reduced interest expense associated with reduced borrowings outstanding under the \$450 million 364-day loan agreement bearing interest at 2.8%
	870	652	Represents estimated reduced commitment fee and funding fee associated with reduced borrowings under the \$450 million 364-day loan agreement
	(10)	(10)	Represents estimated decrease in capitalized interest cost (average interest rate decreased from 3.21% to 3.17%)
	<u>\$ 5,034</u>	<u>\$ 3,772</u>	

(8) This column reflects the use of estimated net proceeds of \$297.3 million from the sale of \$300.0 million aggregate principal amount of notes in this offering at par after deducting the underwriting discount and estimated offering expenses of \$0.8 million to retire substantially all of the remaining amount of the indebtedness that Albemarle incurred under the 364-day loan agreement and the incurrence of additional borrowings of \$3.7 million under the \$300 million revolving credit facility to retire the remaining amount of indebtedness that Albemarle incurred under the 364-day loan agreement.

Note	Nine Months		
	Year Ended December 31, 2003	Ended September 30, 2004	
J	\$ 8,427	\$ 6,320	Represents estimated reduced interest expense associated retirement of substantially all of the remaining amount outstanding under the \$450 million 364-day loan agreement bearing interest at 2.8%
	(95)	(71)	Represents estimated increased interest expense associated with additional borrowings under the \$300 million revolving credit facility bearing interest at 2.55%
	1,505	1,129	Represents estimated reduced commitment fee and funding fee associated with reduced borrowings under the \$450 million 364-day loan agreement

Edgar Filing: ALBEMARLE CORP - Form S-3/A

(275)	(206)	Represents estimated amortization of underwriting fee payable in this offering
(16,500)	(12,375)	Represents estimated interest expense associated with the notes at 5.50%
246	254	Represents estimated increase in capitalized interest cost (average interest rate increased from 3.17% to 3.99%)
<u> </u>	<u> </u>	
<u>\$ (6,692)</u>	<u>\$ (4,949)</u>	

This column assumes an interest rate of 5.50% for the notes. A change of 0.125% in the interest rate applicable to the notes would change Albemarle's annualized interest expense by \$0.4 million.

Table of Contents**SELECTED HISTORICAL CONSOLIDATED FINANCIAL INFORMATION OF ALBEMARLE**

The following table sets forth selected historical consolidated financial information as of and for the years ended December 31, 2003, 2002, 2001, 2000 and 1999, which have been derived from our audited consolidated financial statements, and as of and for the nine months ended September 30, 2004 and 2003, which have been derived from our unaudited consolidated financial statements. In the opinion of our management, the unaudited consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and include all adjustments necessary for a fair presentation of the information set forth therein. Interim results are not necessarily indicative of full year results.

You should read the information in this table together with Management's Discussion and Analysis of Financial Condition and Results of Operations of Albemarle and our historical consolidated financial statements and the related notes contained elsewhere in this prospectus supplement and the other information contained in the documents incorporated by reference in this prospectus supplement. See Where You Can Find More Information and Documents Incorporated by Reference.

	Nine Months		Year Ended				
	Ended September 30,		December 31,				
	2004	2003	2003	2002	2001	2000	1999
	(unaudited)	(unaudited)	(restated)(1)				
	(in thousands, except per share amounts and ratios)						
Statements of Income Data:							
Net sales	\$ 1,062,672	\$ 815,113	\$ 1,110,237	\$ 1,007,918	\$ 942,752	\$ 941,449	\$ 865,937
Cost of goods sold	845,952	640,331	871,727	775,388	721,417	669,986	608,995
Acquisition-related cost	13,400						
Gross profit	203,320	174,782	238,510	232,530	221,335	271,463	256,942
Selling, general and administrative expenses	106,078	85,026	117,226	111,676	98,915	103,234	97,836
Research and development (R&D) expenses	18,768	14,133	18,411	16,485	21,919	26,201	34,288
Purchased in-process R&D charges	3,000						
Special items (2)	4,858	7,503	10,049	1,550	2,051	(8,134)	10,692
Operating profit	70,616	68,120	92,824	102,819	98,450	150,162	114,126
Interest and financing expenses	(9,168)	(4,043)	(5,376)	(5,070)	(5,536)	(5,998)	(8,379)
Gain on sale of investment in Albright & Wilson stock, net							22,054
Other income (expense), net including minority interest	(13,532)	594	607	3,358	4,282	3,337	937
Income before income taxes and cumulative effect of a change in accounting principle, net	47,916	64,671	88,055	101,107	97,196	147,501	128,738
Income taxes	12,714	7,294	13,890	28,086	29,029	45,725	39,909
Income before cumulative effect of a change in accounting principle, net	35,202	57,377	74,165	73,021	68,167	101,776	88,829
Cumulative effect of change in accounting principle, net (3)		(2,220)	(2,220)				

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Net income	\$ 35,202	\$ 55,157	\$ 71,945	\$ 73,021	\$ 68,167	\$ 101,776	\$ 88,829
Basic earnings per share:							
Income before cumulative effect of a change in accounting principle, net	\$ 0.85	\$ 1.39	\$ 1.79	\$ 1.73	\$ 1.49	\$ 2.22	\$ 1.89
Cumulative effect of a change in accounting principle, net (3)		(0.05)	(0.05)				
Net income	\$ 0.85	\$ 1.34	\$ 1.74	\$ 1.73	\$ 1.49	\$ 2.22	\$ 1.89
Diluted earnings per share:							
Income before cumulative effect of a change in accounting principle, net	\$ 0.83	\$ 1.36	\$ 1.76	\$ 1.69	\$ 1.47	\$ 2.18	\$ 1.87
Cumulative effect of a change in accounting principle, net (3)		(0.05)	(0.05)				
Net income	\$ 0.83	\$ 1.31	\$ 1.71	\$ 1.69	\$ 1.47	\$ 2.18	\$ 1.87

S-35

Table of Contents

	Nine Months		Year Ended				
	Ended September 30,		December 31,				
	2004	2003	2003	2002	2001	2000	1999
	(unaudited)	(unaudited)	(restated) (1)				
Other Financial Data:							
Net cash provided from operating activities	\$ 131,217	\$ 107,787	\$ 150,098	\$ 144,771	\$ 143,864	\$ 154,887	\$ 164,297
Depreciation and amortization	69,288	61,765	84,014	80,603	77,610	73,750	75,750
Capital expenditures	37,602	30,307	41,058	38,382	49,903	52,248	77,569
Ratio of earnings to fixed charges (4)	4.6x	N/A	9.2x	11.1x	10.1x	13.6x	9.6x
Balance Sheet Data (as of end of period):							
Cash and cash equivalents	\$ 60,817	\$ 34,984	\$ 35,173	\$ 47,787	\$ 30,585	\$ 19,300	\$ 48,621
Working capital	(77,025)	265,178	271,298	256,481	79,824	173,038	201,246
Total assets	2,429,140	1,343,153	1,387,291	1,200,398	1,138,272	981,803	954,094
Total debt	953,266	240,660	228,579	190,628	170,215	97,980	159,760
Total liabilities	1,765,537	732,120	751,070	626,061	538,649(1)	416,575(1)	457,209(1)
Shareholders' equity	663,603	611,033	636,221	574,337	599,623(1)	565,228(1)	496,885(1)
Non-GAAP Financial Data:							
EBITDA (5)	\$ 126,372	\$ 130,479	\$ 177,445	\$ 186,780	\$ 180,342	\$ 227,249	\$ 212,867

- (1) We restated our financial statements for the year ended December 31, 2002 to move the recognition of revenue of a fourth quarter 2002 transaction from December 31, 2002 results to the first quarter and second quarter of 2003. In addition, the December 31, 2002 and prior years consolidated balance sheets and statements of changes in shareholders' equity were restated to reflect an increase in additional paid-in capital and a decrease in deferred income tax liability. The results for the year ended December 31, 2002 and prior years included above reflect the restatement. For more information on the restatement, see our consolidated financial statements and related notes included elsewhere in this prospectus supplement and the discussion of the restatement included in our Annual Report on Form 10-K incorporated by reference in this prospectus supplement.
- (2) We reported a \$550 pre-tax charge for the nine months ended September 30, 2004 related to the shutdown of our zeolite plant in Pasadena, Texas. For the year ended December 31, 2003, we incurred a \$7,503 pre-tax charge associated with a voluntary severance program. Additionally, for the year ended December 31, 2003, we recorded a one-time charge of \$2,546 for real estate held for sale. For the years ended December 31, 2002 and 2001, we recorded \$1,550 and \$2,051 in special charges related to work force reduction programs at certain of our facilities.
- (3) On January 1, 2003, we implemented SFAS No. 143 Accounting for Asset Retirement Obligations, which addressed financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The cumulative effect of the change in accounting principle, net of tax, resulting from the implementation of this standard was \$2,220.
- (4) For purposes of computing the ratios of earnings to fixed charges, earnings consist of pre-tax income from continuing operations before adjustment for minority interests in consolidated subsidiaries or income or loss from equity investees plus fixed charges and amortization of capitalized interest less interest capitalized and minority interest in pre-tax income of subsidiaries that have not incurred fixed charges. Fixed charges consist of interest expense (before capitalized interest) and a portion of rental expense that we believe to be representative of interest.
- (5) EBITDA, which represents earnings before depreciation and amortization, interest and financing expense, income taxes and cumulative effect of a change in accounting principle, net, is a supplemental measure of performance that is not required by, or presented in accordance with, U.S. GAAP. We present EBITDA because we consider it an important supplemental measure of our operations and financial performance. Our management believes EBITDA is more reflective of our operations as it provides transparency to investors and enhances period-to-period comparability of operations and financial performance. EBITDA should not be considered as an alternative to net income determined in accordance with U.S. GAAP. Set forth below is a reconciliation of EBITDA, a non-GAAP financial measure, to net income, the most directly comparable financial measure calculated and reported in accordance with U.S. GAAP. Our calculation of EBITDA may not be comparable to the calculation of similarly titled measures reported by other companies.

	Nine Months		Year Ended				
	Ended September 30,		December 31,				
	2004	2003	2003	2002	2001	2000	1999
	(unaudited)	(unaudited)	(in thousands)				
Net income	\$ 35,202	\$ 55,157	\$ 71,945	\$ 73,021	\$ 68,167	\$ 101,776	\$ 88,829
Add:							
Depreciation and amortization	69,288	61,765	84,014	80,603	77,610	73,750	75,750

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Interest and financing expense	9,168	4,043	5,376	5,070	5,536	5,998	8,379
Income taxes	12,714	7,294	13,890	28,086	29,029	45,725	39,909
Cumulative effect of a change in accounting principle, net		2,220	2,220				
EBITDA	\$ 126,372	\$ 130,479	\$ 177,445	\$ 186,780	\$ 180,342	\$ 227,249	\$ 212,867

S-36

Table of Contents

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF ALBEMARLE**

The following discussion and analysis of our financial condition and results of operations contains forward-looking statements that are based on our management's current expectations, which are in turn based on assumptions that we believe are reasonable based on our current knowledge of our business and operations. Our actual results may differ materially from those expectations expressed or implied in the forward-looking statements as a result of a number of factors, including those described under the caption "Forward-Looking Statements" and "Risk Factors" and elsewhere in this prospectus supplement. The following discussion should be read together with "Unaudited Pro Forma Combined Financial Information," "Selected Historical Consolidated Financial Information of Albemarle" and our consolidated financial statements and related notes included elsewhere or incorporated by reference in this prospectus supplement.

Overview

We are a leading global developer, manufacturer and marketer of highly-engineered specialty chemicals. Our products and services enhance the value of our customers' end-products by improving performance, providing essential product attributes, lowering cost and simplifying processing. We sell a highly diversified mix of products to a wide range of customers, including manufacturers of consumer electronics, building and construction materials, automotive parts, packaging, pharmaceuticals and agrichemicals, and petroleum refiners. We believe that our commercial and geographic diversity, technical expertise, flexible, low-cost global manufacturing base, strong cash flows and experienced management team enable us to maintain leading market positions in those areas of the specialty chemicals industry in which we operate.

Growth of our Polymer Additives segment is expected to be derived from increasing demand for electrical and electronic equipment, new construction and increasingly stringent fire-safety regulations in many countries around the world. Growth in our Catalysts segment is expected to be driven by increasing demand for petroleum products, generally deteriorating quality of crude oil feedstock and implementation of more stringent fuel quality requirements as a part of anti-pollution initiatives. The Fine Chemicals segment continues to benefit from the continued rapid pace of innovation and the introduction of new products, coupled with a movement by pharmaceutical companies to outsource certain research, product development and manufacturing functions.

Acquisition of Catalysts Refinery Business

On July 31, 2004, we acquired the refinery catalysts business of Akzo Nobel N.V. for 615.7 million (approximately \$762.2 million at applicable exchange rates). We believe that this acquisition significantly enhances our business by giving us a strong new operating segment. Following this acquisition, we transferred our existing polyolefin catalysts business from our Polymer Chemicals segment, which we renamed Polymer Additives, to a newly created Catalysts segment, which also includes the assets we acquired from Akzo Nobel. Our operations are now managed and reported as three operating segments: Polymer Additives; Catalysts; and Fine Chemicals.

Under the terms of the business sale agreement, we acquired two wholly owned subsidiaries of Akzo Nobel (one in the United States and one in the Netherlands), sales, marketing, intellectual property and other assets used in the acquired business, and 50% interests in three different joint ventures: Fábrica Carioca de Catalisadores S.A., a Brazilian joint venture; Nippon Ketjen Co., Ltd., a Japanese joint venture; and Eurecat S.A., a French joint venture (with affiliates in the United States, Saudi Arabia and Italy). As part of the acquisition, we also agreed to assume the liabilities of the two acquired subsidiaries and certain liabilities of Akzo Nobel and its affiliates related to the acquired business. We retained substantially all employees of the acquired business, including all of the incumbent managers.

In connection with the acquisition, we incurred during the third quarter of 2004 certain one-time after-tax costs and expenses, including foreign exchange hedging losses of \$10.0 million on contracts entered into for the purpose of hedging the euro-denominated purchase price for the acquired business, additional cost of sales

S-37

Table of Contents

charges of \$8.5 million as a result of inventory write-ups, \$3.0 million as a result of purchased in-process research and development write-offs and unamortized financing cost write-offs of \$0.4 million. We expect to finalize the acquisition purchase accounting adjustments by the end of the first quarter of 2005.

In connection with the acquisition, we entered into (1) a new senior credit agreement, dated as of July 29, 2004, among Albemarle, Albemarle Catalysts International, L.L.C., a subsidiary of our Company, certain of our subsidiaries as guarantors, the lenders parties thereto, Bank of America, N.A., as Administrative Agent, UBS Securities LLC, as Syndication Agent, and The Bank of New York, Fortis (USA) Finance LLC and SunTrust Bank, as Co-Documentation Agents, consisting of a \$300 million revolving credit facility and a \$450 million five-year term loan facility, and (2) a \$450 million 364-day loan agreement, dated as of July 29, 2004, among Albemarle, Albemarle Catalysts International, L.L.C., certain of our subsidiaries as guarantors, the lenders parties thereto, Banc of America Bridge LLC, as Administrative Agent, and UBS Securities LLC, as Syndication Agent. We used the initial borrowings under the new senior credit agreement and the 364-day loan agreement to consummate the acquisition, refinance our then-existing credit agreement and pay related fees and expenses incurred in connection therewith.

Outlook

With the acquisition of the Akzo Nobel refinery catalysts business, we have added a number of foundation technologies to our portfolio, including HPC catalysts and FCC catalysts, as well as new products targeting the fast growing clean fuels catalyst market. Since the completion of the acquisition of the refinery catalysts business on July 31, 2004, the new Catalysts segment has been performing well and we believe that it is poised to participate further in expected growth in the refinery catalysts industry. As we combine our current polyolefin catalyst business with the acquired refinery catalysts business, the Catalysts segment is forecasted to add more than 35% to the historic sales level on an annual basis.

Our net sales for the nine months ended September 30, 2004 were \$1.06 billion as compared with \$815 million in the same period of 2003.

We continue to experience significant increases in raw material and energy costs, particularly in molybdenum, which impacts the Catalysts segment, and bisphenol-A, alumina, phenol, chlorine and tin, which impact the Polymer Additives and Fine Chemicals segments. Based on our full year forecast for 2004, we expect that our raw material costs, excluding metals such as molybdenum, nickel and cobalt, and our energy costs will increase approximately 13% and 9%, respectively, compared to 2003. Molybdenum has experienced a steady increase in price from approximately \$8 per pound on January 1, 2004 to approximately \$28 per pound on November 30, 2004. In order to offset these increases, we are seeking price increases in most product areas, and these initiatives are taking effect with various levels of success. In bromine and bromine derivatives, our price increases are supported by strong global demand for our products. In addition, we began a manufacturing cost reduction program in 2002 targeting \$50 million in savings over three years. We believe that we have realized approximately \$27 million of these savings through the third quarter 2004 and we expect that this program will continue to help offset the impact of raw material and energy cost inflation.

Polymer Additives

Polymer Additives net sales have increased to record levels for the past four quarters with an average growth rate of close to 7% per quarter. Comparing the third quarter of 2004 to the similar period of 2003, segment revenues and income grew approximately 31% and approximately 22%, respectively. However, general indicators of market demand in the electronics sector have slowed versus the previous three quarters. While demand for our products at present remains strong and we are running our major flame retardant plants hard to meet customer needs, we believe that we must stay focused on our price increase efforts in order to catch up with inflation.

Table of Contents

Catalysts

Catalysts net sales have increased approximately 144% in the first nine months of 2004 compared to the same period of 2003 due primarily to the acquisition of the refinery catalysts business. Sales also reflect higher prices driven by higher metals costs, volume growth in both HPC and FCC catalysts and the effects of currency movements. The inflation of metals costs, most notably molybdenum, is expected to continue to effect margins for HPC catalysts for the balance of 2004. We believe that the demand for HPC catalysts will remain firm for the rest of the year. We expect FCC catalysts volumes to remain strong through 2004 as growth in gasoline demand is tracking slightly above expectations.

The major global petroleum refineries continue to prepare for stricter fuel specifications, including the upcoming on-road diesel sulfur specifications that will be implemented in 2006. These stricter specifications are leading to new capital expenditures by petroleum refineries to expand hydroprocessing capability as well as to increased demand for high performance catalysts to be used in existing and new hydroprocessing capacity.

Fine Chemicals

First nine-months 2004 net sales were up 4.3% compared to last year's levels despite the loss of revenue from the zeolites business, which we exited in January 2004. Revenue from new products is expected to increase compared to 2003. Looking forward, we expect to see increasingly high asset utilizations and margin improvement in the bromine products area, and we believe that underlying trends in Fine Chemistry Services are beginning to contribute to the segment profitability.

Looking forward to the fourth quarter, we expect that we will experience some unabsorbed factory costs resulting from a turnaround in our ibuprofen facility, which is associated with a cost improvement and automation project tie-ins designed to help us continue to drive down our cost of production. We expect continued competitive pricing pressure in ibuprofen as foreign producers attempt to further penetrate the U.S. market, and we are expanding our sales efforts in response to this development.

We expect continued growth in demand for bromine and derivatives, and do not anticipate any slowdown in shipments in the fourth quarter due to the relative tightness in chlorine supplies. In our agrichemicals business, we are experiencing tight supply in some important raw materials, which may impact us negatively toward the end of the fourth quarter.

We expect to complete construction of a new chlorine production unit as part of our joint venture's bromine production plant in Jordan in the fourth quarter of 2004. This facility, which is expected to have an annual capacity of approximately 25,000 metric tonnes, should serve to lower raw material costs of this joint venture in Jordan.

Industry Conditions

We conduct a substantial portion of our business outside of the United States. As a result, our business is subject to economic cycles in different regions of the world. In addition, because many of our customers are in industries, including the consumer electronics, building and

construction, and automotive industries, that are cyclical in nature and sensitive to changes in general economic conditions, our results are impacted by the effect on our customers of economic upturns and downturns, as well as our own costs to produce our products. Historically, downturns in general economic conditions have resulted in diminished product demand, excess manufacturing capacity and lower average selling prices.

Raw Material and Energy Costs

In 2003, our raw material and energy costs increased approximately 8% and 25%, respectively, compared to 2002. Raw material costs and energy costs have continued to increase in 2004. The increases are primarily driven by significantly tighter market conditions and major increases in pricing of basic building blocks for our products

Table of Contents

such as crude oil, chlorine and metals, including molybdenum, which is used in the refinery catalysts business. In 2003, management estimates that molybdenum represented approximately 10% of the cost of goods sold in the refinery catalysts business and from January 1, 2004 until November 30, 2004, the price of molybdenum increased from approximately \$8 to approximately \$28 per pound. We generally attempt to pass changes in the prices of raw materials and energy to our customers but we may be unable to or be delayed in doing so. Our inability to pass through price increases or any limitation or delay in our passing through price increases could adversely affect the margins for our products.

In addition to raising prices, raw material suppliers may extend lead times or limit supplies. For example, in the aftermath of Hurricane Ivan, certain chlorine producers took actions that limited chlorine supplies. Constraints on the supply or delivery of critical raw materials could disrupt production and adversely affect the performance of our business.

Other Factors Impacting Our Results

In 2002, we launched a three-year \$50 million manufacturing cost reduction program to reduce our fixed cost base. As of September 30, 2004, we believe that this program has yielded estimated savings of approximately \$27 million. We expect to implement additional cost-saving initiatives focused on achieving operational efficiencies by investing in flexible manufacturing equipment and processes, optimizing process control technologies, reducing fixed costs through the rationalization of manufacturing capacity and the efficient management of capital spending.

We have been notified by BP, p.l.c and certain of its affiliates, or BP, that it intends to terminate effective February 28, 2006, certain operating and service agreements pursuant to which we provide operating and support services and certain utilities to BP at its linear alpha olefins plant in Pasadena, Texas and BP provides operating and support services and certain utilities to us at one of our facilities in Pasadena, Texas. For the year ended December 31, 2003, these agreements resulted in net payments to us from BP of approximately \$9.0 million. We are currently negotiating with BP regarding the terms of the termination and a possible extension through later in 2006. In addition, we are working internally to develop a plan to mitigate the impact of the termination of these agreements through significant cost-savings and other efforts to reduce expenses.

Table of Contents**Additional Information**

Set forth below is a reconciliation of net income excluding special items, a non-GAAP financial measure, to net income, the most directly comparable financial measure calculated and reported in accordance with GAAP, for the nine months ended September 30, 2004 and 2003. This information is included to provide further support of the fluctuations discussed in the results of operations below.

ALBEMARLE CORPORATION AND SUBSIDIARIES

(in thousands, except share and per share amounts)

(unaudited)

	Nine Months Ended September 30, 2004			Nine Months Ended September 30, 2003		
	As Reported	Special Items*	Excluding Special Items	As Reported	Special Items*	Excluding Special Items
Net sales	\$ 1,062,672	\$	\$ 1,062,672	\$ 815,113	\$	\$ 815,113
Cost of goods sold(c)	(845,952)	(3,549)(a,b)	(849,501)	(640,331)		(640,331)
Acquisition-related cost	(13,400)	13,400(d)				
Gross profit	203,320	9,851	213,171	174,782		174,782
Selling, general and administrative expenses	(124,846)		(124,846)	(99,159)		(99,159)
Reduction in force adjustments	(4,858)	4,858(e)		(7,503)	7,503(e)	
Purchased in-process research and development charges	(3,000)	3,000(f)				
Operating profit	70,616	17,709	88,325	68,120	7,503	75,623
Interest and financing expenses	(9,168)	528(g)	(8,640)	(4,043)		(4,043)
Equity in unconsolidated investments	2,494		2,494	(1,148)		(1,148)
Other income (expense), net including minority interest	(16,026)	12,848(h)	(3,178)	1,742	(2,715)	(973)
Income before income taxes and cumulative effect of a change in accounting principle, net	47,916	31,085	79,001	64,671	4,788	69,459
Income tax expense	12,714	10,196	22,910	7,294	13,725(i)	21,019
Income before cumulative effect of a change in accounting principle, net	35,202	20,889	56,091	57,377	(8,937)	48,440
Cumulative effect of a change in accounting principle, net				(2,220)	2,220(j)	
Net income	\$ 35,202	\$ 20,889	\$ 56,091	\$ 55,157	\$ (6,717)	\$ 48,440

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Diluted earnings per share	\$ 0.83	\$ 0.49	\$ 1.32	\$ 1.31	\$ (0.16)	\$ 1.15
* See footnotes below						
Operating profit by segment:						
Polymer Additives	\$ 65,687	\$ (3,583)	\$ 62,104	\$ 44,064	\$ 2,931	\$ 46,995
Catalysts	2,227	16,400	18,627	8,244		8,244
Fine Chemicals	25,885	4,892	30,777	33,924	1,814	35,738
Corporate and other expenses	(23,183)		(23,183)	(18,112)	2,758	(15,354)
Total	\$ 70,616	\$ 17,709	\$ 88,325	\$ 68,120	\$ 7,503	\$ 75,623

S-41

Table of Contents

Notes (in thousands, except per share amounts):

- (a) On August 26, 2004, we and a former insurer settled a dispute related to payments to be made to us in connection with insurance coverage for the period 1950 through 2000. Pursuant to the agreement, we will receive \$6,945 (\$4,424 after income taxes, or 10 cents per diluted share) with \$4,208 paid at the settlement date and future payments to be made on February 1, 2005 and 2006.
- (b) At September 30, 2004 and 2003, other assets and deferred charges include an insurance receivable, net amounting to \$2,400 and \$5,783, respectively, which was recorded in the second quarter of 2002. The receivable relates to the probable recovery of a claim from our insurers for costs incurred by us regarding the discontinuance of product support for, and the withdrawal from, a water treatment venture. Cost of goods sold for the nine-month period ended September 30, 2004 includes a charge amounting to \$3,396 (\$2,163 after income taxes, or five cents per diluted share) related to the establishment of a valuation reserve for the potential recoverability of this claim. We are continuing to vigorously pursue the entire amount of this receivable.
- (c) Includes foreign exchange transaction losses of (\$901) and (\$92) for the nine-month periods ended September 30, 2004 and 2003, respectively.
- (d) Acquisition-related costs totaling \$13,400 (\$8,536 after income taxes, or 20 cents per diluted share) for the nine-month period ended September 30, 2004 is made up of the preliminary purchase price allocation increase in inventory associated with the July 31, 2004 acquisition of the Akzo Nobel refinery catalysts business.
- (e) Reduction in force adjustments for the nine-month period ended September 30, 2004 includes a \$199 adjustment of a reserve for work force reduction. Nine-month period ended September 30, 2004 also includes a second-quarter 2004 charge totaling \$550 (\$350 after income taxes, or one cent per diluted share) related to the cleanup of the zeolite facility and a first-quarter 2004 charge totaling \$4,507 (\$2,871 after income taxes, or seven cents per diluted share) for layoffs at the zeolite facility and their related SFAS 88 curtailment charge. Reduction in force adjustments for the nine-month period ended September 30, 2003 totaled \$7,503 (\$4,780 after income taxes, or 12 cents per diluted share) and resulted from the acceptance of a voluntary separation package offered by us to certain domestic salaried employees.
- (f) Purchased in-process research and development charges amounting to \$3,000, or seven cents per diluted share, for the nine-month period ended September 30, 2004 are comprised of the estimated write-off of the deferred in-process research and development costs associated with the acquisition of the Akzo Nobel refinery catalysts business.
- (g) Interest and financing expenses for the nine-month period ended September 30, 2004 include the write-off of deferred financing expenses totaling \$528 (\$336 net of income taxes, or one cent per diluted share) related to the refinancing of our then-existing credit agreement.
- (h) Other income (expense), net for the nine-month period ended September 30, 2004 include foreign exchange hedging charges totaling \$12,848 (\$8,184 after income taxes, or 19 cents per diluted share) associated with contracts entered into by us to hedge the euro-denominated purchase price for the acquisition of the Akzo Nobel refinery catalysts business.
- (i) Income tax expense for the nine-month period ended September 30, 2003 benefited from the settlement and internal adjustments related to federal tax years 1996-1999 totaling \$11,988.
- (j) On January 1, 2003, we implemented SFAS No. 143, Accounting for Asset Retirement Obligations, which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The cumulative effect of the implementation of this change in accounting principle was \$2,220 net of taxes of \$1,265, or five cents per diluted share.

Table of Contents**Results of Operations*****Nine Months Ended September 30, 2004 Compared to Nine Months Ended September 30, 2003***

Net Sales. Net sales by operating segment for the nine-month periods ended September 30, 2004 and 2003 are as follows:

	Net Sales	
	Nine Months Ended September 30,	
	2004	2003
	(in thousands)	
Polymer Additives	\$ 538,631	\$ 397,002
Catalysts	153,795	62,970
Fine Chemicals	370,246	355,141
Segment totals	\$ 1,062,672	\$ 815,113

Net sales for first nine months of 2004 of \$1,063 million were up \$247.6 million, or 30.4%, from the first nine months of 2003 net sales of \$815.1 million.

Polymer Additives net sales increased \$141.6 million, or 35.7%, primarily due to higher shipments in flame retardants (\$56.6 million), the contributions made by our 2003 acquisitions (\$39.4 million), higher shipments (\$25.4 million) and prices (\$6.2 million) in curatives and additives, as well as the favorable impact of foreign exchange (\$18.4 million). The increase was partially offset by lower prices in flame retardants (\$4.7 million).

Catalysts net sales increased \$90.8 million primarily as a result of the impact of the refinery catalysts business acquisition (\$82.8 million), higher shipments of polyolefin catalysts (\$8.5 million) and the favorable impact of foreign exchange (\$1.8 million), partially offset by lower prices for polyolefin catalysts (\$2.1 million).

Fine Chemicals net sales increased \$15.1 million, or 4.3%, primarily due to the contributions made by our 2003 acquisition of the bromine fine chemicals business of Atofina Chemicals, Inc. (\$14.2 million), the favorable impact of foreign exchange (\$13.9 million), higher shipments in fine chemistry services and intermediates (\$6.5 million) and bulk active pharmaceuticals (\$1.4 million) and higher prices (\$3.7 million) and shipments (\$1.4 million) in agricultural actives. The increase was partially offset by an unfavorable sales mix in performance chemicals (\$19.4 million) and lower prices (\$7.1 million), primarily in bulk active pharmaceuticals.

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Operating Costs and Expenses. Cost of goods sold in the first nine months of 2004 increased \$205.6 million (32.1%) from the corresponding 2003 period. This increase resulted from the higher sales volumes in the 2004 period and the impact of our 2003 and 2004 acquisitions as well as higher raw material and energy costs, the establishment of a \$3.4 million valuation reserve for the potential recoverability of an insurance claim regarding the discontinuance of product support for, and the withdrawal from, a water treatment venture, our exit from the zeolite business and the unfavorable impact of foreign exchange on operating costs. The increase is partially offset by a \$6.9 million insurance settlement from a former insurer relating to certain payments made by us in connection with insurance coverage for the period 1950 through 2000.

In the first nine months of 2004, we also incurred \$13.4 million of acquisition-related charges consisting of the step-up increase in acquired inventory associated with the acquisition of the refinery catalysts business.

The gross profit margin decreased approximately 230 basis points to 19.1% in the 2004 period from 21.4% for the corresponding period in 2003. Excluding the \$13.4 million acquisition-related charges described, our gross profit margin for the 2004 period decreased approximately 100 basis points to 20.4%.

Selling, general and administrative, or SG&A, and research and development, or R&D, increased \$25.7 million (25.9%) in the first nine months of 2004 as compared with the first nine months of 2003 primarily due to higher SG&A and R&D costs related to acquisitions (\$12.8 million), higher employee incentive related costs

Table of Contents

(\$8.7 million), the unfavorable impact of foreign exchange (\$2.3 million), higher R&D costs (\$1.7 million) as well as higher outside legal costs (\$0.7 million), offset, in part, by the benefits of cost reduction efforts and a voluntary separation program implemented in the third quarter of 2003 and first quarter of 2004. As a percentage of net sales, SG&A and R&D were 11.7% in the first nine months of 2004 versus 12.2% in the 2003 period.

The 2004 period also includes a \$4.8 million charge consisting of layoffs of 53 employees at the zeolite facility amounting to (\$3.4 million) and related SFAS 88 curtailment charges of (\$0.9 million) as well as costs associated with the cleanup of the zeolite facility in Pasadena, Texas (\$0.5 million). The 2003 period includes a \$7.5 million charge related to a voluntary severance program offered to certain domestic salaried employees. Additionally, the first nine months of 2004 includes a \$3.0 million purchased in-process R&D charge associated with our acquisition of the refinery catalysts business.

Operating Profit. Operating profit by reportable operating segment for the nine-month periods ended September 30, 2004, and 2003 is as follows:

	Operating Profit	
	Nine Months Ended September 30,	
	2004	2003
	(in thousands)	
Polymer Additives	\$ 65,687	\$ 44,064
Catalysts	2,227	8,244
Fine Chemicals	25,885	33,924
Segment totals	93,799	86,232
Corporate and other expenses	(23,183)	(18,112)
Operating profit	\$ 70,616	\$ 68,120

Overall, nine months 2004 operating profit, including special items and acquisition-related charges, increased \$2.5 million (3.7%) from the first nine months of 2003. Excluding the effects of special items and acquisition-related charges, nine months 2004 operating profit increased \$12.7 million, or 16.8%, from the corresponding 2003 period.

Polymer Additives first nine months of 2004 segment operating profit increased \$21.6 million, or 49.0%, from the first nine months of 2003. This increase includes allocations of special items attributable to an insurance settlement of \$3.6 million in the third quarter 2004 and the absence of a \$2.9 million charge related to a voluntary severance program in the 2003 period. Excluding the special items, operating profit for the 2004 period increased \$15.1 million, or 32.2%, from the corresponding period of 2003 primarily due to higher shipments in flame retardants (\$16.9 million) and curatives and additives (\$8.9 million) and the overall favorable net effects of foreign exchange movements (\$5.3 million), offset, in part, by unfavorable raw material costs (\$14.7 million) and higher SG&A costs related to acquisitions (\$1.6 million).

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Catalysts first nine months of 2004 segment operating profit decreased \$6.0 million, or 73.0%, from the first nine months of 2003. The 2004 period includes purchase price adjustments for the step-up accounting values assigned to the acquired refinery catalysts business inventory (\$13.4 million) and the write-off of purchased in-process R&D charges associated with the acquisition (\$3.0 million). Excluding these adjustments, Catalysts segment operating profit for the 2004 period increased \$10.4 million from the corresponding 2003 period primarily due to the impact of the refinery catalysts business acquisition.

Fine Chemicals first nine months of 2004 segment operating profit decreased \$8.0 million, or 23.7%, from the first nine months of 2003. The decrease included special item charges of \$4.3 million that resulted from the layoff of 53 employees at the zeolite facility and the related SFAS No. 88 pension curtailment charge, \$0.5 million for cleanup of the zeolite facility as well as a \$3.4 million relating to the establishment of a valuation reserve for the potential recoverability of a claim, offset, in part, by an insurance settlement of \$3.3 million and

S-44

Table of Contents

the absence of a \$1.8 million charge related to a voluntary severance program in the 2003 period. Excluding the special items, first nine-months 2004 segment operating profit decreased \$5.0 million (13.9%) from the 2003 period primarily due to lower prices in bulk active pharmaceuticals (\$7.1 million), unfavorable plant utilization and manufacturing costs including our exit from the zeolite business (\$3.7 million), unfavorable sales mix in performance chemicals (\$2.6 million) and higher raw material and energy costs (\$2.2 million). This decrease was partially offset by higher shipments in fine chemistry services and intermediates (\$5.3 million) and higher prices (\$3.7 million) and shipments (\$1.3 million) in agricultural actives.

Corporate and other expenses for the first nine months of 2004 increased \$5.1 million (28.0%) from first nine months of 2003 primarily due to higher estimated employee incentive costs offset, in part, by the absence of the 2003 workforce reduction accrual of (\$2.8 million) allocated to the corporate segment.

Interest and Financing Expenses. Interest and financing expenses for the first nine months of 2004 amounted to \$9.2 million, an increase of \$5.1 million from first nine months of 2003 mainly due to higher average outstanding debt in the 2004 period relating to the acquisition of the refinery catalysts business and a third-quarter 2004 write-off of deferred financing expenses (\$0.5 million) relating to the refinancing of our prior revolving credit agreement.

Equity in Unconsolidated Investments. Equity in unconsolidated investments for the first nine months of 2004 amounted to \$2.5 million, up \$3.6 million from the first nine months of 2003, primarily due to the addition of unconsolidated investments from the refinery catalysts business acquisition (\$1.6 million) as well as improved results from continuing unconsolidated investments.

Other Income (Expense) Net, Including Minority Interest. Other income (expense), net for the first nine months of 2004 totaled (\$16.0) million, a decrease of \$17.8 million from the 2003 corresponding period. The decrease is primarily attributable to euro-denominated hedging losses associated with the acquisition of the refinery catalysts business in the 2004 period and the absence of \$4.3 million of interest income from an Internal Revenue Service income tax settlement in the 2003 period.

Income Taxes. The first nine months of 2004 effective income tax rate was 26.5%, up from 11.3% for the corresponding period in 2003. The significant differences between the U.S. federal statutory income tax rate on pretax income and the effective income tax rate for the nine-month periods ended September 30, 2004 and 2003, respectively, are as follows:

	% of Income	
	Before Income Taxes	
	Nine Months Ended	
	September 30,	
	2004	2003
Federal statutory rate	35.0%	35.0%
Revaluation of reserve requirements		(12.1)
State taxes, net of federal tax benefit	0.7	0.9
Extraterritorial income exclusion	(4.1)	(2.9)
Depletion	(2.8)	(2.1)

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Federal income tax settlement		(7.2)
Other items, net	(2.3)	(0.3)
	<u> </u>	<u> </u>
Effective income tax rate	26.5%	11.3%
	<u> </u>	<u> </u>

S-45

Table of Contents**Year Ended December 31, 2003 Compared to Year Ended December 31, 2002 and Year Ended December 31, 2002 Compared to Year Ended December 31, 2001**

The following discussion and analysis of our financial condition and results of operations covers periods before our acquisition of Akzo Nobel's refinery catalysts business. The disclosure with respect to future periods will include the performance of the acquired business, which is expected to have a significant impact on our overall results of operations. We restated our financial statements for the years ended December 31, 2003, 2002 and 2001 to reflect the realignment of our polyolefin catalysts business from our Polymer Chemicals segment, which we renamed Polymer Additives, to our new Catalysts segment, which occurred in connection with our acquisition of Akzo Nobel's refinery catalysts business. The polyolefin catalysts products' net sales, operating profit and identifiable assets were moved from the Polymer Chemicals segment into the new Catalysts operating segment. The Polymer Additives and Catalysts operating segment data herein are recast for net sales, operating profit and identifiable assets for each of the years ended December 31, 2003, 2002 and 2001 to reflect the realignment. After the realignment, the Polymer Additives operating segment is comprised of the flame retardants and polymer additives product areas. The Catalysts operating segment is comprised of the refinery catalysts and polyolefin catalysts product areas. The Fine Chemicals operating segment is comprised of the performance chemicals, pharmaceuticals, agrichemicals, and fine chemistry services and intermediates product areas. In addition, we restated our financial statements for the year ended December 31, 2002 to move the recognition of revenue of a fourth quarter 2002 transaction from December 31, 2002 results to the first quarter and second quarter of 2003. The results included and discussed below reflect these restatements. For more information on these restatements, see our consolidated financial statements and related notes included elsewhere in this prospectus supplement.

Net Sales. Net sales by operating segments for the three years ended December 31, are as follows:

	Net Sales		
	2003	2002	2001
	(in thousands)		
Polymer Additives	\$ 547,461	\$ 460,208	\$ 380,621
Catalysts	82,959	92,436	99,288
Fine Chemicals	479,817	455,274	462,843
Segment totals	\$ 1,110,237	\$ 1,007,918	\$ 942,752

Net sales for 2003 were \$1,110.2 million, up \$102.3 million (10.2%) from net sales of \$1,007.9 million in 2002. Polymer Additives' net sales in 2003 increased \$87.3 million (18.9%) due to the favorable impact of foreign exchange (\$28.1 million), the addition of our acquisitions (\$54.9 million) and higher shipments in flame retardants (\$13.5 million). The increase was partially offset by lower shipments (\$3.6 million) and prices (\$3.1 million) in curatives and additives and lower prices in flame retardants (\$2.4 million). Catalysts' net sales in 2003 were down \$9.5 million (10.3%) due to lower shipments (\$18.3 million), offset in part, by higher prices (\$6.3 million) and the favorable impact of foreign exchange (\$2.5 million). Fine Chemicals' net sales for 2003 increased \$24.5 million (5.4%) due to the favorable impact of foreign exchange (\$26.0 million), higher shipments in agricultural chemicals (\$8.2 million) and fine chemistry services and intermediates (\$6.1 million) and the addition of our Atofina acquisition (\$1.9 million). The increase was partially offset by unfavorable product mix (\$3.7 million) and prices (\$3.0 million) in performance chemicals, lower shipments (\$6.3 million) and unfavorable pricing (\$0.8 million) in bulk active pharmaceuticals, as well as unfavorable pricing in fine chemistry services and intermediates (\$3.6 million).

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Net sales for 2002 amounted to \$1,007.9 million, up \$65.2 million (6.9%), from \$942.7 million in 2001. Polymer Additives net sales in 2002 were up \$79.6 million (20.9%) due to higher shipments (\$47.9 million) partially offset by lower pricing (\$15.7 million) in flame retardants and the increase in net sales of \$37.4 million resulting from the mid-year 2001 acquisitions of Martinswerk GmbH and the custom and fine chemicals businesses of ChemFirst Inc. and higher shipments (\$12.5 million) offset, in part, by lower pricing (\$2.0 million)

S-46

Table of Contents

in curatives and additives. Catalysts net sales in 2002 were down \$6.9 million (6.9%) primarily due to lower shipments (\$5.3 million) and prices (\$1.8 million). Fine Chemicals net sales in 2002 were down \$7.5 million (1.6%) due to lower shipments (\$32.6 million) partially offset by higher pricing (\$1.3 million) in agricultural chemicals and fine chemistry services and intermediates and product mix in performance chemicals (\$5.7 million); offset by an increase in net sales from our mid-year 2001 acquisitions of Martinswerk and ChemFirst businesses (\$28.9 million).

Operating Costs and Expenses. Cost of goods sold in 2003 increased \$96.3 million (12.4%) from 2002. The increase was primarily due to operating costs associated with our 2003 acquisitions, the favorable impact of foreign exchange of \$12.7 million as well as the effects of raw material and energy costs of \$24.0 million. This increase is partially offset by the absence of a \$2.6 million charge to costs of sales related to the discontinuance and withdrawal from a water treatment venture in the 2002 period. The gross profit margin decreased approximately 160 basis points to 21.5% for 2003 from 23.1% in 2002. Overall, our average 2003 raw material costs were significantly higher, increasing by \$16.0 million from 2002. Energy costs in 2003 were \$8.0 million higher than in 2002.

Cost of goods sold in 2002 increased \$54.0 million (7.5%) from 2001. The increase was primarily due to operating costs associated with increased shipments over 2001 in flame retardants and our acquisitions of Martinswerk and the ChemFirst businesses, lower pension income as well as a charge of approximately \$2.6 million (\$8.3 million, net of probable insurance recovery of \$5.7 million) related to the discontinuance of product support for and the withdrawal from a water treatment venture. This increase is partially offset by favorable plant utilization and production costs and the favorable effects of foreign exchange transaction gains of approximately \$1.7 million in 2002 versus foreign exchange transaction gains of approximately \$0.5 million in 2001. Gross profit margin decreased to 23.1% in 2002 from 23.5% in 2001. Overall, our average 2002 raw material costs were significantly lower, decreasing by \$26.9 million from 2001. Energy costs in 2002 were \$0.4 million lower than in 2001.

Selling, general and administrative expenses, or SG&A, combined with research and development expenses, or R&D in 2003 increased \$7.5 million (5.8%) from 2002 primarily due to the unfavorable impact of foreign exchange (\$4.4 million), lower pension income (\$2.7 million), higher outside services approximating \$3.0 million and higher SFAS No. 2 research and development costs (\$1.9 million) partially offset by lower employee incentive costs (\$2.8 million) and our overall cost reduction efforts. The 2003 increase in SG&A and R&D compares to an increase of \$7.3 million (6.1%) in 2002 from 2001 primarily due to higher employee-related costs as well as a \$3.5 million increase in recurring SG&A associated with our mid-year 2002 acquisitions of Martinswerk and ChemFirst businesses. As a percentage of net sales, SG&A and R&D were 12.2% in 2003 versus 12.7% in 2002 and 12.8% in 2001.

Operating Profit. Operating profit by operating segments for the three years ended December 31, are as follows:

	Operating Profit		
	2003	2002	2001
	(in thousands)		
Polymer Additives	\$ 58,527	\$ 56,325	\$ 50,260
Catalysts	12,305	9,030	10,400
Fine Chemicals	48,526	59,975	60,497
Corporate and Other Expenses	(26,534)	(22,511)	(22,707)
Totals	\$ 92,824	\$ 102,819	\$ 98,450

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Our operating profit in 2003, including a \$7.5 million voluntary separation charge and a \$2.5 million impairment charge relating to real estate held for sale, decreased \$10.0 million (9.7%) from the 2002 period. Higher raw material and energy costs were significant contributors to this decrease. The decrease is partially offset by the favorable net effects of foreign exchange, the impact of our 2003 acquisitions and the absence of a

S-47

Table of Contents

\$2.6 million charge to costs of sales related to the discontinuance and withdrawal from a water treatment venture in the 2002 period.

Our operating profit in 2002 increased \$4.4 million (4.4%) from 2001. Reduced raw material and favorable manufacturing costs and plant utilization, higher shipments in flame retardants as well as the favorable integration of Martinswerk contributed to this increase. The increase was partially offset by lower pricing, lower shipments in Fine Chemicals agricultural chemicals and fine chemistry services and intermediates product lines, a charge of approximately \$2.6 million related to the discontinuance of product support for and the withdrawal from a water treatment venture and a charge of \$1.5 million related to workforce reductions. SG&A and R&D in 2002 increased \$7.3 million (6.1%) from 2001 primarily due to higher employee-related costs as well as a \$3.5 million increase in recurring SG&A associated with the mid-year 2001 acquisitions.

Polymer Additives operating profit for 2003, including a \$2.9 million allocation charge related to a voluntary severance program, increased \$2.2 million (3.9%) from 2002. Excluding the above charge, 2003 operating profit increased \$5.1 million primarily due to the favorable net effects of foreign exchange (\$9.4 million), the favorable impact of our acquisitions (\$9.8 million), lower production costs (\$2.5 million) offset, in part, by higher raw material and energy costs (\$7.9 million), lower prices (\$5.6 million) and lower shipments in curatives and additives (\$2.0 million) and flame retardants (\$1.0 million).

Polymer Additives operating results for 2002 increased \$6.1 million (12.1%) versus 2001, primarily due to higher shipments in flame retardants (\$15.9 million), which includes the impact of the acquisition of Martinswerk and favorable raw material costs (\$13.2 million). The increase was partially offset by lower pricing (\$19.3 million) primarily in flame retardants and unfavorable production costs (\$3.2 million).

Catalysts operating profit for 2003 increased \$3.3 million (36.3%) from 2002 primarily due to higher prices (\$6.3 million), a 2002 period reclassification from corporate and other expenses (\$2.0 million), lower R&D and production costs (\$1.4 million) and the favorable net effects of foreign exchange (\$1.0 million) offset, in part, by lower shipments (\$5.2 million) and higher raw material and energy costs (\$2.2 million).

Catalysts operating results for 2002 decreased \$1.4 million (13.2%) versus 2001 primarily due to a first quarter 2002 reclassification of bad debt expense from corporate and other expenses (\$2.0 million) and lower prices (\$1.8 million). The decrease was partially offset by favorable SG&A and R&D costs (\$1.2 million) and production costs (\$1.0 million).

Fine Chemicals operating profit for 2003, including a \$1.8 million allocation charge related to a voluntary severance program, decreased \$11.4 million (19.1%) from 2002. Excluding the above charge, 2003 operating profit decreased \$9.6 million (16.1%) primarily due to higher raw material and energy costs (\$13.9 million), unfavorable manufacturing costs (\$7.8 million), lower prices (\$3.0 million) and product mix (\$2.5 million) in performance chemicals, and lower prices in fine chemistry services and intermediates (\$3.6 million) as well as bulk active pharmaceuticals (\$0.8 million). This decrease was partially offset by higher shipments in fine chemistry services and intermediates (\$7.4 million), agricultural chemicals (\$5.7 million), and bulk active pharmaceuticals (\$3.0 million), the absence of a \$2.6 million charge to costs of sales related to the discontinuance and withdrawal from a water treatment venture in the 2002 period and the favorable net effects of foreign exchange (\$3.1 million).

Fine Chemicals operating results for 2002 decreased \$0.5 million (0.8%) versus 2001 primarily due to lower pricing (\$13.7 million) primarily in performance chemicals, lower shipments (\$10.9 million) primarily in agricultural chemicals and fine chemistry services and intermediates, and a charge of approximately \$2.6 million (\$8.3 million, net of probable insurance recovery of \$5.7 million) related to the discontinuance of product support for and the withdrawal from a water treatment venture. The decrease was partially offset by favorable raw material (\$13.7 million) and manufacturing costs (\$12.8 million), primarily due to increased production in the detergent builders zeolites product line.

Corporate and other expenses for 2003 increased \$4.0 million (17.9%) from 2002, primarily due to the following adjustments recorded in the respective periods. Excluding the adjustments, corporate and other

S-48

Table of Contents

expenses were down approximately \$1.7 million in 2003 due primarily to lower employee incentive costs and our overall cost reduction efforts.

	Corporate and Other Expenses		
	2003	2002	Increase/ (Decrease)
	(in thousands)		
Expenses for the years ended December 31	\$ 26,534	\$ 22,511	\$ 4,023
2003 voluntary severance program	(2,758)		(2,758)
Impairment charge on real estate held for sale	(2,546)		(2,546)
Reclassification of bad debt reserve to catalysts segment		2,000	(2,000)
2002 workforce reduction		(1,550)	1,550
Net change excluding 2002 adjustment and voluntary severance program	\$ 21,230	\$ 22,961	\$ (1,731)

Corporate and other expenses in 2002 decreased \$0.2 million (0.9%) versus 2001. This decrease is attributable to a first quarter 2002 reclassification of bad debt expense to the Catalysts segment operating profit (\$2.0 million) partially offset by a higher employee incentive provision and a charge of \$1.5 million related to workforce reductions in 2002.

Interest and Financing Expenses. Interest and financing expenses for 2003 increased \$0.3 million from \$5.1 million in 2002 due primarily to higher commitment fees under our then-existing credit agreement offset, in part, by lower average interest rates on higher average outstanding long term debt. Interest and financing expenses for 2002 were impacted by an overall lower average interest rate for the year versus 2001 partially offset by higher average debt outstanding during 2002. The higher debt in 2002 reflected the impact of the two acquisitions during 2001 as well as the repurchase of 4,000,000 common shares in February 2002.

Other Income, Net Including Minority Interest. Other income, net including minority interest for 2003 amounted to \$0.6 million, down \$2.7 million from 2002 primarily due to higher operating losses on joint venture investments offset, in part, by an increase in interest on income tax settlements (\$0.7 million) in 2003 versus 2002. Other income, net including minority interest decreased to \$3.4 million in 2002 from \$4.3 million in 2001, primarily due to the minority interest of \$2.1 million in our majority-owned subsidiary, Stannica LLC, partially offset by interest received in the amount of \$2.0 million related to a favorable income tax settlement in 2002. See Note 1, Summary of Significant Accounting Policies Investments of the notes to our consolidated financial statements included elsewhere in this prospectus supplement.

Income Taxes. Income taxes in 2003 decreased \$14.2 million from 2002. The 2003 period includes the favorable benefit of \$7.5 million related to the revaluation of reserve requirements as the Internal Revenue Service closed audits related to tax years 1998 and 1999 as well as the impact of an IRS income tax settlement related to tax years 1996 and 1997 received in the amount of \$4.5 million. Income taxes in 2002 were relatively unchanged compared to 2001. Income taxes in 2002 included an IRS settlement in the amount of \$2.5 million offset by higher pre-tax income in 2002. The effective tax rate for 2003 was 15.8%, which was down from 27.8% in 2002 and 29.9% in 2001. See Note 13, Income Taxes of the notes to our consolidated financial statements included elsewhere in this prospectus supplement, for details of changes in effective income tax rates.

Summary of Critical Accounting Policies

Estimates and Assumptions

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Listed below are the estimates and assumptions that we consider to be significant in the preparation of the financial statements.

Allowance for Doubtful Accounts We estimate losses for uncollectible accounts based on the aging of receivables and the evaluation of the likelihood of success in collecting the receivables.

Table of Contents

Depreciation Book depreciation is estimated based upon internal engineering studies, which are conducted periodically. Engineering and manufacturing, with the advice of specific product management, review each project to make sure that assets to be capitalized are depreciated based upon the estimated product life and/or individual asset life, whichever is less.

Inventory Obsolescence Inventories are viewed on a monthly basis to determine age, movement and turnover. Reserves are setup periodically based upon estimates to adjust inventory values in line with their net realizable value.

Recovery of Long-Lived Assets We evaluate the recovery of our long-lived assets on a segment basis by periodically analyzing our operating results and considering significant events or changes in the business environment.

Acquisition Accounting We estimate the fair value of assets and liabilities when allocating the purchase price of an acquisition.

Income Taxes We assume the deductibility of certain costs in our income tax filings and estimate the future recovery of deferred tax assets.

Legal Accruals We estimate the amount of potential exposure and anticipated cost to defend that we may incur with respect to litigation, claims and assessments.

Performance and Life Cycle Guarantees We provide customers certain performance guarantees and life cycle guarantees. These guarantees entitle the customer to claim compensation if the product does not conform to performance standards originally agreed upon. Performance guarantees relate to minimum technical specifications that products produced with the delivered catalyst must meet, such as yield and product quality. Life cycle guarantees relate to minimum periods for which performance of the delivered catalysts is guaranteed. When either performance guarantees or life cycle guarantees are contractually agreed upon, an assessment of the appropriate revenue recognition treatment is evaluated.

Environmental Remediation Liabilities We estimate and accrue the costs required to remediate a specific site depending on site-specific facts and circumstances. Cost estimates to remediate each specific site are developed by assessing (1) the scope of our contribution to the environmental matter, (2) the scope of the anticipated remediation and monitoring plan, and (3) the extent of other parties' share of responsibility.

Actual results could differ materially from the estimates and assumptions that we use in the preparation of our financial statements.

Revenue Recognition

We recognize sales when the revenue is realized or realizable, and has been earned, in accordance with the SEC's Staff Accounting Bulletin No. 104, Revenue Recognition in Financial Statements. We recognize net sales as risk and title to the product transfer to the customer, which usually occurs at the time shipment is made. The majority of our sales are sold free on board (FOB) shipping point or on an equivalent basis, other

Edgar Filing: ALBEMARLE CORP - Form S-3/A

transactions are based upon specific contractual arrangements. Our standard terms of delivery are included in our contracts of sale, order confirmation documents and invoices. We recognize revenue from services when performance of the services has been completed. We have a limited amount of consignment sales that are billed to the customer upon monthly notification of amounts used by the customers under these contracts.

Claims Receivable

We record receivables for non-trade claims on a case-by-case basis whenever management deems that the claim for recovery is probable. Recording of such receivables is preceded by the gathering and evaluation of factually supportable evidence and conditions surrounding the claim, and is generally based on application of

S-50

Table of Contents

specific contractual terms with third parties from which the claim arises. In accordance with generally accepted accounting principles, we evaluate these receivables for collectibility on a regular basis, and we record provisions for uncollectible amounts when subsequent conditions indicate that collection of all or part of the receivable is doubtful.

Pension Plans and Other Postretirement Benefits

We follow the guidance of SFAS No. 87, *Employers' Accounting for Pensions*, and SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, when accounting for pension and postretirement benefits. Under these accounting standards, assumptions are made regarding the valuation of benefit obligations and the performance of plan assets. Delayed recognition of differences between actual results and expected or estimated results is a guiding principle of these standards. This delayed recognition of actual results allows for the recognition of changes in benefit obligations and plan performance over the working lives of the employees who benefit under the plans. The primary assumptions are as follows:

Discount Rate The discount rate is used in calculating the present value of benefits, which is based on projections of benefit payments to be made in the future.

Expected Return on Plan Assets We project the future return on plan assets based principally on prior performance. These projected returns reduce the net benefit costs recorded currently.

Rate of Compensation Increase For salary-related plans, we project employees' annual pay increases, which are used to project employees' pension benefits at retirement.

Rate of Increase in the Per Capita of Covered Health Care Benefits We project the expected increases in the cost of covered health care benefits.

During 2003, we made changes to the assumptions related to the discount rate, the rate of compensation increase (for salary-related plans) and the rate of increase in the per capita cost of covered health care benefits. We consider available information that we deem relevant when selecting each of these assumptions.

In selecting the discount rate, consideration is given to fixed-income security yields, specifically high quality bonds (Moody's Aa corporate bond rate). At December 31, 2003, the discount rate was reduced for the plans from 6.60% to 6.15% as a result of decreased yields for long-term high quality bonds.

In estimating the expected return on plan assets, we consider past performance and future expectations for the types of investments held by the plan as well as the expected long-term allocation of plan assets to these investments. At December 31, 2003, the expected rate of return on pension plan assets was reduced from 9.25% to 8.75% and there was no change in the expected 7.00% return on other postretirement benefit plan assets. Our U.S. defined benefit plan was closed to new participants effective March 31, 2004. We adopted a new defined contribution plan for new employees hired after March 31, 2004.

Edgar Filing: ALBEMARLE CORP - Form S-3/A

In projecting the rate of compensation increase, we consider past experience in light of movements in inflation rates. At December 31, 2003, the assumed rate of compensation increase was reduced from 3.75% to 2.56% for the plans.

In selecting the rate of increase in the per capita cost of covered health care benefits, we consider past performance and forecasts of future health care cost trends. At December 31, 2003, the previously assumed rate of increase in the per capita cost of covered health care benefits was decreased. The assumed health care cost trend rate for 2003 for pre-65 coverage was 10% per year, dropping by 1% per year to an ultimate rate of 6%, the trend rate for post-65 coverage was 12% per year, dropping by 1% per year to an ultimate rate of 6%. The assumed health care cost trend rate for 2002 for pre-65 coverage was 11% per year, dropping by 1% per year to an ultimate rate of 6%, the trend rate for post-65 coverage was 13% per year, dropping by 1% per year to an ultimate rate of 6%.

S-51

Table of Contents

Income Taxes

Deferred income taxes result from temporary differences in the recognition of income and expenses for financial and income tax reporting purposes, using the liability or balance sheet method. Such temporary differences result primarily from differences between the financial statement carrying amounts and tax basis of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse.

In connection with our ongoing evaluation of our internal controls over financial reporting pursuant to the Sarbanes-Oxley Act of 2002, we have determined that certain of our reported deferred income tax assets with respect to accrued bonuses and other items are overstated based on our detailed reviews. As such, we expect to take a charge associated with a write-down of our deferred tax assets during the fourth quarter of 2004, resulting in the reduction of our net income by approximately \$1.7 million for the period. Additionally, we are investigating differences identified in our taxable income calculations for certain of our past income tax returns relating mainly to depreciation adjustments recorded for purposes of determining taxable income. These differences, amounting to approximately \$9.3 million reflected in deferred income tax liabilities, are expected to result in a reclassification of this balance from deferred income tax liabilities to current income taxes payable. We intend to reflect this reclassification in our Annual Report on Form 10-K for the year ended December 31, 2004. We believe that each of this write-down and this reclassification entry has had an immaterial impact on our reported financial position and will have an immaterial impact on our 2004 results of operations.

Investments

We have investments in joint ventures, nonmarketable securities and marketable equity securities. The majority of our investments are in joint ventures. Since we have the ability to exercise significant influence over the operating and financial policies of these joint ventures, they are accounted for using the equity method of accounting. Our shares of the investee's earnings (losses) are included in the consolidated statement of operations as a component of other income, net including minority interest. Investments in marketable securities are accounted for as available-for-sale securities with changes in fair value included in accumulated other comprehensive income (loss) in the shareholders' equity section of the consolidated balance sheets. Joint ventures and nonmarketable securities results for immaterial entities are estimated based upon the overall performance of the entity where financial results are not available on a timely basis.

Financial Condition and Liquidity

Cash and cash equivalents at September 30, 2004, were \$60.8 million, representing an increase of \$25.6 million from \$35.2 million at year-end 2003.

In the nine months ended September 30, 2004, cash flows provided from operating activities of \$131.2 million, together with approximately \$1,051 million of proceeds from borrowings, were used to cover operating activities, purchase a business and assets for \$762.4 million, net of cash acquired, repay debt of \$325.8 million, fund capital expenditures totaling \$37.6 million, pay quarterly dividends to shareholders of \$18.0 million, fund \$12.8 million of realized euro-denominated hedging losses associated with the acquisition of the Akzo Nobel refinery catalysts business, fund investments in joint ventures and nonmarketable securities of \$6.7 million, purchase 27,569 shares of our common stock, and increase cash and cash equivalents by \$25.6 million. We anticipate that cash provided from operations in the future and borrowings under our new senior credit agreement will be sufficient to pay our operating expenses, satisfy debt-service obligations, fund capital expenditures and make dividend payments.

Edgar Filing: ALBEMARLE CORP - Form S-3/A

The change in our accumulated other comprehensive loss from December 31, 2003, was due primarily to net foreign currency translation adjustments (strengthening of the U.S. dollar versus the euro), net of related deferred taxes.

On July 31, 2004, we completed the acquisition of the Akzo Nobel refinery catalysts business for 615.7 million (approximately \$762.2 million at applicable exchange rates) in cash. Following this acquisition, we

S-52

Table of Contents

transferred our existing polyolefin catalysts business from our Polymer Chemicals segment, which we renamed Polymer Additives, to a newly created Catalysts segment, which also includes the assets we acquired from Akzo Nobel.

In connection with the acquisition, we entered into (1) a new senior credit agreement, dated as of July 29, 2004, among Albemarle, Albemarle Catalysts International, L.L.C., a subsidiary of our company, certain of our subsidiaries as guarantors, the lenders parties thereto, Bank of America, N.A., as Administrative Agent, UBS Securities LLC, as Syndication Agent, and The Bank of New York, Fortis (USA) Finance LLC and SunTrust Bank, as Co-Documentation Agents, consisting of a \$300 million revolving credit facility and a \$450 million five-year term loan facility, and (2) a \$450 million 364-day loan agreement, dated as of July 29, 2004, among Albemarle, Albemarle Catalysts International, L.L.C., certain of our subsidiaries as guarantors, the lenders parties thereto, Banc of America Bridge LLC, as Administrative Agent, and UBS Securities LLC, as Syndication Agent. We used the initial borrowings under the new senior credit agreement and the 364-day loan agreement to consummate the acquisition, refinance our then-existing credit agreement and pay related fees and expenses incurred in connection therewith.

All of our borrowings under our \$300 million revolving credit facility, \$450 million five-year term loan facility and 364-day loan agreement bear interest at variable rates based on an average LIBOR rate for deposits in the relevant currency plus an applicable rate (currently 1.0%). The applicable rate is variable based on the rating of our senior unsecured long-term debt by S&P and Moody's. As of September 30, 2004, borrowings under our \$300 million revolving credit facility, \$450 million five-year term loan facility and 364-day loan agreement bore variable interest rates of 2.44%, 2.86% and 2.69%, respectively, per annum.

Borrowings under our new senior credit agreement and 364-day loan agreement are conditioned upon compliance with the following financial covenants: (a) consolidated fixed charge coverage ratio, as defined, must be greater than or equal to 1.25:1.00 as of the end of any fiscal quarter; (b) consolidated debt to capitalization ratio, as defined, at the end of any fiscal quarter must be less than or equal to 65% (i) prior to the earlier of (A) July 29, 2005 and (B) our first equity issuance subsequent to July 29, 2004, and (ii) thereafter, 60%; (c) consolidated tangible domestic assets, as defined, must be or greater than or equal to \$750 million for us to make investments in entities and enterprises that are organized outside the United States; and (d) with the exception of liens specified in our new senior credit agreement and the 364-day loan agreement, liens may not attach to assets where the aggregate amount of all indebtedness secured by such liens at any time exceeds 10% of consolidated net worth, as defined in the agreements. At September 30, 2004, our consolidated fixed charge coverage ratio was 2.81:1.00.

The current portion of our long-term debt amounted to \$495.0 million at September 30, 2004, principally reflecting amounts payable on July 28, 2005 under our 364-day loan agreement pursuant to which amounts were borrowed to finance in part the acquisition of the refinery catalysts business. The noncurrent portion of our long-term debt amounted to \$458.2 million at September 30, 2004, subsequent to our financing the acquisition of the Akzo Nobel refinery catalysts business, compared to \$228.4 million at the end of 2003. Our long-term debt, including the current portion, as a percentage of total capitalization amounted to 59.0% at September 30, 2004.

As of September 30, 2004, we were the guarantor of \$36.7 million of outstanding long-term debt on behalf of our joint venture company, Jordan Bromine Company Limited. We were also the guarantor of \$0.4 million of outstanding debt at September 30, 2004, on behalf of our joint venture company, Eurecat U.S., Inc. Our long-term debt, including the guarantees, as a percent of total capitalization amounted to 59.9% at September 30, 2004.

Our capital expenditures in the first nine months of 2004 were up by \$7.3 million from the nine-month period of 2003. For the year, capital expenditures, including capital expenditures relating to the Akzo Nobel refinery catalysts business since its acquisition, are forecasted to be about 50% greater than the 2003 level. Capital spending will be financed primarily with cash flow provided from operations with additional cash needed, if any, provided by borrowings, including borrowings under our revolving credit facility. The amount and timing of any additional borrowings will depend on the Company's specific cash requirements.

Edgar Filing: ALBEMARLE CORP - Form S-3/A

On October 13, 2004, we filed a universal shelf registration statement on Form S-3 with the SEC covering \$700 million of securities. The shelf registration statement will permit us to issue from time to time a range of

S-53

Table of Contents

securities, including common stock, preferred stock and senior and subordinated debt. We intend to use the net proceeds from this offering and the common stock offering to retire all or substantially all of the indebtedness that we incurred under our 364-day loan agreement to finance the refinery catalysts acquisition. To the extent that the net proceeds from this offering and the common stock offering are insufficient to retire all of the indebtedness outstanding under our 364-day loan agreement, we intend to incur additional borrowings under our \$300 million revolving credit facility to retire the remaining amount of indebtedness outstanding under our 364-day loan agreement. As of September 30, 2004, after giving pro forma effect to the completion of this offering and the common stock offering and the application of the net proceeds therefrom as described in *Use of Proceeds* and assuming that we incur additional borrowings under our \$300 million revolving credit facility to retire the remaining amount of indebtedness outstanding under our 364-day loan agreement, we would have had \$807.0 million of indebtedness outstanding. Giving pro forma effect to the completion of this offering and the common stock offering and the application of the net proceeds therefrom as described in *Use of Proceeds* and assuming that we incur additional borrowings under our \$300 million revolving credit facility to retire the remaining amount of indebtedness outstanding under our 364-day loan agreement and assuming an interest rate of 5.50% for the notes and 2.80% for borrowings of \$462.5 million under our senior credit agreement (the pro forma amount outstanding at September 30, 2004), our annualized interest expense would be \$29.5 million. A change of 0.125% in the interest rate applicable to the notes would change our annualized interest expense by \$0.4 million and a change of 0.125% in the interest rate applicable to such borrowings under our senior credit agreement would change our annualized interest expense by \$0.6 million.

As of September 30, 2004, we had the ability to borrow an additional \$347 million under our various credit agreements.

The following table summarizes our contractual obligations at September 30, 2004.

	4Q						There- after
	2004	2005	2006	2007	2008	2009	
Long-term debt obligations	\$ 11,250	\$ 495,047	\$ 45,051	\$ 45,056	\$ 202,561	\$ 141,717	12,584
Expected interest payments on long-term debt obligations ⁽¹⁾	\$ 6,666	\$ 29,777	\$ 28,517	\$ 27,257	\$ 25,446	\$ 18,187	\$ 86,045
Operating lease obligations (rental)	\$ 1,730	\$ 5,228	\$ 4,267	\$ 2,885	\$ 2,719	\$ 2,719	\$ 10,228
Take or pay / throughput agreements	\$ 29,389	\$ 67,012	\$ 32,792	\$ 9,063	\$ 7,066	\$ 6,366	\$ 27,372
Additional investment commitment payments	\$ 3,883	\$ 1,020	\$ 790	\$ 790	\$ 30	\$ 30	\$ 210
Capital projects	\$ 13,652	\$ 7,325	\$ 616	\$ 622	\$ 2,525		
Letters of credit and guarantees	\$ 4,162	\$ 31,378	\$ 6,788	\$ 3,146	\$ 3,508	\$ 3,007	\$ 4,772
Total	\$ 70,732	\$ 636,787	\$ 118,821	\$ 88,819	\$ 243,855	\$ 172,026	\$ 141,211

(1) These amounts are based on a weighted average interest rate of 2.80% for our variable rate long-term debt obligations and an assumed interest rate of 5.50% for the notes.

Environmental Matters

We are subject to federal, state, local and foreign requirements regulating the handling, manufacture and use of materials (some of which may be classified as hazardous or toxic by one or more regulatory agencies), the discharge of materials into the environment and the protection of the environment. To our knowledge, we are currently complying and expect to continue to comply in all material respects with applicable

Edgar Filing: ALBEMARLE CORP - Form S-3/A

environmental laws, regulations, statutes and ordinances. Compliance with existing federal, state, local and foreign environmental protection laws is not expected to have in the future a material effect on our earnings or competitive position, but increased legal or regulatory requirements could have an adverse effect on our results.

S-54

Table of Contents

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

Our environmental and safety operating costs charged to expense were \$21.0 million in 2003 versus \$17.7 million in 2002 and \$14.4 million in 2001, excluding depreciation of previous capital expenditures, and are expected to be in the same range in the next few years. Costs for remediation have been accrued and payments related to sites are charged against accrued liabilities, which at December 31, 2003 totaled \$29.1 million, down \$2.3 million, from December 31, 2002.

We believe that most of the amount we may be required to pay in connection with environmental remediation matters in excess of the amounts recorded, if any, should occur over a period of time and should not have a material adverse impact on our financial condition or results of operations, but could have a material adverse impact in any particular quarterly reporting period.

Our capital expenditures for pollution-abatement and safety projects, including such costs that are included in other projects, were \$4.5 million, \$4.4 million and \$2.6 million in 2003, 2002 and 2001, respectively. For each of the next few years, capital expenditures for these types of projects may increase due to more stringent regulatory requirements and the expansion of our operations by the acquisition of the Akzo Nobel refinery catalysts business. Management's estimates of the effects of compliance with governmental pollution-abatement and safety regulations are subject to (i) the possibility of changes in the applicable statutes and regulations or in judicial or administrative construction of such statutes and regulations, and (ii) uncertainty as to whether anticipated solutions to pollution problems will be successful, or whether additional expenditures may prove necessary.

Recently Issued Accounting Pronouncements

On January 1, 2003, we adopted SFAS No. 143, Accounting for Asset Retirement Obligations, which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. At the time of adoption, we identified certain assets for which there are future retirement obligations. These future obligations are comprised primarily of the cost of closing various facilities and of capping brine wells. The financial statement impact at adoption of this statement on our consolidated statements of income is reflected as a cumulative effect of a change in accounting principle amounting to \$3.5 or \$2.2 million after income taxes, which is reflected as a cumulative effect of a change in accounting principle, net in the company's consolidated statements of income in 2003.

During January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities. FIN 46 clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties; such entities are known as variable interest entities. FIN 46 applies immediately to all variable interest entities created after January 31, 2003 and is effective as of December 31, 2003 for any variable interest entities deemed to be special purpose entities created prior to February 1, 2003. The FASB issued a revision to FIN 46 (FIN 46-R) in December 2003. FIN 46-R is effective for the interim period ending March 31, 2004 for all new or existing

Table of Contents

variable interest entities. We have determined that the adoption of FIN46-R did not impact the company for the current periods.

Effective June 30, 2003, we adopted SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. This statement amends and clarifies financial accounting and reporting for derivatives and for hedging activities under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. This standard had an immaterial impact on our financial statements.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Instruments with Characteristics of Both Liabilities and Equity. This standard requires that certain financial instruments embodying an obligation to transfer assets or to issue equity securities be classified as liabilities. It is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective July 1, 2003. At the time of adoption, this standard had no impact on our financial statements.

On December 23, 2003, the FASB issued SFAS No. 132 (revised 2003), Employers Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88, and 106, and a revision of FASB Statement No. 132. This statement revises employers disclosures about pension plans and other postretirement benefit plans. The new rules require additional disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other postretirement benefit plans. We implemented SFAS No. 132 (revised 2003) for the year ended December 31, 2003.

Quantitative and Qualitative Disclosures about Market Risk

In the normal course of operations, we are exposed to changes in financial market conditions due to the denomination of our business transactions in diverse foreign currencies and our ongoing manufacturing and funding activities. As a result, future earnings, cash flows and fair values of assets and liabilities are subject to market risk. We have established policies, procedures and internal processes governing our management of uncertain market conditions, and use both operational and financial market actions in our risk management activities, which include the use of derivative instruments. We do not use derivative instruments for trading purposes. We only enter into derivative contracts based on economic analysis of underlying exposures anticipating that adverse impacts on future earnings, cash flows and fair values due to fluctuations in foreign currency exchange rates will be offset by the proceeds from and changes in fair value of the derivative instruments. We do not hedge our exposure to market risks in a manner that completely eliminates the effects of changing market conditions on earnings, cash flows and fair values.

Short-term exposures to changing foreign currency exchange rates are primarily due to operating cash flows denominated in foreign currencies. We cover certain known and anticipated operating exposures by using forward contracts.

The primary currencies for which we have foreign currency exchange rate exposure are the European Union euro, Japanese yen, British pound sterling and the U.S. dollar (in certain of our foreign locations). In response to the greater fluctuations in foreign currency exchange rates in recent periods, we have increased the degree of risk management activities to minimize the impact on earnings of future periods.

We manage our foreign currency exposures by balancing certain assets and liabilities denominated in foreign currencies and through the use, from time-to-time, of foreign currency forward contracts. The principal objective of these contracts is to minimize the risks and/or costs associated with global operating activities. We do not use financial instruments for trading or other speculative purposes. The counterparties to these contracts are major financial institutions with which we generally also have other financial relationships.

We enter into foreign currency forward contracts, which generally expire within one year, in the regular course of business to assist in managing our exposure against foreign currency fluctuations on sales and intercompany transactions. The primary method to cover foreign currency exposure is to seek a natural hedge, in

S-56

Table of Contents

which the operating activities denominated in respective currencies balance in respect to timing and the underlying exposures. In the event a natural hedge is not available, a foreign currency forward contract may be employed to reduce currency exposure. While these contracts are subject to fluctuations in value, such fluctuations are generally offset by the value of the underlying foreign currency exposures being hedged. Gains and losses on foreign currency forward contracts are recognized currently in income.

In connection with the acquisition of the Akzo Nobel refinery catalysts business, we entered into foreign currency forward hedging contracts to partially hedge the purchase price, which was denominated in euros. As a result, we incurred a one-time net charge of \$12.8 million during the nine months ended September 30, 2004.

Our financial instruments, subject to foreign currency exchange risk, consist of foreign currency forward contracts and represented a net asset position of approximately one thousand dollars at September 30, 2004. We conducted a sensitivity analysis on the fair value of our foreign currency hedge portfolio assuming instantaneous 10% changes in foreign currency exchange rates from their levels as of September 30, 2004, with all other variables held constant. A 10% appreciation of the U.S. dollar against foreign currencies would result in an increase of \$0.2 million in the fair value of foreign currency exchange hedging contracts. A 10% depreciation of the U.S. dollar against foreign currencies would result in a decrease of \$0.2 million in the fair value of foreign currency exchange hedging contracts. The sensitivity in fair value of the foreign currency hedge portfolio represents changes in fair values estimated based on market conditions as of September 30, 2004, without reflecting the effects of underlying anticipated transactions. When those anticipated transactions are realized, actual effects of changing foreign currency exchange rates could have a material impact on earnings and cash flows in future periods.

We are exposed to changes in interest rates that could impact our results of operations and financial condition. We manage the worldwide exposure of our interest rate risks and foreign exchange exposure through our regular operations and financing activities. We intend to use the our senior credit agreement as our primary source of financing supplemented by several uncommitted line agreements, which could expose us to changes in interest rates, if various financial covenants are not met. We manage our ratio of debt-to-capitalization with the objective of achieving the lowest cost of capital possible.

The raw materials we use are subject to price volatility caused by weather, supply conditions, political and economic variables and other unpredictable factors. Historically, we have not used futures, options and swap contracts to manage the volatility related to the above exposures. However, the Akzo Nobel refinery catalysts business has used financing arrangements (certain of which contain embedded derivatives) to provide long-term protection against changes in metals prices. Management seeks to limit our exposure by entering into long-term contracts when available, and seeks price increase limitations through contracts.

Due to the increase in our outstanding indebtedness as a result of the acquisition of the Akzo Nobel refinery catalysts business, we now plan to enter into interest rate swaps, collars or similar instruments with the objective of reducing interest rate volatility relating to our borrowing costs.

Our operations are exposed to market risk from changes in natural gas prices. We purchase natural gas to meet our production requirements. In the second quarter of 2003, we began hedging a portion of our 12-month rolling forecast for North American natural gas requirements by entering into natural gas futures contracts to help mitigate uncertainty and volatility.

Hedge transactions are executed with a major financial institution by our purchasing personnel. Such derivatives are held to secure natural gas at fixed prices and not for trading.

Edgar Filing: ALBEMARLE CORP - Form S-3/A

The natural gas contracts qualify as cash flow hedges under SFAS No. 133 and are marked to market. The unrealized gains and/or losses are deferred and reported in accumulated other comprehensive income to the extent that the unrealized gains and losses are offset by the forecasted transaction. At September 30, 2004, there were unrealized gains of approximately \$121,000 (\$77,000, net of tax). Any unrealized gains and/or losses on the derivative instrument that are not offset by the forecasted transaction are recorded in earnings.

S-57

Table of Contents**SELECTED HISTORICAL COMBINED FINANCIAL INFORMATION OF AKZO NOBEL S REFINERY CATALYSTS BUSINESS**

The following table sets forth selected historical combined financial information of Akzo Nobel s refinery catalysts business, which we acquired on July 31, 2004, as of and for the years ended December 31, 2003, 2002 and 2001, which have been derived from the audited combined financial statements of the refinery catalysts business, and as of and for the six months ended June 30, 2004 and 2003, which have been derived from the unaudited combined financial statements of the refinery catalysts business. In the opinion of management, the unaudited combined financial statements have been prepared on the same basis as the audited combined financial statements and include all adjustments necessary for a fair presentation of the information set forth therein. Interim results are not necessarily indicative of full year results.

The historical combined financial statements of Akzo Nobel s refinery catalysts business contained in this prospectus supplement were prepared in accordance with Dutch GAAP. There are significant differences between Dutch GAAP and U.S. GAAP. See footnote 23 of the historical combined financial statements of Akzo Nobel s refinery catalysts business contained elsewhere in this prospectus supplement for additional information regarding the differences between Dutch GAAP and U.S. GAAP as they relate to such financial statements and for a reconciliation of net income and divisional equity from Dutch GAAP to U.S. GAAP.

You should read the information in this table together with Management s Discussion and Analysis of Financial Condition and Results of Operations of Akzo Nobel s Refinery Catalysts Business and the historical combined financial statements of the refinery catalysts business and related notes contained elsewhere in this prospectus supplement.

	Six Months			Year Ended			
	Ended June 30,			December 31,			
	2004(1)	2004	2003	2003(1)	2003	2002	2001
	(unaudited)	(unaudited)	(unaudited)	(unaudited)			
	(in thousands)						
Dutch GAAP:							
Statements of Income Data:							
Net sales	\$ 234,222	192,316	179,118	\$ 423,314	347,577	378,831	365,438
Cost of sales	172,044	141,263	120,780	292,045	239,794	262,281	284,932
Gross profit	62,178	51,053	58,338	131,269	107,783	116,550	80,506
Selling, general and administrative expenses	29,611	24,313	22,954	58,651	48,157	52,653	47,322
Research and development expenses	13,648	11,206	9,797	25,271	20,750	21,218	19,890
Operating income	18,919	15,534	25,587	47,347	38,876	42,679	13,294
Other income (expense), net	4,068	3,340	2,861	8,351	6,857	4,017	2,551
Interest expense, net	(1,127)	(925)	(1,889)	(4,264)	(3,501)	(5,499)	(9,847)
Income before income taxes and equity results from associated companies	21,860	17,949	26,559	51,434	42,232	41,197	5,998
Income taxes	7,674	6,301	9,524	18,522	15,208	15,433	1,663
Equity results from associated companies	6,085	4,996	5,419	10,596	8,700	9,068	9,366
Net income	\$ 20,271	16,644	22,454	\$ 43,508	35,724	34,832	13,701

Other Financial Data:

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Net cash provided (used) by operations	\$ (7,512)	(6,168)	27,159	\$ 50,058	41,102	62,320	29,314
Depreciation and amortization	16,621	13,647	14,758	35,907	29,483	32,254	33,419
Capital expenditures	(8,941)	(7,341)	(6,036)	(19,243)	(15,800)	(22,667)	(16,226)
U.S. GAAP:							
Net income	\$ 19,667	16,148	21,164	\$ 41,348	33,950	37,830	N/A
Divisional equity	285,529	234,444	N/A	247,992	203,623	220,241	N/A
Non-GAAP Financial Data:							
EBITDA (2)	\$ 45,693	37,517	48,625	\$ 102,201	83,916	88,018	58,630

S-58

Table of Contents

- (1) We converted the amounts in this column from euros into U.S. dollars solely for your convenience at an exchange rate of \$1.2179 = 1.00, the noon buying rate for euros on June 30, 2004. Please note that these convenience translations are not Dutch GAAP or U.S. GAAP and, accordingly, these translated U.S. dollar amounts have not been audited. These translations should not be construed as a representation that the euro amounts represent, or have been or could be converted into, U.S. dollars at that or any other rate. These convenience translations have been made at a rate different from the rates used in the preparation of the Unaudited Pro Forma Combined Financial Information.
- (2) EBITDA, which represents earnings before depreciation and amortization, interest expense, net and income taxes is a supplemental measure of performance that is not required by, or presented in accordance with, U.S. GAAP or Dutch GAAP. We present EBITDA because we consider it an important supplemental measure of our operations and financial performance. Our management believes EBITDA is more reflective of our operations as it provides transparency to investors and enhances period-to-period comparability of operations and financial performance. EBITDA should not be considered as an alternative to net income determined in accordance with U.S. GAAP. Set forth below is a reconciliation of EBITDA, a non-GAAP financial measure, to net income, the most directly comparable financial measure calculated and reported in accordance with U.S. GAAP or Dutch GAAP. Our calculation of EBITDA may not be comparable to the calculation of similarly titled measures reported by other companies.

	Six Months			Year Ended			
	Ended June 30,			December 31,			
	2004(A)	2004	2003	2003(A)	2003	2002	2001
	(unaudited)	(unaudited)	(unaudited)				
	(in thousands)						
Net income	\$ 20,271	16,644	22,454	\$ 43,508	35,724	34,832	13,701
Add:							
Depreciation and amortization	16,621	13,647	14,758	35,907	29,483	32,254	33,419
Interest expense, net	1,127	925	1,889	4,264	3,501	5,499	9,847
Income taxes	7,674	6,301	9,524	18,522	15,208	15,433	1,663
EBITDA	\$ 45,693	37,517	48,625	\$ 102,201	83,916	88,018	58,630

- (A) We converted the amounts in this column from euros into U.S. dollars solely for your convenience at an exchange rate of \$1.2179 = 1.00, the noon buying rate for euros on June 30, 2004. Please note that these convenience translations are not Dutch GAAP or U.S. GAAP and, accordingly, these translated U.S. dollar amounts have not been audited. These translations should not be construed as a representation that the euro amounts represent, or have been or could be converted into, U.S. dollars at that or any other rate. These convenience translations have been made at a rate different from the rates used in the preparation of the Unaudited Pro Forma Combined Financial Information.

Table of Contents

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS OF AKZO NOBEL'S REFINERY CATALYSTS BUSINESS**

The following is a discussion and analysis of the financial condition and results of operations of the refinery catalysts business that we acquired from Akzo Nobel N.V. on July 31, 2004. The following discussion should be read together with Selected Historical Combined Financial Information of Akzo Nobel's Refinery Catalysts Business and the historical combined financial statements of the refinery catalysts business and related notes contained elsewhere in this prospectus supplement.

The refinery catalysts business of Akzo Nobel is engaged in the development, manufacture, distribution and sale of fluidized and fixed-bed catalysts to refineries and petrochemical plants. Akzo Nobel's refinery catalysts business primarily conducts business in Europe, North and South America, and Asia.

Prior to July 31, 2004, the refinery catalysts business was owned and operated as a separate division by Akzo Nobel. In September 2003, Akzo Nobel announced its intention to divest its refinery catalysts business, and began seeking offers for the purchase of substantially all of the related assets and liabilities. On April 19, 2004, Albemarle offered to purchase the refinery catalysts business and the resulting transaction was completed on July 31, 2004.

Growth in the refinery catalysts business is expected to be driven by increasing global demand for petroleum products, generally deteriorating quality of crude oil feedstock and higher fuel quality requirements as part of anti-pollution initiatives.

The major global petroleum refineries continue to prepare for stricter fuel specifications, including the upcoming on-road diesel sulfur specifications that will be implemented in 2006. These stricter specifications are leading to new capital expenditures by petroleum refineries to expand hydroprocessing capability as well as to increased demand for high performance catalysts to be used in existing and new hydroprocessing capacity.

Six Months Ended June 30, 2004 Compared to Six Months Ended June 30, 2003

Net Sales. Net sales for first six months of 2004 of \$192.3 million were up \$13.2 million (7.4%) from the first six months of 2003 net sales of \$179.1 million. The increase in net sales was primarily due to higher volumes and prices in HPC catalysts, higher volumes in FCC catalysts, and increased volumes and a favorable product mix for FCC additives. These favorable effects were partly offset by an unfavorable impact of foreign exchange, as the euro strengthened against the U.S. dollar.

Operating Costs and Expenses. Cost of goods sold in the first six months of 2004 increased \$20.5 million (17.0%) from the corresponding 2003 period. Apart from the volume effects mentioned above, the increase was primarily due to higher raw material costs, primarily molybdenum and other metals, impacting the refinery catalysts business HPC margins. As a result of significant increases in raw material costs, the gross profit margin decreased to 26.5% in the 2004 period from 32.6% for the corresponding period in 2003.

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Selling, general and administrative expenses (SG&A) and research and development expenses (R&D) increased 2.8 million (8.5%) in the first six months of 2004 versus the first six months of 2003, primarily due to receipt of an R&D subsidy in 2003 as well as slightly higher spending in 2004. As a percentage of net sales, SG&A and R&D were 18.5% in 2004 versus 18.3% in the 2003 period.

Operating Profit. Operating profit for the first six months of 2004 was down 10.1 million (39.3%) from the corresponding period of 2003, primarily due to lower profit margins from higher raw material costs and unfavorable product mix that were only partly recovered in selling prices. There was also an unfavorable foreign exchange effect as the euro strengthened against the U.S. dollar. However, this was offset by favorable hedging gains in the first six months of 2004 compared to the same period of 2003.

S-60

Table of Contents

Other Income, Net. Other income, net for the first six months of 2004 was 3.3 million as compared with 2.9 million for the 2003 corresponding period.

Interest Expense, Net. Interest expense, net for the first six months of 2004 was 0.9 million, down from 1.9 million in the first six months of 2003 due to lower average outstanding cash funded by Akzo Nobel N.V., the refinery catalysts business former parent company, in the 2004 period.

Income Taxes. The effective income tax rate before equity results from associated companies for the first six months of 2004 was 35.1%, down slightly from 35.9% for the corresponding period in 2003.

Equity Results from Associated Companies. Equity results from associated companies totaled 5.0 million for the first six months of 2004 as compared with 5.4 million for the corresponding period of 2003.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002 and Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

Net Sales. Net sales for 2003 were 347.6 million down 31.3 million (8.3%) from net sales of 378.9 million in 2002 primarily due to the unfavorable impact of foreign exchange, partly offset by higher volumes in HPC catalysts and FCC additives.

Net sales for 2002 of 378.9 million increased 13.4 million (3.7%) from 365.4 million in 2001 mainly due to strong volume growth for HPC catalysts partly offset by lower volumes in FCC catalysts. Foreign exchange rates had a negative impact of 13 million.

Operating Costs and Expenses. Cost of goods sold in 2003 decreased 22.5 million (8.6%) from 2002. Apart from the currency effect and the volume effect in HPC catalysts there was a favorable product mix. In FCC, the energy costs went up, especially in the United States. The gross profit margin increased to 31.0% for 2003 from 30.8% in 2002.

Cost of goods sold in 2002 decreased 22.7 million (7.9%) from 2001. The decrease was primarily due to lower production costs resulting from the closure of the refinery catalysts business FCC catalysts production facility located in Los Angeles, California in June 2001, offset in part by the unfavorable effects of foreign exchange. The natural gas prices in the United States were lower than in 2001. Gross profit margin increased to 30.8% in 2002 from 22.0% in 2001.

SG&A, combined with R&D in 2003 decreased 5.0 million (6.7%) from 2002. From 2002 to 2001 the increase was 6.7 million (9.9%), primarily due to expenditures associated with information technology related projects. As a percentage of net sales, SG&A and R&D was 19.8% in 2003 versus 19.5% in 2002 and 18.4% in 2001.

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Operating Profit. Operating profit in 2003 decreased 3.8 million (8.9%) from the 2002 period. Higher raw material and energy costs, more favorable provision adjustments in 2002 and unfavorable effects of foreign exchange were partly offset by improved HPC catalysts margins.

Operating profit in 2002 increased 29.4 million (221%) from 2001. Approximately half of the improvement was associated with the reduced manufacturing costs following the closure of the Los Angeles facility, with the balance of the improvement associated with higher HPC catalysts volumes, a favorable product mix plus lower natural gas prices in the 2002 period versus the corresponding period in 2001.

Other Income, Net. Other income, net was 6.9 million for 2003, up 2.9 million from 2002. In 2002, Other income, net was 4.0 million as compared to 2.6 million in 2001.

Interest Expense, Net. Interest expense, net for 2003 decreased 2.0 million from 5.5 million in 2002 due to lower average outstanding cash funded by Akzo Nobel, the refinery catalysts business former parent company. Interest expense, net for 2002 was down 4.3 million from 9.8 million in 2001 due to lower average divisional equity held by Akzo Nobel during 2002.

S-61

Table of Contents

Income Taxes. Income taxes in 2003 decreased 0.2 million from 2002. Income taxes in 2002 were up significantly from 2001 due to the significant higher Income before taxes. The effective tax rate for 2003 was 36.0%, which was down from 37.5% in 2002 and 27.8% in 2001.

Equity Results from Associated Companies. Equity results from associated companies totaled 8.7 million in 2003 as compared to 9.1 million and 9.3 million, in 2002 and 2001, respectively.

Table of Contents

BUSINESS

Overview

We are a leading global developer, manufacturer and marketer of highly-engineered specialty chemicals. Our products and services enhance the value of our customers' end-products by improving performance, providing essential product attributes, lowering cost and simplifying processing. We sell a highly diversified mix of products to a wide range of customers, including manufacturers of electronics, building and construction materials, automotive parts, packaging, pharmaceuticals and agrichemicals and to petroleum refiners. We believe that our commercial and geographic diversity, technical expertise, flexible, low-cost global manufacturing base, strong cash flows and experienced management team enable us to maintain leading market positions in those areas of the specialty chemicals industry in which we operate.

We and our joint ventures currently operate 38 production facilities, research and development facilities, and administrative and sales offices in North and South America, Europe and Asia and serve more than 3,400 customers in approximately 100 countries. In 2003, we generated net sales of \$1,515.2 million, operating profit of \$139.9 million, net income (before cumulative effect of a change in accounting principle) of \$96.4 million and EBITDA of \$266.2 million, in each case on a pro forma basis. The following chart presents the geographic balance of our 2003 pro forma net sales.

Our portfolio of products has changed significantly over the past five years, and we believe our sales, manufacturing, technical service and research groups are well positioned to rapidly identify, assess and capture new opportunities. We expect to capitalize on these opportunities through many different means, including internal (or organic) development and through additional strategic acquisitions. We believe our key business segments are well positioned to participate in global economic growth, and our operating network provides multiple links with suppliers and customers around the world. As a result, our businesses are continually reviewing new opportunities to expand relationships with existing suppliers and customers, or identifying new customers to support increased market penetration within a local region or individual product line.

Catalysts Acquisition

On July 31, 2004, we acquired the refinery catalysts business of Akzo Nobel N.V. for \$615.7 million (approximately \$763 million at applicable exchange rates). We believe that this acquisition significantly enhances our business by giving us a strong new operating segment. Key attributes of the acquired refinery catalysts business are:

leading global market positions;

strong industry fundamentals;

proprietary technology and service-driven business model; and

attractive margins and cash flows.

S-63

Table of Contents

Following the refinery catalysts acquisition, we transferred our existing polyolefin catalysts business from our Polymer Chemicals segment, which we renamed Polymer Additives, to a newly created Catalysts segment, which includes the assets we acquired from Akzo Nobel. Our operations are now managed and reported as three operating segments: Polymer Additives; Catalysts; and Fine Chemicals. The following chart presents the contributions of our three segments based on our 2003 pro forma net sales.

Polymer Additives

Our Polymer Additives business consists of the following two product categories:

Flame Retardants. We are a leading global producer of brominated, mineral-based and phosphorus flame retardants. These flame retardants comprise the bulk of the global flame retardant market, which is estimated at more than \$2.0 billion. Our flame retardants help materials in a wide variety of finished products meet safety requirements. Some of the products that benefit from our flame retardants include plastic enclosures for consumer electronic products, printed circuit boards, wire and cable, electrical connectors, foam seating in furniture and automobiles, and textiles. We believe that the key drivers for growth of demand for our flame retardants are the increasing demand for electrical and electronic equipment, new construction and increasingly stringent fire-safety regulations in many countries around the world. Some of our flame retardants are based on alumina, and we believe that there are supply chain and technology development synergies with respect to these products with our refinery catalysts business.

Other Additives. We produce plastic and other additives, such as curatives, antioxidants and stabilizers, which are often specially developed and formulated for a customer's specific manufacturing requirements. Our additives improve the performance characteristics of inks and coatings, adhesives, bullet-proof glass and numerous plastic products by enhancing strength, durability, color stability and other performance qualities. We also produce antioxidants used in fuels and lubricants, which are sold to lubricant manufacturers and refiners, some of which are also customers of our Catalysts segment.

Catalysts

Our Catalysts business consists of the following two product categories:

Refinery Catalysts. We and our joint ventures, collectively, are one of the leading global producers of hydroprocessing, or HPC, catalysts and fluidized catalytic cracking, or FCC, catalysts. HPC catalysts are primarily used to reduce the quantity of sulfur and other impurities in petroleum products. FCC catalysts assist in the cracking of petroleum streams into derivative, higher-value products such as gasoline, diesel and raw material components. In 2002, worldwide sales of HPC and FCC catalysts accounted for approximately 80% of the estimated \$2.0 billion refinery catalysts market. We believe the key drivers for the growth of demand for refinery catalysts are the increasing global demand for petroleum products, the generally deteriorating quality of crude oil feedstocks and the implementation of more stringent fuel quality requirements in many countries around the world as part of anti-pollution initiatives. The customers of our Catalysts segment include multinational corporations such as ExxonMobil Corporation, Royal Dutch Petroleum Company and ChevronTexaco

Table of Contents

Corporation; independent petroleum refining companies such as Valero Energy Corporation and Tesoro Petroleum Corporation; and national petroleum refining companies such as Saudi Aramco Mobil Refinery Company Ltd. and Petróleos Mexicanos.

Polyolefin Catalysts. We are a leading global manufacturer of aluminum- and magnesium-alkyls. These alkyls are used in the production of plastic products such as food wrap, stretch films, trash bags and a variety of plastic films. We are also a leader in the production of metallocene/single-site catalysts, which aid in the development and production of new polymers that increase impact strength, clarity and melt characteristics in plastic films. We expect that our extensive experience in polyolefin catalysts will present synergistic opportunities with our refinery catalysts business, particularly with respect to increasing our business with petroleum and petrochemical processing customers.

Fine Chemicals

Our Fine Chemicals business consists of the following four product categories:

Performance Chemicals. We are a leading global producer of bromine with geographically diverse production resources. In 2003, approximately 87% of the bromine that we produced was used internally in our Polymer Additives and Fine Chemicals segments and the remainder was sold into the merchant market. We also produce a number of bromides and bromine-based performance chemicals, which are used in a broad range of applications, including chemical synthesis, oil and gas well drilling and completion fluids, paper manufacturing, water purification, glass manufacturing and photography.

Pharmaceuticals. Our bulk actives, ibuprofen and naproxen, are widely used to provide temporary pain relief and fever reduction. Bulk ibuprofen and naproxen are formulated by pharmaceutical companies for sale in both the prescription and over-the-counter markets. These products compete against other painkillers, including aspirin and acetaminophen. We are one of the largest global producers of ibuprofen. We also produce other intermediates used in the manufacture of a variety of over-the-counter and prescription drugs.

Agrichemicals. We sell a diverse portfolio of chemical intermediates and active ingredients used in the manufacture of crop protection products, such as herbicides, insecticides, fungicides and soil fumigants. Our agrichemicals customers include major global agrichemicals manufacturers and distributors.

Fine Chemistry Services and Intermediates. Our fine chemistry services and intermediates business offers custom manufacturing, research and scale-up services for downstream chemical and pharmaceutical companies. We support our customers' product development efforts by offering discovery-through-commercialization services, including cGMP manufacturing capabilities.

Acquisition of Refinery Catalysts Business

Acquisition

Edgar Filing: ALBEMARLE CORP - Form S-3/A

On July 31, 2004, we acquired the refinery catalysts business of Akzo Nobel for 615.7 million (approximately \$763 million at applicable exchange rates) in cash pursuant to the terms of the International Share and Business Sale Agreement, a copy of which was filed as an exhibit to our Current Report on Form 8-K filed with the SEC on July 16, 2004.

Under the terms of the sale agreement, we acquired two wholly owned subsidiaries of Akzo Nobel (one in the United States and one in the Netherlands), sales, marketing, intellectual property and other assets used in the acquired business, and 50% interests in three joint ventures: Fábrica Carioca de Catalisadores S.A., a Brazilian joint venture; Nippon Ketjen Co., Ltd., a Japanese joint venture; and Eurecat S.A., a French joint venture (with affiliates in the United States, Saudi Arabia and Italy). As part of the acquisition, we also agreed to assume the liabilities of the two acquired subsidiaries and certain liabilities of Akzo Nobel and its affiliates related to the acquired business. We retained substantially all employees of the acquired business, including all of the incumbent managers.

S-65

Table of Contents

The sale agreement provides for a working capital adjustment based on the acquired business' working capital on July 31, 2004, as compared to a baseline working capital previously agreed upon by the parties. We expect that any working capital adjustments will be completed by the end of 2004.

The sale agreement contains representations, warranties and indemnities by the parties. Under the terms of the sale agreement, Akzo Nobel is generally liable for, and has indemnification obligations with respect to, all known pre-closing environmental liabilities and all environmental liabilities discovered post-closing, if such liabilities result from an environmental condition that existed pre-closing. Akzo Nobel also retained liability with respect to pending litigation matters related to the catalysts business. Each party's indemnity obligations under the sale agreement, including Akzo Nobel's environmental indemnity obligations, are subject to specific limitations and qualifications, including time limits for bringing claims and limits on the amounts that Akzo Nobel must pay in respect of indemnified liabilities.

Under the terms of the sale agreement, Akzo Nobel is obligated to provide certain transition services to us for a period of up to one year following the completion of the acquisition. The cost of these transition services was included in the acquisition purchase price.

Effects of the Acquisition

In connection with the acquisition, we incurred during the third quarter of 2004 certain one-time after-tax costs and expenses, including foreign exchange hedging losses of \$10.0 million on contracts entered into for the purpose of hedging the euro-denominated purchase price for the acquired business, additional cost of sales charges of \$8.5 million as a result of inventory write-ups, \$3.0 million as a result of purchased in-process research and development write-offs and unamortized financing costs write-offs of \$0.4 million. These costs and expenses resulted in an aggregate one-time after-tax charge of \$21.9 million. We expect to finalize the acquisition purchase accounting by the end of the first quarter of 2005.

For more information on the effects of the acquisition, please see Unaudited Pro Forma Combined Financial Information.

Financing for the Acquisition

In connection with the acquisition, we entered into (1) a new senior credit agreement, consisting of a \$300 million revolving credit facility and a \$450 million five-year term loan facility, and (2) a \$450 million 364-day loan agreement. We used the initial borrowings under the new senior credit agreement and the 364-day loan agreement to consummate the acquisition, refinance our then-existing credit agreement and pay fees and expenses incurred in connection therewith.

Borrowings under our new senior credit agreement and 364-day loan agreement are conditioned upon compliance with the following financial covenants: (a) our consolidated fixed charge coverage ratio, as defined in the agreements, must be greater than or equal to 1.25:1.00 as of the end of any fiscal quarter; (b) our consolidated debt to capitalization ratio, as defined in the agreements, at the end of any fiscal quarter must be less than or equal to 65% (i) prior to the earlier of (A) July 29, 2005 and (B) our first equity issuance subsequent to July 29, 2004, and (ii) thereafter, 60%; (c) consolidated tangible domestic assets, as defined in the agreements, must be greater than or equal to \$750 million for us to make investments in entities and enterprises that are organized outside the United States; and (d) with the exception of liens specified in our new senior credit agreement and the 364-day loan agreement, liens may not attach to assets where the aggregate amount of all indebtedness secured by such liens at any time exceeds 10% of our consolidated net worth, as defined in the agreements.

Edgar Filing: ALBEMARLE CORP - Form S-3/A

We intend to use the net proceeds from this offering and the common stock offering to retire all or substantially all of the indebtedness that we incurred under our 364-day loan agreement to finance the refinery catalysts acquisition. To the extent that the net proceeds from this offering and the common stock offering are

S-66

Table of Contents

insufficient to retire all of the indebtedness outstanding under our 364-day loan agreement, we intend to incur additional borrowings under our \$300 million revolving credit facility to retire the remaining amount of indebtedness outstanding under our 364-day loan agreement.

For more information on the refinery catalysts business, see the historical financial statements and related notes of the acquired business for the three years ended December 31, 2003 and for the six-month period ended June 30, 2004, included elsewhere in this prospectus supplement.

Specialty Chemicals Industry Overview

In 2003, specialty chemicals represented approximately 17% of the estimated \$1.9 trillion global chemical industry. Specialty chemicals differ from commodity chemicals in that they are typically designed to meet the specifications of a particular application or customer. This customization requires the product to be produced in smaller quantities and demands a higher degree of expertise in a variety of chemistries. Additionally, end-users of specialty chemical products often focus as much or more on the performance characteristics of the product as they do on its price. As a result, in relation to commodity chemical producers, specialty chemical producers are often characterized by higher gross margins due to premium pricing, but relatively higher research and development expenditures due to the importance of continual product improvements and new product development efforts.

Within the specialty chemicals industry, Albemarle competes in polymer additives, catalysts and fine chemicals sectors.

Polymer Additives

Polymer additives are an essential part of most plastics formulations, helping to process materials efficiently and to enhance performance properties. Because polymer additives are used in creating the resins that form the base ingredients for plastics, the polymer additives industry is highly dependent on the performance of the plastics industry. Polymer additives include antioxidants, antistatic agents, peroxide catalysts, polyurethane catalysts, chemical blowing agents, flame retardants, heat stabilizers, impact modifiers, processing aids, lubricants and ultraviolet stabilizers. Our primary polymer additives products are flame retardants, although we also produce a variety of other polymer additives, including curatives, antioxidants and stabilizers.

Flame Retardants. The global flame retardant market had estimated global sales in excess of \$2.0 billion in 2003. Flame retardants help materials used in a variety of finished products meet fire-safety requirements. For example, the consumer electronics industry uses flame retardants in the production of enclosures for consumer electronics and printed circuit boards and the construction industry uses flame retardants in the production of roofing and insulation. The type of flame retardant used in a particular application depends on the degree of retardancy required and the other properties of the particular product. We compete in all the major flame retardant markets: bromine, mineral and phosphorous.

<u>Flame Retardant</u>	<u>Primary End-Markets</u>	<u>Estimated Product Use as % of Industry</u>
Bromine	Electronics housings	39%

Edgar Filing: ALBEMARLE CORP - Form S-3/A

	Electrical appliances	
	Printed circuit boards	
	Semiconductors	
Mineral	Other thermoplastics	
	Construction products	
	Automotive components	24%
Phosphorus	Wire and cable	
	Building materials	
	Flexible PVC	23%
	Polyurethane products	

S-67

Table of Contents

Factors that are expected to contribute to growth include market growth in electrical and electronic products, new construction, technology trends creating higher performance requirements and increasingly stringent fire-safety regulations in many countries around the world.

Catalysts

Catalysts are highly-specialized and highly-engineered substances that regulate the rate and efficiency of chemical reactions. Catalysts are critical to the processing and manufacturing of a wide range of products, including gasoline and other fuels, plastics, chemicals, rubbers, pesticides and pharmaceuticals. The catalysts industry can be divided into three major segments according to application: emission control, petroleum refining and chemical processing. We operate primarily in the petroleum refining and chemical processing sectors.

Refining Catalysts. Petroleum refining involves a number of processes that require catalysts, including HPC catalysts and FCC catalysts. In 2002, worldwide sales of HPC and FCC catalysts accounted for approximately 80% of the estimated \$2.0 billion refinery catalysts market.

Hydroprocessing catalysts. HPC catalysts fall primarily into two categories: hydrotreating and hydrocracking. Hydrotreating catalysts are used to improve the quality of petroleum streams and products, most notably through the removal and reduction of sulfur, nitrogen, oxygen and metals. Hydrotreating is now necessary in virtually all refineries in order for petroleum product producers to meet precise product specifications. Hydrocracking catalysts focus on cracking lower value, heavy petroleum feeds into a number of lighter, higher value streams.

Fluidized catalytic cracking catalysts. Catalytic cracking catalysts convert relatively heavy crude oil to lighter, more valuable products such as gasoline and diesel. FCC catalysts are designed specifically to meet the needs and objectives of refiners' specific FCC units. There are currently approximately 455 FCC units being operated worldwide, each of which is likely to use a specialized FCC catalyst. Because FCC catalysts need to fit the specifications of each cracking unit, the quality of the petroleum input and particular end-product specifications, technology and know-how, quality and reliability of supply are crucial to success in this market.

Stricter fuel quality standards, increasing petroleum product demand and generally deteriorating quality of crude oil feedstock as a result of the depletion of higher quality petroleum resources are expected to combine to result in increased demand for refining catalysts. Sales of refinery catalysts have been estimated as growing at an average rate of approximately 2.3%-3.4% per year between 2001 and 2007.

Polyolefin Catalysts. Polyolefin catalysts are essential components in the manufacture of certain polypropylene and polyethylene resins. These resins are used in products such as plastic film, high-performance plastic pipe and plastic household containers. Total global sales of polyolefin catalysts were estimated at \$1.0 billion in 2003. Sales of polyolefin catalysts are estimated to grow approximately 3% per annum over the next few years. The polyolefin catalysts business is technology-intensive and focuses on providing products formulated to meet customer specifications. Competition has recently intensified because of evolving technologies, particularly the use of metallocene/single-site catalysts, which allow manufacturers to design polymers with precise performance characteristics. Industry penetration by single-site catalysts is expected to double to 10% of the polyolefin catalyst market by 2008.

Fine Chemicals

Edgar Filing: ALBEMARLE CORP - Form S-3/A

The fine chemicals industry is comprised of a broad range of specialty chemicals, including pharmaceuticals and agrichemicals and intermediates and performance chemicals. The fine chemicals industry is generally less cyclical than the commodity chemicals industry. The profitability of fine chemicals varies widely, however, as the result of the success or failure of individual products and the degree of patent protection they receive. The fine chemicals market is highly fragmented and is capital intensive due to the need for continuous process improvement and new product development. In addition, certain components of the industry, including those in which we participate, have recently experienced increased pricing pressure due to industry consolidation and increased competition from foreign producers, particularly from Asia.

S-68

Table of Contents

Performance Chemicals. Within the performance chemical category, we produce elemental bromine, alkyl bromides, inorganic bromides, and a number of bromine fine chemicals. Bromides and bromine-based performance chemicals are used in a broad range of applications, including chemical synthesis, oil and gas well drilling and completion fluids, paper manufacturing, water purification, glass making, surfactants and biocides and various other industrial applications.

Other performance chemicals products include tertiary amines for surfactants and biocides, potassium- and chlorine-based products used in television glass making and various other industrial applications, alkenyl succinic anhydride used in paper-sizing formulations, urea formaldehyde resins used in coating applications, and aluminum oxides used in a wide variety of refractory, ceramic and polishing applications. These products are used in personal care products, coatings, automotive insulators and other industrial products.

Pharmaceuticals/Analgesics. Our bulk actives, ibuprofen and naproxen, are part of the nonsteroidal anti-inflammatory drug, or NSAID, group of active pharmaceuticals. NSAIDs are used for a number of indications, including relief of mild to moderate pain, minor febrile conditions and acute and chronic inflammatory conditions such as rheumatoid arthritis. Bulk ibuprofen and naproxen are formulated by pharmaceutical companies for sale in both the prescription and over-the-counter markets. As the population ages, sales of both prescription and over-the-counter NSAID products are expected to increase.

Agrichemical Intermediates. Agrichemical intermediates are used in pesticides and fertilizers. These products include orthoalkylated anilines for the acetanilide family of pre-emergent herbicides used on corn, soybeans and other crops; methyl bromide used as a soil fumigant; and organophosphorus products used in the manufacture of insecticides. The agrichemical industry is currently focused on the development of lower-volume pesticides with higher activity and fertilizers that increase food production, all more rapidly produced, as well as the development of products that are more environmentally friendly.

Business Segments

Our business is divided into three operating segments: Polymer Additives; Catalysts; and Fine Chemicals.

Polymer Additives

Our Polymer Additives segment consists of two product categories: flame retardants and other additives.

Products

Flame Retardants. Our flame retardants help materials in a wide variety of finished products meet fire-safety requirements. Some of the products that benefit from our flame retardants include plastic enclosures for consumer electronics, printed circuit boards, wire and cable, electrical connectors, foam seating in furniture and automobiles and textiles. We compete in all the major flame retardant markets: brominated, mineral and phosphorus. Our brominated fire retardants include products such as Saytex® and Pyro-Chek®, our mineral-based fire retardants include products such as Martinal® and Magnifin® and our phosphorus-based flame retardants include products such as Antiblaze® and

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Ncendx®. Our strategy is to have a broad range of chemistries applicable to each major flame retardant application. Although bromine products are the most cost-effective option in many applications, some customers require flame retardants that do not contain bromine or chlorine. Accordingly, we acquired the mineral-based and phosphorus-based flame retardants businesses of Martinswerk GmbH and Rhodia S.A.

Other Additives. We produce plastic and other additives, such as curatives, antioxidants and stabilizers, which are often specially developed and formulated for a customer's specific manufacturing requirements. Our plastic additives products include curatives for polyurethane and epoxy system polymerization, as well as for ultraviolet curing of various inks and coatings. This business also produces antioxidants and stabilizers to improve the performance integrity of thermoplastic resins.

S-69

Table of Contents

Our Ethacure[®] curatives are used in cast elastomers, coatings, reaction injection molding (RIM) and specialty adhesives that are incorporated into products such as wheels, tires and rollers. Our line of Ethanox[®] antioxidants is used by manufacturers of polyolefins to maintain physical properties during the manufacturing process, including the color of the final product. These antioxidants are found in applications such as slit film, wire and cable, food packaging and pipes.

We also produce antioxidants used in fuels and lubricants. Our line of HiTEC[®] fuel and lubricant antioxidants are used by refiners and fuel marketers to extend fuel storage life and protect fuel systems, and by oil marketers and lubricant manufacturers to extend the useful life of lubricating oils, fluids and greases used in engines and various types of machinery.

Major Customers

The Polymer Additives segment offers more than 160 product groups to a variety of end-markets. We sell our products mostly to chemical manufacturers and processors, such as polymer resin suppliers, photographic companies and other specialty chemical companies, as well as lubricant manufacturers and refiners.

Sales of polymer additives are growing rapidly in Asia due to the underlying growth in consumer demand and the shift of the production of consumer electronics from the United States and Europe to Asia. In response to this development, we have established a sales and marketing network in China, Japan, Korea and Singapore with products sourced from the United States, Europe and the Middle East. In addition, we have a joint venture manufacturing site in China.

A number of customers of our Polymer Additives segment manufacture products for cyclical industries, including the consumer electronics, building and construction, and automotive industries. As a result, demand from our customers in such industries is also cyclical. However, because our Polymer Additives products are used in many different industries and for a wide variety of uses, there is little seasonal variation in revenues or earnings, except with respect to certain consumer electronics-related flame retardants.

Competition

The markets served by our Polymer Additives segment are highly competitive. We invest in research and development, product and process improvements and specialized customer services in order to compete effectively in the Polymer Additives marketplace.

Competition also arises from the substitution of different polymers in end-products in an effort to reduce costs or change product qualities. For flame retardants, competition can be introduced from alternative chemistries, which has caused us to expand our product portfolio to include bromine, phosphorus and mineral chemistries that are common in over 80% of end uses today. For other additives, competition is introduced by low-cost antioxidant suppliers. We have begun to offer our basic products from lower cost sources, and have pursued new blending technology to produce better, more easily processed forms of antioxidant blends.

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Our most significant competitors in the brominated flame retardant business are Great Lakes Chemical Corporation and Dead Sea Bromine Group, and our most significant competitor in the phosphorus-based flame retardant business is Ripplewood Holdings LLC. Our major competitors in the mineral-based flame retardants business are Almatris, Kyowa Hakko Kogyo Co., Ltd and Nabaltec GmbH. Our most significant competitor in the plastic additives business is Ciba Specialty Chemicals.

Raw Materials and Significant Supply Contracts

The major raw materials we use in our Polymer Additives operations are bromine, bisphenol-A and phenol, caustic soda, phosphorus oxychloride, aluminum trihydrate, polystyrene, isobutylene and phosphorous derivatives, most of which are readily available from numerous independent suppliers and are purchased under contracts at prices we believe are competitive. The cost of raw materials is generally based on market prices, although we may use contracts with price caps or other tools, as appropriate, to mitigate price volatility. Many of

S-70

Table of Contents

our customers operate under long-term supply contracts that provide for either the pass-through of raw material and energy cost changes, or pricing based on short-term tenders in which changing market conditions are quickly reflected in the pricing of the finished product.

The bromine we use in our Polymer Additives segment comes from our brine reserves in Arkansas, which are supported by an active brine rights leasing program. We believe that we have in excess of 40 years of proven bromine reserves in Arkansas. In addition, through our 50% interest in Jordan Bromine Company Ltd., a joint venture with operations in Safi, Jordan, we produce bromine from the Dead Sea.

Our subsidiary, Martinswerk GmbH, has certain contracts that require it to purchase certain minimum annual quantities of aluminum trihydrate from its suppliers. Our annual requirements for aluminum trihydrate currently exceed these minimum purchase requirements. We also entered into a range of phosphorus derivative supply agreements with Rhodia S.A. as part of the acquisition of the Rhodia polyurethane flame retardants business.

Catalysts

Our Catalysts segment includes refinery catalysts and polyolefin catalysts.

Products

Refinery Catalysts. Our two main catalyst product lines are:

hydroprocessing, or HPC, catalysts; and

fluidized catalytic cracking, or FCC, catalysts and additives.

We offer more than 90 different HPC catalysts products and more than 70 different FCC catalysts products to our customers. We and our joint ventures, collectively, are one of the largest global producers of HPC catalysts and FCC catalysts.

Polyolefin Catalysts. We believe that we are a leading global manufacturer of aluminum- and magnesium-alkyls. These alkyls are used as co-catalysts in the production of polyolefins, such as polypropylene and polyethylene used in plastic products, elastomers, alpha olefins, such as hexene, octene and decene, and organotin heat stabilizers and in the preparation of organic intermediates. We believe that we are also a leader in the production of metallocene/single-site catalysts, which aid in the development and production of new polymers that increase impact strength, clarity and melt characteristics of plastic films. We are continuing to build on our organometallics base, to expand the portfolio of products and capabilities we offer our customers, and to pursue the development and commercialization of polymers based on metallocene/single-site catalysts.

Major Customers

The customers of our Catalysts segment include multinational corporations such as ExxonMobil Corporation, Royal Dutch Petroleum Company and ChevronTexaco Corporation; independent petroleum refining companies such as Valero Energy Corporation and Tesoro Petroleum Corporation; and national petroleum refining companies such as Saudi Aramco Mobil Refinery Company Ltd. and Petróleos Mexicanos.

We estimate that there are currently approximately 455 FCC units being operated worldwide each of which requires a constant supply of FCC catalysts. In addition, we estimate that there are approximately 2,000 HPC units being operated worldwide each of which typically requires replacement HPC catalysts once every one to three years. We believe that our existing relationships with global petroleum refiners developed by our other business segments present opportunities to grow the market share of our new refinery catalysts business.

Competition

In the Catalysts segment, HPC and FCC catalysts competition is primarily from a select group of major catalyst companies. Our major competitors in the HPC catalysts market are Criterion Catalysts and Technologies

Table of Contents

and W.R. Grace & Co./Advanced Refining Technologies, and our major competitors in the FCC catalysts market are W.R. Grace & Co. and Engelhard Corporation. Some of the major catalysts companies have alliances with global major refiners to facilitate new product development and introduction. Our major competitors in the polyolefin market include Akzo Nobel N.V., Basell Service Company B.V., Crompton Corporation, Tosoh Corporation, Univation Technologies and W.R. Grace & Co.

We seek to enhance our competitive position by developing product and process improvements and specialized customer services. Through our research and development, we endeavor to develop value-added products and products based on proprietary technologies.

Raw Materials

The major raw materials we use in our Catalysts operations include aluminum, ethylene, alpha olefins, sodium silicate, sodium aluminate, paoline, molybdenum and cobalt carbonate, most of which are readily available from numerous independent suppliers and are purchased or provided under contracts at prices we believe are competitive. The cost of raw materials is generally based on market prices, although we may use contracts with price caps or other tools, as appropriate, to mitigate price volatility. Certain critical raw materials may nevertheless be subject to significant volatility. For example, molybdenum prices have already increased more than three-fold in 2004. Our profitability may be reduced if we are unable to pass along such price increases to our customers.

Fine Chemicals

Our Fine Chemicals segment consists of four product categories: performance chemicals; pharmaceuticals; agrichemicals; and fine chemistry services.

Products

Performance Chemicals. Performance chemicals include products such as elemental bromine, alkyl bromides, inorganic bromides and a number of bromine fine chemicals. Our products are used in chemical synthesis, oil and gas well drilling and completion fluids, paper manufacturing, water purification, glass manufacturing, photography and various other industrial applications. We are a leading global producer of bromine with geographically diverse production resources. In 2003, approximately 87% of the bromine that we produced was used internally in our Polymer Additives and Fine Chemicals segments and the remainder was sold into the merchant market. Other performance chemicals that we produce include tertiary amines for surfactants and biocides and disinfectants and sanitizers, potassium and chlorine-based products used in glass making and various other industrial applications, alkenyl, succinic anhydride used in paper-sizing formulations, and aluminum oxides used in a wide variety of refractory, ceramic and polishing applications. We sell these products to customers throughout the world for use in personal care products, automotive insulation, foundry bricks and other industrial products.

Pharmaceuticals. Our bulk actives, ibuprofen and naproxen, are widely used to provide temporary pain relief and fever reduction. Bulk ibuprofen and naproxen are formulated by pharmaceutical companies for sale in both the prescription and over-the-counter markets. These products compete against other painkillers, including aspirin and acetaminophen. We are one of the largest global producers of ibuprofen. We also produce a range of intermediates used in the manufacture of a variety of over-the-counter and prescription drugs.

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Agrichemicals. Our agrichemicals are sold to agrichemical manufacturers and distributors that produce and distribute finished agricultural herbicides, insecticides, fungicides and soil fumigants. Our products include orthoalkylated anilines used in the acetanilide family of pre-emergent herbicides used with corn, soybeans and other crops; methyl bromide, which is used as a soil fumigant; and organophosphorus products, which are used in the manufacture of insecticides. We also manufacture and supply a variety of custom chemical intermediates for the agricultural industry.

S-72

Table of Contents

In recent years, the market for methyl bromide has changed significantly, driven by the Montreal Protocol of 1991 and related regulation prompted by findings regarding the chemical's potential to deplete the ozone layer. Methyl bromide is injected into the soil by our customers before planting to eliminate bacteria, soil-borne pathogens, nematodes, fungus and weeds. Methyl bromide is used on high-value crops, such as strawberries, tomatoes, melons, peppers and cut flowers.

Current regulations allow us to continue to sell methyl bromide into our current markets through 2005. Current regulations contemplate completion of the phase-out of methyl bromide as a fumigant in the United States, Western Europe and Japan in 2005, although certain aspects of the phase-out have been delayed under implementing regulations in these jurisdictions that permit the use of methyl bromide on a year-to-year basis until a feasible alternative is available. Certain other markets for methyl bromide, including quarantine and pre-shipment and chemical intermediate uses, are not restricted by the Montreal Protocol.

Fine Chemistry Services and Intermediates. In addition to supplying the specific fine chemical products and performance chemicals for the pharmaceutical and agricultural uses described above, our fine chemistry services and intermediates, or FCSI, business offers custom manufacturing, research and chemical scale-up services for downstream chemical and pharmaceutical companies. We cross-sell our fine chemistry services to our existing customers to whom we supply fine chemical products and performance chemicals, while also offering fine chemistry services and intermediates to others in the FCSI markets. We believe that these services position us to support customers in developing their new products, such as new drugs.

Major Customers

The Fine Chemicals segment manufactures more than 120 product groups, which are used in a variety of end-markets. Sales of products and services are mostly to chemical manufacturers and processors, including pharmaceutical, agricultural, drilling, water treatment and photographic companies, and to other specialty chemical companies.

Pricing for many of our fine chemicals is based upon negotiation with customers. The critical factors that affect prices are the level of technology differentiation we provide, the maturity of the product and the level of assistance required to bring a new product through a customer's developmental process.

Competition

Competition in the Fine Chemicals segment is intense and varies within each of our different product groups. In the bromine-based products groups, we primarily compete with two other integrated global bromine producers, Great Lakes Chemical Corporation and Dead Sea Bromine Group. In the pharmaceutical bulk actives product groups (*i.e.*, ibuprofen and naproxen), we primarily compete with a few major Western competitors, such as BASF Corporation; however, there is increasing competition from Asian sources. We are seeking to differentiate ourselves from our competitors by developing new innovative products, offering cost reductions and enhancing the services that we offer.

Raw Materials

Edgar Filing: ALBEMARLE CORP - Form S-3/A

The major raw materials we use in our Fine Chemicals operations include potassium chloride, chlorine, ammonia, aluminum chloride, alpha olefins, methyl amines and propylene, most of which are readily available from numerous independent suppliers.

The bromine that we use in our Fine Chemicals segment comes from two primary sources, Arkansas and Jordan. Our brine reserves in Arkansas are supported by an active brine rights leasing program. We believe that we have in excess of 40 years of proven bromine reserves in Arkansas. In addition, through our 50% interest in Jordan Bromine Company Ltd., a joint venture with operations in Safi, Jordan, we produce bromine from the Dead Sea.

S-73

Table of Contents

Sales, Marketing and Distribution

We have an international strategic account program that uses cross-functional teams to serve large global customers. This program emphasizes creative strategies to improve and strengthen strategic customer relationships with emphasis on creating value for customers and promoting post-sale service. We also use more than 50 selected distributors, commissioned sales representatives and specialists in specific market areas, some of which are subsidiaries of large chemical companies.

Research and Development

We believe that in order to maintain our margins and remain competitive, we must continually invest in research and development, product and process improvements and specialized customer services. Through research and development, we continue to seek increased margins by introducing value-added products and processes based on proprietary technologies.

Our research and development efforts support each of our business segments. The focus of research in Polymer Additives is divided among new and improved flame retardants, plastic and other additives and blends, and curing agents. Flame retardant research is focused primarily on developing new flame retardants and improving existing flame retardants to meet higher performance requirements required by today's polymer producers, formulators, and original equipment manufacturers. Plastic and other additives research is focused primarily on developing improved capabilities to deliver commodity and value added plastic and other additive blends to the polymer market. Curatives research is focused primarily on improving and extending our line of curing agents and formulations.

Catalysts research is focused on the needs of both our refinery catalysts customers and our polyolefin catalysts customers. Refinery catalysts research is focused primarily on the development of more effective catalysts and related additives to produce clean fuels and to maximize the production of the highest value refined products. In the polyolefin area, we are focused primarily on developing catalysts, cocatalysts and finished catalyst systems to polymer producers to meet the market's demand for improved polyolefin polymers and elastomers.

The primary focus of our Fine Chemicals research program is the development of efficient processes for the manufacture of chemical intermediates and actives for the pharmaceutical and agricultural industries. Another area of research is the development of biocides for industrial and recreational water treatment and other applications, especially products based on bromine chemistry.

We spent \$18.4 million, \$16.5 million and \$21.9 million in accordance with Statement of Financial Accounting Standards No. 2, Accounting for Research and Development Costs, in 2003, 2002 and 2001, respectively, on research and development. Total research and development department spending was \$29.2 million, \$26.4 million and \$27.2 million in 2003, 2002 and 2001, respectively. Total research and development costs of Akzo Nobel's refinery catalysts business were 20.7 million, 21.2 million and 19.9 million in 2003, 2002 and 2001, respectively.

Intellectual Property

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Our intellectual property, including our patents, licenses and trademarks is an important component of our business. As of September 30, 2004, we owned over 1,400 active U.S. and foreign patents and had over 850 pending U.S. and foreign patent applications. In addition, in connection with the acquisition, we obtained 50% interests in three joint ventures, each of which has its own intellectual property portfolio. In addition, we have acquired rights under the patents and inventions of others through licenses and license our patents and inventions to third parties.

Regulation

Our business is subject to a broad array of employee health and safety laws and regulations, including those under the Occupational Safety and Health Act, or OSHA. We also are subject to similar state laws and regulations, and foreign laws and regulations for our non-U.S. operations. We devote significant resources and

S-74

Table of Contents

have developed and implemented comprehensive programs to promote the health and safety of our employees. Over the past 10 years, we have consistently achieved an OSHA recordable injury incidence rate in the top 20% of all chemical companies who are members of the American Chemistry Council.

Our business and our customers also may be subject to significant new regulations under the European Commission's proposed Registration, Evaluation and Authorization of Chemicals, or REACH, proposal. As proposed, REACH would impose obligations on European Union manufacturers and importers of chemicals and other products into the European Union to compile and file comprehensive reports, including testing data, on each chemical substance, perform chemical safety assessments and obtain pre-market authorization with respect to certain substances of particularly high concern. While it is uncertain whether, when and in what form the REACH proposal will become law, the proposed new regulations would impose significant additional burdens on chemical producers and importers, and, to a lesser extent, downstream users of chemical substances and preparations. Our significant manufacturing presence and sales activities in the European Union would likely require us to incur significant additional compliance costs, including the hiring of additional employees to coordinate the additional reporting requirements, and may result in increases in the costs of raw materials we purchase and the products we sell. Increases in the costs of our products could result in a decrease in their overall demand.

Environmental Regulation

We are subject to numerous foreign, federal, state and local environmental laws and regulations, including those governing the discharge of pollutants into the air and water, the management and disposal of hazardous substances and wastes and the cleanup of contaminated properties. Ongoing compliance with such laws and regulations is an important consideration for us. Key aspects of our operations are subject to them, and we incur substantial capital and operating costs in our efforts to comply with them.

Liabilities associated with the investigation and cleanup of hazardous substances, as well as personal injury, property damages, or natural resource damages arising from the release of, or exposure to, such hazardous substances, may be imposed in many situations without regard to violations of laws or regulations or other fault, and may also be imposed jointly and severally (so that a responsible party may be held liable for more than its share of the losses involved, or even the entire loss). Such liabilities also may be imposed on many different entities with a relationship to the hazardous substances at issue, including, for example, entities that formerly owned or operated the property affected by the hazardous substances and entities that arranged for the disposal of the hazardous substances at the affected property, as well as entities that currently own or operate such property. We are subject to such laws, including the federal Comprehensive Environmental Response, Compensation and Liability Act, commonly known as CERCLA or Superfund, in the United States, and similar foreign and state laws. Our management is actively involved in evaluating environmental matters and, based on information currently available to it, has concluded that our outstanding environmental liabilities for unresolved waste sites currently known to us should not be material to operations.

We record accruals for environmental matters in accordance with the guidelines of the AICPA Statement of Position 96-1, Environmental Remediation Liabilities, when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated. Future developments, including developments affecting contractual indemnification rights we believe we have as well as contractual or other obligations that we may have, and increasingly stringent environmental laws and regulations could require us to make additional unforeseen environmental expenditures. We cannot assure you that, as a result of former, current or future operations, there will not be some future impact on us relating to new regulations or additional environmental remediation or restoration liabilities.

Legal Proceedings

Edgar Filing: ALBEMARLE CORP - Form S-3/A

On April 2, 2004, Albemarle Overseas Development Company, a wholly owned subsidiary of our company, initiated a Request for Arbitration against Aventis S.A., through the International Chamber of Commerce, International Court of Arbitration, Paris, France. The dispute arises out of a 1992 stock purchase agreement

S-75

Table of Contents

between a predecessor to Albemarle Overseas Development and a predecessor to Aventis under which 100% of the stock of Potasse et Produits Chimiques, S.A., now known as Albemarle PPC, was acquired by Albemarle Overseas Development. The dispute relates to a chemical facility in Thann, France owned by Albemarle PPC. Under the terms of the agreement, we believe that Aventis is obligated to indemnify Albemarle Overseas Development and Albemarle PPC, and hold them harmless from certain claims, losses, damages, costs or any other present or prospective liabilities arising out of soil and groundwater contamination at the site in Thann.

Beginning in May 2000, the French government, with respect to the management of pollution risk on the site of active industrial installations, required Albemarle PPC to conduct an environmental risk study of the Thann facility. In June 2002, the French government directed Albemarle PPC to undertake a more detailed risk study of groundwater contamination. The administrative process of the French government is still ongoing as of the present date. Albemarle Overseas Development has demanded indemnification from Aventis for the cost of the studies, but Aventis has refused to pay.

The Request for Arbitration requests indemnification of Albemarle Overseas Development by Aventis for all costs incurred by Albemarle PPC in connection with any environmental claims of the French government for the Albemarle PPC facility and a declaratory judgment as to the liability of Aventis under the agreement for costs to be incurred in the future by Albemarle PPC in connection with such claims.

At this time, it is not possible to predict what the French government will require with respect to the Thann facility, since this matter is in its initial stages and environmental matters are subject to many uncertainties. We believe, however, that we are entitled to be fully indemnified by Aventis for all liabilities arising from this matter but no assurance can be given that we will prevail in this matter. If we do not prevail in the arbitration and the government requires additional remediation, the costs of remediation could be significant.

On June 4, 2004, we initiated a petition for breach of contract and declaratory judgment against Amerisure Insurance Company and Amerisure Mutual Insurance Company (f/k/a Michigan Mutual Insurance Company) in the Nineteenth Judicial District Court, Parish of Baton Rouge, Louisiana on the grounds of the defendants' refusal to honor their respective obligations under certain insurance policies on which we were named an additional insured to reimburse us for certain damages incurred by us in the discontinuance of product support for and the withdrawal from a water treatment venture. This proceeding has been removed to United States District Court for the Middle District of Louisiana and the parties have agreed to non-binding arbitration. We have also initiated formal discussions related to such damages with our primary general commercial liability carrier. No assurance can be given that we will prevail in this matter.

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

Other Recent Acquisitions and Joint Ventures

Over the last five years, we have devoted a significant amount of resources to acquisitions, including the subsequent integration of acquired businesses, and to joint ventures. These acquisitions and joint ventures have expanded our base business, provided our customers with a wider array of products and presented new alternatives for discovery through additional chemistries. The following is a summary of our acquisitions and joint ventures, other than the acquisition of Akzo Nobel's refinery catalysts business and related joint ventures, during the last five years:

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Effective January 1, 2004, we acquired the business assets, customer lists and other intangibles of Taerim International Corporation for approximately \$3 million and formed Albemarle Korea Corporation, which is located in Seoul, South Korea.

S-76

Table of Contents

On December 2, 2003, we acquired the bromine fine chemicals business of Atofina Chemicals, Inc. for approximately \$10 million plus the assumption of certain liabilities. The acquisition included Atofina's production facility in Port de Bouc, France, as well as a long-term supply agreement with Atofina for certain fine chemicals. The acquisition provided us with flexibility in raw material supply and complemented our existing network of bromine-based facilities.

On July 23, 2003, we acquired the phosphorus-based polyurethane flame retardants businesses of Rhodia S.A., which included a production site in Avonmouth in the United Kingdom, and supply contracts for flame retardants and intermediates manufactured at Rhodia's sites in Charleston, South Carolina, and in Oldbury and Widnes in the United Kingdom. The acquisition purchase price totaled approximately \$80 million in cash plus the assumption of certain liabilities.

On January 21, 2003, we acquired Ethyl Corporation's fuel and lubricant antioxidants working capital, patents and other intellectual property for approximately \$27 million in cash plus the assumption of certain liabilities.

On April 1, 2002, Stannica LLC, a joint venture with Atofina was formed. This joint venture, in which we own a 60% interest, supplies organotin intermediates, which are used in polyvinyl chloride and other applications.

On July 1, 2001, we acquired the custom and fine chemicals businesses of ChemFirst Inc. for approximately \$79 million in cash plus expenses and the assumption of certain liabilities.

On May 31, 2001, we acquired Martinswerk GmbH for approximately \$34 million in cash plus expenses and the assumption of approximately \$55 million of liabilities. The assets acquired included Martinswerk's manufacturing facilities and headquarters in Bergheim, Germany and its 50% stake in Magnifin Magnesiaprodukte GmbH, which has manufacturing facilities at St. Jakobs/Breitenau, Austria.

On June 29, 2000, we acquired from Ferro Corporation the PYRO-CHEK® Flame Retardant business, along with a plant at Port-de-Bouc, France, for a purchase price of approximately \$35 million.

On June 7, 2000, we formed a joint venture with Ninghai County Jinhai Chemical and Industry Company Limited creating the Ningbo Jinhai Albemarle Chemical and Industrial Company Limited of which we own 25%. The joint venture manufactures antioxidants and polymer intermediates and other mutually agreed upon fine chemicals for sale in China and for export.

In May 1999, we entered into a joint venture agreement with The Arab Potash Company Limited and Jordan Dead Sea Industries Company Limited to form the Jordan Bromine Company Limited, or JBC. We own 50% of JBC, which manufactures and markets bromine and bromine derivatives from a world-scale complex in Jordan, near the Dead Sea. JBC units near Safi, Jordan produce bromine, tetrabromobisphenol-A flame retardant and calcium bromide.

Employees

Edgar Filing: ALBEMARLE CORP - Form S-3/A

As of September 30, 2004, we had approximately 3,700 employees of whom approximately 2,100, or 55%, are employed in the United States, approximately 1,600, or 43%, are employed in Europe, and approximately 80, or 2%, are employed in Asia. Approximately 20% of our U.S. employees are unionized. We have bargaining agreements at three of our U.S. locations:

Baton Rouge, Louisiana Paper, Allied-Industrial, Chemical & Energy Workers International Union, or PACE;

Orangeburg, South Carolina International Brotherhood of Teamsters Industrial Trades Division; and

Pasadena, Texas PACE; Sheet Metal Workers International Association; United Association of Journeymen & Apprentices of Plumbing and Pipefitting Industry; and International Brotherhood of Electrical Workers.

S-77

Table of Contents

We believe that we have good working relationships with these unions, and we have operated without a labor work stoppage at each of these locations for more than 10 years. Two of our bargaining agreements expire in 2005 and one expires in 2007.

We have four works councils representing the majority of our European sites Amsterdam and Amersfoort, the Netherlands; Thann and Port-de-Bouc, France; and Bergheim, Germany covering approximately 1,300 employees. In addition, approximately 60 employees at our manufacturing facility in Avonmouth, United Kingdom are represented by unions through a current collective bargaining agreement. We believe that our relationship with these councils and bargaining representatives is generally good.

Properties

We operate on a worldwide basis. We believe that our production facilities, research and development facilities, and administrative and sales offices are generally well maintained and effectively used and are adequate to operate our business.

Set forth below is information at September 30, 2004 regarding the production facilities, research and development facilities, and administrative and sales offices operated by us and our joint ventures:

<u>Location</u>	<u>Principal Use</u>	<u>Owned/Leased</u>
Amersfoort, the Netherlands	Administrative and marketing offices	Leased
Amsterdam, the Netherlands	Production of refinery catalysts, research and product development activities	Owned
Avonmouth, United Kingdom	Production of flame retardants	Owned
Baton Rouge, Louisiana	Research and product development activities, and production of flame retardants, catalysts and additives	Two facilities; one on leased land
Baton Rouge, Louisiana	Administrative offices	Leased
Bergheim, Germany	Production of flame retardants and specialty products based on aluminum trihydrate and aluminum oxide, and research and product development activities	Owned
Beijing, China	Regional sales and administrative offices	Leased
Dayton, Ohio	Research, product development and small-scale production of fine chemicals	Leased land
Feluy, Belgium	Production of aluminum alkyls	Leased by BP p.l.c. in 1996 under a 99-year lease, but operated by us
Gela, Italy	Catalyst regeneration services	Leased by Eco-Rigen Srl, a joint venture in which Eurecat S.A. indirectly owns 70% and ECONOVA owns 30%. Eurecat S.A. is a joint venture owned 50% by each of IFP Investissements and us
Houston, Texas	Marketing offices	Leased

Table of Contents

<u>Location</u>	<u>Principal Use</u>	<u>Owned/Leased</u>
Jin Shan District, Shanghai, China	Production and marketing of catalysts and related specialty products, by-products and derivatives	Owned by Shanghai Jinhai Albemarle, a joint venture with Shanghai BoNing Investment and Development Company, Ltd, and Shanghai Yonghui Science and Technology Company, Limited, in which we own a 30% interest
Jubail, Saudi Arabia	Refinery catalysts regeneration and recycling services	Owned by Al-Bilod Catalysts Co. Ltd., a joint venture in which each of Eurecat S.A. and Partenaires Moren Orient owns a 50% interest
Louvain-la-Neuve, Belgium	Regional offices and research and customer technical service activities	Owned
La Voulte, France	Refinery catalysts regeneration and treatment, research and development activities	Owned by Eurecat S.A., a joint venture owned 50% by IFP Investissements and us
Magnolia, Arkansas (South Plant)	Production of flame retardants, bromine, inorganic bromides, agricultural intermediates and tertiary amines	Owned
Magnolia, Arkansas (West Plant)	Production of flame retardants and bromine	Owned
Marysville, Arkansas	Production of bromine	Owned
Niihama, Japan	Production of refinery catalysts	Leased by Nippon Ketjen Co., Ltd., a joint venture owned 50% by each of Sumitomo Metal Mining Co., Ltd. and us
Ninghai County, Zhejiang Province, China	Production of antioxidants and polymer intermediates	Leased by Ningbo Jinhai Albemarle Chemical and Industrial Company Limited, a joint venture with Ninghai County Jinhai Chemical and Industry Company Limited in which we own a 25% interest
Orangeburg, South Carolina	Production of flame retardants, aluminum alkyls and fine chemicals, including pharmaceutical actives, fuel additives, orthoalkylated phenols, polymer modifiers and phenolic antioxidants	Owned
Pasadena, Texas	Production of aluminum alkyls, alkenyl succinic anhydride, orthoalkylated anilines, and other specialty chemicals	Owned

Table of Contents

<u>Location</u>	<u>Principal Use</u>	<u>Owned/Leased</u>
Pasadena, Texas	Production of refinery catalysts, research and development activities	Owned
Pasadena, Texas	Refinery catalyst regeneration services	Owned by Eurecat U.S. Incorporated, a corporation in which we directly own a 25% interest, Eurecat S.A., a joint venture in which we own a 50% interest, owns a 65% interest and IFP Investissements, a 50% owner of Eurecat S.A., indirectly owns a 42.5% interest
Port-de-Bouc, France	Production of flame retardants, fine chemicals and bromine	Owned
Richmond, Virginia	Principal executive offices	Leased
Safi, Jordan	Production of bromine and derivatives and flame retardants	Leased by Jordan Bromine Company Ltd., a joint venture owned 50% by each of Arab Potash Company Limited and us
Santa Cruz, Brazil	Production of catalysts, research and product development activities	Owned by Fábrica Carioca de Catalisadores S.A, a joint venture owned 50% by each of Petrobras Química S.A. and us
Seoul, South Korea	Administrative offices	Leased
Shanghai, China	Regional sales and administrative offices	Leased
Singapore	Regional sales and administrative offices	Leased
St. Jakobs/Breitenau, Austria	Production of specialty magnesium hydroxide products	Leased by Magnifin GmbH & Co. KG, a joint venture owned 50% by Radex Heraklith Industriebeteiligung AG and 50% by us
Takaishi City, Osaka, Japan	Production of aluminum alkyls	Owned by Nippon Aluminum Alkyls, a joint venture owned 50% by Mitsui Chemicals, Inc. and us
Teesport, United Kingdom	Production of fine chemicals, including emulsifiers, corrosion inhibitors, scale inhibitors and esters	Owned
Thann, France	Production of fine chemicals including pharmaceutical and agrichemical intermediates, photographic intermediates, high-purity caustic potash, potassium carbonate and chlorine	Owned

Table of Contents

<u>Location</u>	<u>Principal Use</u>	<u>Owned/Leased</u>
Tokyo, Japan	Regional sales and administrative offices	Leased
Tokyo, Japan	Administrative offices	Leased by Nippon Ketjen Co., Ltd., a joint venture 50% owned by Sumitomo Metal Mining Co. Ltd. and us
Tyrone, Pennsylvania	Production of custom fine chemicals, agricultural intermediates, performance polymer products and research and development activities	Owned

S-81

Table of Contents**MANAGEMENT**

The following table presents the name, age and position of each of our directors and executive officers as of September 30, 2004:

<u>Name</u>	<u>Age</u>	<u>Position</u>
William M. Gottwald	56	Chairman of the Board of Directors
Floyd D. Gottwald, Jr.	82	Vice Chairman of the Board of Directors and Chairman of the Executive Committee
Mark C. Rohr	53	President and Chief Executive Officer
Paul F. Rocheleau	50	Senior Vice President and Chief Financial Officer
George A. Newbill	61	Senior Vice President Manufacturing Operations
John M. Steitz	46	Senior Vice President Business Operations
William B. Allen, Jr.	40	Corporate Controller
John Dabkowski	55	Vice President Polymer Additives
Jack P. Harsh	52	Vice President Human Resources
Ray Hurley	52	Vice President Catalysts
Luther C. Kissam, IV	40	Vice President, General Counsel and Secretary
John J. Nicols	40	Vice President Fine Chemicals
Michael D. Whitlow	52	Vice President Investor Relations and External Affairs
C. Kevin Wilson	42	Treasurer
Ronald C. Zumstein	43	Vice President Health, Safety and Environment
Lloyd B. Andrew	80	Director
J. Alfred Broaddus, Jr.	65	Director
John D. Gottwald	50	Director
Richard L. Morrill	65	Director
Seymour S. Preston III	71	Director
John Sherman, Jr.	58	Director
Charles E. Stewart	68	Director
Anne Marie Whittemore	58	Director

William M. Gottwald was elected Chairman of our board of directors on March 28, 2001, having previously served as Vice President Corporate Strategy of our company since 1996. Dr. Gottwald joined our company in 1996 after being associated with Ethyl Corporation (provider of value-added manufacturing and supply solutions to the chemical industry and subsidiary of NewMarket Corporation) for 15 years in several assignments, including Senior Vice President and President of Whitby, Inc., an Ethyl subsidiary. Dr. Gottwald has been a member of our board of directors since 1999. He is also a director of Tredegar Corporation.

Floyd D. Gottwald, Jr. was elected Vice Chairman of our board of directors and Chairman of our Executive Committee on October 1, 2002, having previously served as Chairman of our Executive Committee and Chief Executive Officer of our company from March 28, 2001 through September 30, 2002, and Chairman of our board of directors and Executive Committee and Chief Executive Officer of our company prior thereto. Mr. Gottwald has been a member of our board of directors since 1994. He is also a director of Tredegar Corporation.

Mark C. Rohr was elected President and Chief Executive Officer of our company effective October 1, 2002. Mr. Rohr served as President and Chief Operating Officer of our company from January 1, 2000 through September 30, 2002. Previously, Mr. Rohr served as Executive Vice President Operations of our company from March 22, 1999 through December 31, 1999. Before joining our company, Mr. Rohr served as Senior Vice President, Specialty Chemicals of Occidental Chemical Corporation (chemical manufacturer with interests in basic chemicals, vinyls, petrochemicals and specialty products and subsidiary of Occidental Petroleum Corporation).

Table of Contents

Paul F. Rocheleau joined our company effective June 15, 2002 as Senior Vice President and Chief Financial Officer. Before joining our company, he was appointed to our board of directors and had served as a consultant to our company and to CCA Industries, Inc. (a private equity firm). From 1997 to 2000, Mr. Rocheleau served as Chief Executive Officer of Albright & Wilson plc (developer and manufacturer of value-added chemicals acquired by Rhodia SA in 2000).

George A. Newbill was promoted to Senior Vice President Manufacturing Operations of our company effective January 1, 2004. He served as Vice President Manufacturing Operations of our company from May 1, 2003 until his promotion, having previously served as Vice President Sourcing Organization from January 1, 2000 until May 1, 2003 and Vice President Manufacturing since 1993. Mr. Newbill joined our company in June 1965.

John M. Steitz was appointed to Senior Vice President Business Operations of our company effective January 1, 2004. Mr. Steitz served as Vice President Business Operations of our company from October 2002 until his current appointment. From July 2000 until October 2002, Mr. Steitz served as Vice President Fine Chemicals on a global basis. Before joining our company, he was Vice President and General Manager Pharmaceutical Chemicals of Mallinckrodt, Incorporated (global provider of specialty healthcare products in the areas of diagnostic imaging, respiratory care and pain relief, and business unit of Tyco Healthcare) for 22 years.

William B. Allen, Jr. was promoted to Corporate Controller of our company effective September 1, 2003. Previously, Mr. Allen served as the Director of Financial Analysis and Planning from July 2002 until September 2003, and as the Finance Director for European, Middle East and African operations from April 1998 until July 2002. Mr. Allen joined our company in 1994.

John Dabkowski joined our company in June 1973 and has served as Vice President Polymer Additives since September 23, 2004, having previously served as Vice President Polymer Chemicals of our company since September 1997. Previously, he served as Vice President and General Manager of Specialty Chemicals from March 1994 until September 1997.

Jack P. Harsh was elected Vice President Human Resources of our company effective December 1, 1998. Mr. Harsh joined our company effective November 16, 1998, from Union Carbide Corporation (producer of chemicals and polymers and subsidiary of The Dow Chemical Company), where he directed human resources for the solvents, intermediates and monomers business and supply-chain planning organization.

Ray Hurley was elected Vice President Catalysts on September 23, 2004. Before our acquisition of Akzo Nobel's refinery catalysts business, Mr. Hurley served as President of the Akzo Catalyst Business. Mr. Hurley joined Akzo Nobel as Technology Manager for Metal Soaps, Coatings and PVC in 1983, having previously spent five years as chemist/lab manager with Tenneco Chemicals. He serves on the board of the joint ventures in which we acquired interests as a result of our acquisition of the refinery catalysts business.

Luther C. Kissam, IV joined our company and was elected Vice President, General Counsel and Secretary of our company effective September 30, 2003. Before joining our company, Mr. Kissam served as Vice President, General Counsel and Secretary of Merisant Co. (manufacturer and marketer of sweetener and consumer food products), having previously served as Associate General Counsel of Monsanto Company (provider of agricultural products and solutions).

John J. Nicols joined our company in February 1990 and has served as Vice President Fine Chemicals of our company since June 2002. Previously, Mr. Nicols served as a Divisional Vice President since March 2002, and Global Business Director since February 1999.

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Michael D. Whitlow was elected Vice President Investor Relations and External Affairs of our company effective January 1, 2003. Previously, Mr. Whitlow served as Vice President Americas Sales since May 1, 1999. Mr. Whitlow joined our company in 1989.

S-83

Table of Contents

C. Kevin Wilson joined our company in May 2004 and was elected Treasurer effective July 1, 2004. Before joining our company, Mr. Wilson served as Vice President and Treasurer of Solutia Inc. (specialty chemicals manufacturer) from January 2001 until May 2004, having previously served as Assistant Treasurer and Director, Finance of Solutia from August 1997 until January 2001. Previously, Mr. Wilson served as the Director of International Treasury for Mallinckrodt Incorporated from 1994 until August 1997.

Ronald C. Zumstein was elected Vice President Health, Safety and Environment of our company effective March 1, 2003. Previously, Dr. Zumstein served as Plant Manager since March 1, 1999.

Lloyd B. Andrew has been a member of our board of directors since October 1, 2002, having previously served as a director from 1994 through 1995. Mr. Andrew is a consultant, having previously served as Chief Financial Officer and Executive Vice President of Ethyl Corporation from 1984 through 1989.

J. Alfred Broaddus, Jr. has been a member of our board of directors since August 18, 2004. Mr. Broaddus is currently retired, having previously served as President of the Federal Reserve Bank of Richmond from 1993 until July 31, 2004. While serving as President, he served as a rotating member of the Federal Open Market Committee of the Federal Reserve System. Mr. Broaddus initially joined the Federal Reserve Bank's research staff as an economist in 1970 and was named senior vice president and director of research in 1985. Mr. Broaddus is also a director of Owens & Minor, Inc., Markel Corporation and T. Rowe Price Group, Inc.

John D. Gottwald has been a member of our board of directors since 1994. Mr. Gottwald has served as Chairman of the Board of Tredegar Corporation (global manufacturer of plastic films and aluminum extrusions and a developer and marketer of bone graft substitutes) since September 11, 2001, having previously served as President and Chief Executive Officer of Tredegar Corporation from 1989 through September 10, 2001. Mr. Gottwald is also a director of Tredegar Corporation.

Richard L. Morrill has been a member of our board of directors since 2002. Mr. Morrill has served as Chancellor and Distinguished University Professor of Ethics and Democratic Values University of Richmond since July 1, 1998, having previously served as President of the University of Richmond. Mr. Morrill is also a director of Tredegar Corporation.

Seymour S. Preston III has been a member of our board of directors since 1996. Mr. Preston serves as President of The Millrace Group (consulting services), having previously served as Chairman of the Board and Chief Executive Officer of AAC Engineered Systems, Inc. (manufacturer of centrifugal deburring and finishing machinery) from December 1994 through August 2003. Mr. Preston is also a director of Tufco Technologies Inc.

John Sherman, Jr. has been a member of our board of directors since September 24, 2003. Mr. Sherman has served as Vice Chairman of Scott & Stringfellow, Inc. (regional brokerage) since October 1, 2002, having previously served as President and Chief Executive Officer of Scott & Stringfellow prior thereto. Mr. Sherman is also a director of Anthem, Inc.

Charles E. Stewart has been a member of our board of directors since 1997. Mr. Stewart is a consultant, having been a partner of BTC Partners LLP (investment and acquisitions consultants) from June 1996 through June 1999 and having previously served as Executive Vice President of Occidental Chemical Corporation.

Anne Marie Whittemore has been a member of our board of directors since 1996. Ms. Whittemore is a Partner of McGuireWoods LLP (law firm). Ms. Whittemore is also a director of Owens & Minor, Inc. and T. Rowe Price Group, Inc.

Certain Relationships

William M. Gottwald, Chairman of our board of directors, and John D. Gottwald, a member of our board of directors, are sons of Floyd D. Gottwald, Jr., Vice Chairman of our board of directors and Chairman of the Executive Committee of our board of directors.

S-84

Table of Contents

DESCRIPTION OF THE NOTES

The following description of the particular terms of the notes supplements, and to the extent inconsistent therewith replaces, the description of the debt securities set forth in the accompanying prospectus under Description of Debt Securities. This description does not describe every aspect of the notes or the indenture under which the notes are to be issued. You must look to the indenture for the most complete description of what we describe in summary form in this prospectus supplement and the accompanying prospectus. Capitalized terms used but not defined in this prospectus supplement have the meanings ascribed to those terms in the accompanying prospectus. When we refer to Albemarle, the company, we, our, or us in this section, we refer only to Albemarle Corporation and not its subsidiaries.

General

The notes will be issued under the indenture to be dated as of _____, 2004, between us and The Bank of New York, as trustee. The notes will be direct unsecured obligations of the company initially issued in an aggregate principal amount of \$300.0 million and will mature on _____, 2014.

The notes will bear interest at the rate of _____ % per year from December _____, 2004, or from the most recent date to which interest has been paid or provided for, payable semi-annually on _____ and _____, commencing _____, 2005 to the persons in whose names the notes are registered at the close of business on the next preceding _____ or _____, respectively.

The indenture does not limit our ability or the ability of our subsidiaries to incur additional indebtedness. As of September 30, 2004, after giving pro forma effect to the completion of this offering and the common stock offering and the application of the net proceeds therefrom as described in Use of Proceeds and assuming that we incur additional indebtedness under our \$300 million revolving credit facility to retire the remaining amount of indebtedness outstanding under our 364-day loan agreement, we would have had \$807.0 million of indebtedness outstanding, including guarantees of approximately \$465 million of indebtedness incurred by our subsidiaries, all of which would rank equally with the notes. As of September 30, 2004 we did not have any secured indebtedness. However, the indenture will, subject to certain limitations, permit us to incur secured indebtedness and the notes will be effectively subordinated to any secured indebtedness that we incur to the extent of the value of the assets securing such indebtedness. The notes also will be effectively subordinated to all indebtedness and other liabilities of our subsidiaries. As of September 30, 2004, our subsidiaries had approximately \$935.8 million of liabilities (excluding intercompany liabilities).

We may from time to time without notice to, or the consent of, the holders of the notes, create and issue additional notes under the indenture, equal in rank to the notes in all respects (or in all respects except for the payment of interest accruing prior to the issue date of the new notes, or except under certain circumstances for the first payment of interest following the issue date of the new notes) so that the new notes may be consolidated and form a single series with the notes and have the same terms as to status, redemption and otherwise as the notes issued under this prospectus supplement.

The notes will not be entitled to the benefits of any sinking fund.

Optional Redemption

Edgar Filing: ALBEMARLE CORP - Form S-3/A

We may redeem the notes in whole or in part, at our option at any time, at a redemption price equal to the greater of (1) 100% of the principal amount of the notes and (2) the sum of the present values of the remaining scheduled payments of principal and interest thereon (exclusive of interest accrued to the date of redemption) discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus _____ basis points, plus, in each case, accrued interest thereon to the date of redemption.

Treasury Rate means, with respect to any redemption date, the rate per year equal to the semiannual equivalent yield to maturity or interpolated (on a day count basis) of the Comparable Treasury Issue, assuming a

S-85

Table of Contents

price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

Comparable Treasury Issue means the United States Treasury security or securities selected by an Independent Investment Banker as having an actual or interpolated maturity comparable to the remaining term of the notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the remaining term of such notes.

Independent Investment Banker means one of the Reference Treasury Dealers appointed by the trustee after consultation with Albemarle.

Comparable Treasury Price means, with respect to any redemption date, (1) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (2) if the trustee obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

Reference Treasury Dealer Quotations means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the trustee by such Reference Treasury Dealer at 3:30 p.m. New York time on the third business day preceding such redemption date.

Reference Treasury Dealer means each of (1) Banc of America Securities LLC, UBS Securities LLC and Bear, Stearns & Co. Inc. or their respective affiliates which are primary U.S. Government securities dealers in the United States (a **Primary Treasury Dealer**), and their respective successors and (2) two other Primary Treasury Dealers; provided, however, that if any of the foregoing or their affiliates shall cease to be a Primary Treasury Dealer, the Company shall substitute therefor another Primary Treasury Dealer.

Notice of any redemption will be mailed at least 30 days but not more than 60 days before the redemption date to each holder of notes to be redeemed.

Unless we default in payment of the redemption price, on and after the redemption date interest will cease to accrue on the notes or portions thereof called for redemption.

We will pay interest to a person other than the holder of record on the record date if we elect to redeem the notes on a date that is after a record date but on or prior to the corresponding interest payment date. In this instance, we will pay accrued interest on the notes being redeemed to, but not including, the redemption date to the same person to whom we will pay the principal of those notes.

Sinking Fund

There is no provision for a sinking fund applicable to the notes.

Events of Default

You will have special rights if an event of default occurs with respect to the notes and such event of default is not cured, as described under Description of Debt Securities Default and Related Matters in the accompanying prospectus.

Defeasance

The notes will be subject to the defeasance provisions described under the caption Description of Debt Securities Defeasance in the accompanying prospectus.

Table of Contents

Book-Entry System

The notes will be represented by one or more registered global securities (the Registered Global Security) registered in the name of Cede & Co. (the nominee of The Depository Trust Company (the Depository)), or such other name as may be requested by an authorized representative of the Depository. The provisions set forth under Description of Debt Securities Legal Ownership in the accompanying prospectus will be applicable to the notes. Accordingly, beneficial interests in the notes will be shown on, and transfers of the notes will be effected only through, records maintained by the Depository and its participants. Except as described under Description of Debt Securities Legal Ownership in the accompanying prospectus, owners of beneficial interests in the Registered Global Security representing the notes will not be entitled to receive notes in definitive form and will not be considered holders of notes under the indenture.

The Depository has advised Albemarle and the underwriters as follows: The Depository Trust Company is a limited-purpose trust company organized under the New York Banking Law, a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code and a clearing agency registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. The Depository holds securities that its participants (Direct Participants) deposit with the Depository. The Depository also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers (including certain of the underwriters), banks, trust companies, clearing corporations and certain other organizations. The Depository is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, LLC and the National Association of Securities Dealers, Inc. Access to the Depository s book-entry system is also available to others, such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (Indirect Participants). The rules applicable to the Depository and its Direct and Indirect Participants are on file with the SEC.

Purchases of notes under the Depository s system must be made by or through Direct Participants, which will receive a credit for such notes on the Depository s records. The ownership interest of each actual purchaser of notes represented by the Registered Global Security (Beneficial Owner) is in turn to be recorded on the Direct and Indirect Participants records. Beneficial Owners will not receive written confirmation from the Depository of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participants through which such Beneficial Owners entered into the transaction. Transfers of ownership interests in the Registered Global Security representing notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive notes in definitive form, except in the event that use of the book-entry system for such notes is discontinued or upon the occurrence of certain other events described in the accompanying prospectus and in this prospectus supplement.

To facilitate subsequent transfers, the Registered Global Security representing notes that are deposited by Direct Participants is registered in the name of the Depository s partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of the Depository. The deposit of the Registered Global Security with the Depository and its registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. The Depository has no knowledge of the actual Beneficial Owners of the Registered Global Security representing the notes; the Depository s records reflect only the identity of the Direct Participants to whose accounts such notes are credited, which may or may not be the Beneficial Owners. The Direct or Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by the Depository to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners

Table of Contents

will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither the Depository nor Cede & Co. (or any other Depository nominee) will consent or vote with respect to the Registered Global Security representing the notes. Under its usual procedures, the Depository mails an omnibus proxy to Albemarle as soon as possible after the applicable record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the notes are credited on the applicable record date (identified in a listing attached to the omnibus proxy).

Principal, premium, if any, and interest payments on the Registered Global Security representing the notes will be made to Cede & Co., or such nominee as may be requested by an authorized representative of the Depository. The Depository's practice is to credit Direct Participants accounts upon the Depository's receipt of funds and corresponding detail information from Albemarle or the trustee on the payment date in accordance with their respective holdings shown on the Depository's records. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in street name, and will be the responsibility of those Direct and Indirect Participants and not of the Depository, the trustee or Albemarle, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest to Cede & Co. (or such other nominee) is the responsibility of Albemarle or the trustee, disbursement of those payments to Direct Participants is the responsibility of the Depository, and disbursement of those payments to the Beneficial Owners is the responsibility of the Direct and Indirect Participants. Neither Albemarle nor the trustee will have any responsibility or liability for the disbursements of payments in respect of ownership interests in the notes by the Depository or the Direct or Indirect Participants or for maintaining or reviewing any records of the Depository or the Direct or Indirect Participants relating to ownership interests in the notes or the disbursement of payments in respect of the notes.

The Depository may discontinue providing its services as securities depository with respect to the notes at any time by giving reasonable notice to Albemarle or the trustee. Under such circumstances, and in the event that a successor securities depository is not obtained, notes in definitive form are required to be printed and delivered to each holder.

We may decide to discontinue use of the system of book-entry transfers through the Depository (or a successor securities depository). In that event, notes in definitive form will be printed and delivered.

Table of Contents

CERTAIN U.S. FEDERAL TAX CONSEQUENCES

The following general discussion summarizes material U.S. federal income and, for certain foreign persons, estate tax aspects of the purchase, ownership and disposition of the notes. This discussion is a summary for general information only and does not consider all aspects of U.S. federal income tax that may be relevant to the purchase, ownership and disposition of the notes. This discussion also does not address the U.S. federal income tax consequences of ownership of notes not held as capital assets within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended, which we refer to as the Code, or the U.S. federal income tax consequences to investors subject to special treatment under the U.S. federal income tax laws, such as:

dealers in securities or foreign currency;

tax-exempt entities;

banks;

thrifts;

regulated investment companies;

real estate investment trusts;

traders in securities that have elected the mark-to-market method of accounting for their securities;

controlled foreign corporations;

passive foreign investment companies;

insurance companies;

persons that hold the notes as part of a straddle, a hedge against currency risk or a conversion transaction ;

expatriates;

persons that have a functional currency other than the U.S. dollar; and

pass-through entities (e.g., partnerships) or investors who hold the notes through pass-through entities.

Edgar Filing: ALBEMARLE CORP - Form S-3/A

In addition, this discussion is limited to the U.S. federal income tax consequences to initial holders that purchase the notes for cash, at their original issue price, pursuant to the offering. It does not describe any tax consequences arising out of the tax laws of any state, local or foreign jurisdiction.

If a partnership, including any entity that is treated as a partnership for U.S. federal income tax purposes, is a beneficial owner of the notes, the treatment of a partner in the partnership will generally depend on the status of the partner and the activities of the partnership. If you are a partner in or owner of a partnership that is considering purchasing the notes, you should consult with your tax advisor.

This discussion is based upon the Code, regulations of the Treasury Department, Internal Revenue Service, which we refer to as the IRS, rulings and pronouncements and judicial decisions now in effect, all of which are subject to change (possibly on a retroactive basis). We have not and will not seek any rulings or opinions from the IRS regarding the matters discussed below. There can be no assurance that the IRS will not take positions concerning the tax consequences of the purchase, ownership or disposition of the notes which are different from those discussed below.

If you are considering buying notes, we urge you to consult your tax advisor about the particular federal, state, local and foreign tax consequences of the purchase, ownership and disposition of the notes, and the application of the U.S. federal income tax laws to your particular situation.

U.S. Holders

A U.S. holder is a beneficial owner of notes that, for U.S. federal income tax purposes, is:

an individual citizen or resident of the United States;

S-89

Table of Contents

a corporation or other entity taxable as a corporation created or organized under the laws of the United States, any of its states or the District of Columbia;

an estate the income of which is subject to U.S. federal income taxation regardless of its sources; or

a trust if a U.S. court is able to exercise primary supervision over administration of the trust and one or more U.S. persons have authority to control all substantial decisions of the trust, or if the trust existed on April 20, 1996 and has validly elected to continue to be treated as a domestic trust.

Taxation of Interest

Interest on the notes is generally taxable to you as ordinary income:

when it accrues, if you use the accrual method of accounting for U.S. federal income tax purposes; or

when you receive it, if you use the cash method of accounting for U.S. federal income tax purposes.

Sale or Other Disposition of Notes

You generally must recognize taxable gain or loss on the sale, exchange, redemption, retirement or other disposition of a note. The amount of your gain or loss equals the difference between the amount you receive for the note (to the extent such amount does not represent accrued but unpaid interest, which will be treated as such), minus your adjusted tax basis in the note. Your initial tax basis in a note generally is the price you paid for the note. Any such gain or loss on a taxable disposition of a note as described above will generally constitute capital gain or loss and will be long-term capital gain or loss if you hold such note for more than one year.

Non-U.S. Holders

A non-U.S. holder is a beneficial owner of notes that is for U.S. federal income tax purposes an individual, corporation, estate or trust and is not a U.S. holder.

Withholding Tax on Payments on the Notes

Subject to the discussion of backup withholding below, payments of interest on a note to any non-U.S. holder will generally not be subject to U.S. federal income or withholding tax, provided that:

Edgar Filing: ALBEMARLE CORP - Form S-3/A

the holder is not:

an actual or constructive owner of 10% or more of the total voting power of all our voting stock; or

a controlled foreign corporation related (directly or indirectly) to us through stock ownership;

such interest payments are not effectively connected with the conduct by the non-U.S. holder of a trade or business within the United States; and

we or our paying agent receives:

from the non-U.S. holder, a properly completed Form W-8BEN (or substitute Form W-8BEN or the appropriate successor form) under penalties of perjury, which provides the non-U.S. holder's name and address and certifies that the non-U.S. holder of the note is a non-U.S. holder; or

S-90

Table of Contents

from a security clearing organization, bank or other financial institution that holds the notes in the ordinary course of its trade or business (a financial institution) on behalf of the non-U.S. holder, certification under penalties of perjury that such a Form W-8BEN (or substitute Form W-8BEN or the appropriate successor form) has been received by it, or by another such financial institution, from the non-U.S. holder, and a copy of the Form W-8BEN (or substitute Form W-8BEN or the appropriate successor form) is furnished to the payor.

Special rules may apply to holders who hold notes through qualified intermediaries within the meaning of U.S. federal income tax laws.

If interest on a note is effectively connected with the conduct by a non-U.S. holder of a trade or business in the United States and, if the non-U.S. holder is entitled to the benefits under an applicable tax treaty, is attributable to a permanent establishment or a fixed base in the United States, then such income generally will be subject to U.S. federal income tax on a net basis at the rates applicable to U.S. persons generally (and, if realized by corporate holders, may also be subject to a 30% branch profits tax or such lower rate as may be available pursuant to an applicable income tax treaty). If interest is subject to U.S. federal income tax on a net basis in accordance with the rules described in the preceding sentence, payments of such interest will not be subject to U.S. withholding tax so long as the holder provides us or the paying agent with a Form W-8ECI.

A non-U.S. holder that does not qualify for exemption from withholding under the preceding paragraphs generally will be subject to withholding of U.S. federal income tax at the rate of 30% (or lower applicable treaty rate) on payments of interest on the notes.

Non-U.S. holders should consult their tax advisors about any applicable income tax treaties, which may provide for an exemption from or a lower rate of withholding tax, exemption from or reduction of branch profits tax, or other rules different from those described above.

Sale or Other Disposition of Notes

Subject to the discussion of backup withholding below, any gain realized by a non-U.S. holder on the sale, exchange, redemption, retirement or other disposition of a note generally will not be subject to U.S. federal income tax, unless:

such gain is income or gain that is effectively connected with the non-U.S. holder's conduct of a trade or business in the United States and, if the non-U.S. holder is entitled to the benefits under an applicable tax treaty, is attributable to a permanent establishment or a fixed base in the United States; or

the non-U.S. holder is an individual who is present in the U.S. for 183 days or more in the taxable year of the disposition and certain other conditions are satisfied.

If the first bullet point applies, non-U.S. holders generally will be subject to U.S. federal income tax with respect to such gain in the same manner as U.S. holders, as described above, unless an applicable income tax treaty provides otherwise. If the second bullet point applies, non-U.S. holders generally will be subject to U.S. federal income tax at a rate of 30% (or at a reduced rate under an applicable income tax treaty) on the amount by which capital gains from U.S. sources (including gains from the sale, exchange, redemption, retirement or other disposition of the notes) exceed capital losses allocable to U.S. sources.

U.S. Federal Estate Tax

A note held or treated as held by an individual who is a non-U.S. holder at the time of his or her death will not be subject to U.S. federal estate tax provided that (1) the individual does not actually or constructively own 10% or more of the total voting power of all our voting stock and (2) interest on the note, if received by the non-U.S. holder at death, would not have been effectively connected with the conduct by such non-U.S. holder of a trade or business within the United States.

S-91

Table of Contents

Information Reporting and Backup Withholding

Payments of principal and interest made by us on, or the proceeds of the sale or other disposition of, the notes may be subject to information reporting. In addition, if you are a U.S. holder, such payments will be subject to U.S. federal backup withholding tax unless you supply a taxpayer identification number, certified under penalties of perjury, as well as certain other information or otherwise establish an exemption from backup withholding. If you are a non-U.S. holder, you may be required to comply with certification procedures to establish that you are not a U.S. person in order to avoid backup withholding tax with respect to our payments on, or the proceeds from the disposition of, notes. The backup withholding tax rate is currently 28%. Any amounts withheld under the backup withholding rules may be allowable as a refund or a credit against the holder's U.S. federal income tax liability, provided required information is furnished to the IRS.

Table of Contents**UNDERWRITING**

Under the terms and subject to the conditions contained in an underwriting agreement among the underwriters and us, each of the underwriters named below, through their representatives, Banc of America Securities LLC, UBS Securities LLC and Bear, Stearns & Co. Inc. have severally agreed to purchase from us and the selling shareholders the principal amount of notes set forth opposite its name below:

Underwriters	Principal Amount of Notes
Banc of America Securities LLC	\$
UBS Securities LLC	
Bear, Stearns & Co. Inc.	
Total	\$ 300,000,000

The underwriting agreement provides that the obligations of the several underwriters are subject to approval of various legal matters by their counsel and to various other conditions, including delivery of legal opinions by our counsel, the delivery of letters by our independent registered public accounting firm and the independent public accounting firm of the refinery catalysts business of Akzo Nobel and the accuracy of the representations and warranties made by us in the underwriting agreement. Under the underwriting agreement, the underwriters are obliged to purchase and pay for all of the notes if any are purchased.

Public Offering Price

The underwriters propose to offer the notes directly to the public at the offering price set forth on the cover page of this prospectus supplement and at that price less a concession not in excess of % of the principal amount of the notes to other dealers. The underwriters may allow, and those dealers may reallow, concessions not in excess of % of the principal amount of the notes to other dealers. After this offering, the offering price, concessions and other selling terms may be changed by the underwriters. The notes are offered subject to receipt and acceptance by the underwriters and subject to other conditions, including the right to reject orders in whole or in part.

We estimate total expenses payable by us in connection with this offering, other than the underwriting discounts and commissions referred to above, will be approximately \$0.8 million.

Indemnification and Contribution

The underwriting agreement provides that we will indemnify the underwriters against liabilities specified in the underwriting agreement under the Securities Act, including liabilities arising from material misstatements or omissions in connection with disclosures, or will contribute to payments that the underwriters may be required to make in respect of those liabilities.

Table of Contents

Stabilization and Syndicate Short Position

In order to facilitate the offering of the notes, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the market price of the notes.

The underwriters may over-allot notes in connection with this offering, thus creating a short position for their own account. Short sales involve the sale by the underwriters of a greater principal amount of notes than they are committed to purchase in the offering. The underwriters must close out any short position by purchasing notes in the open market. A short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the notes in the open market after pricing that could adversely affect investors who purchase in the offering.

Accordingly, to cover these short sales positions or to stabilize the market price of the notes, the underwriters may bid for, and purchase, notes in the open market. Additionally, the representatives, on behalf of the underwriters, may also reclaim selling concessions allowed to an underwriter or dealer. Similar to other purchase transactions, the underwriters' purchases to cover the syndicate short sales or to stabilize the market price of the notes may have the effect of raising or maintaining the market price of the notes or preventing or mitigating a decline in the market price of the notes. As a result, the price of the notes may be higher than the price that might otherwise exist in the open market. No representation is made as to the magnitude or effect of any such stabilization or other activities. The underwriters are not required to engage in these activities and, if commenced, may end any of these activities at any time.

NASD Matters

This offering is being conducted pursuant to Conduct Rule 2710(h) of the National Association of Securities Dealers.

Electronic Delivery

In connection with this offering, certain of the underwriters or securities dealers may distribute prospectuses electronically.

Banc of America Securities LLC, UBS Securities LLC and Bear, Stearns & Co. Inc. have each served in the past as a financial advisor to our company, for which they have each received customary fees, and may do so again in the future. Banc of America Securities LLC, UBS Securities LLC and Bear, Stearns & Co. Inc. are among the underwriters in the common stock offering. Affiliates of Banc of America Securities LLC and UBS Securities LLC are also lenders under our senior credit agreement. In addition, affiliates of Banc of America Securities LLC, UBS Securities LLC and Bear, Stearns & Co. Inc. are lenders under our 364-day loan agreement. It is expected that these affiliates will receive a portion of the proceeds from this offering and the common stock offering used to repay all or substantially all of the borrowings outstanding under our 364-day loan agreement.

LEGAL MATTERS

The validity of the notes has been passed upon for us by Hunton & Williams LLP, Richmond, Virginia. Simpson Thacher & Bartlett LLP is counsel for the underwriters in connection with the offering.

EXPERTS

The consolidated financial statements of Albemarle Corporation as of December 31, 2003 and 2002 and for the years ended December 31, 2003, 2002 and 2001 included in this prospectus supplement have been so included in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

S-94

Table of Contents

The combined financial statements of Akzo Nobel Catalysts, a former business of Akzo Nobel N.V., as of December 31, 2003 and 2002, and for each of the years in the three-year period ended December 31, 2003 have been included herein in reliance on the report of KPMG Accountants N.V., an independent public accounting firm, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the SEC. Our SEC filings are available to the public over the Internet at the SEC's web site at <http://www.sec.gov>. You may also read and copy any document we file at the SEC's public reference room in Washington, D.C., 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Our common stock is traded on the NYSE under the symbol ALB. You may inspect the reports, proxy statements and other information concerning us at the offices of the NYSE, 20 Broad Street, New York, New York 10005.

DOCUMENTS INCORPORATED BY REFERENCE

The SEC allows us to incorporate by reference the information we file with it, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this prospectus supplement, and information that we file later with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below and filings that we make after the date of filing the initial registration statement and prior to the effectiveness of that registration statement, and any future filings made by us with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act, all of which are contained, or will be contained, in SEC File No. 1-12658, until the offering of the securities under this prospectus supplement is completed or withdrawn:

our Annual Report on Form 10-K for the fiscal year ended December 31, 2003;

our Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2004, June 30, 2004 and September 30, 2004;

our definitive proxy statement filed with the SEC on March 1, 2004;

our Current Reports on Form 8-K filed with the SEC on April 19, 2004, July 16, 2004, August 2, 2004, August 24, 2004, October 14, 2004 and November 19, 2004;

our Current Report on Form 8-K/A filed with the SEC on October 13, 2004; and

the description of our common stock included in our Form 10/A, filed with the SEC on February 11, 1994.

You may request a copy of these filings at no cost, by writing or telephoning us at the following address: Corporate Secretary, Albemarle Corporation, 330 South Fourth Street, Richmond, Virginia 23219; (804) 788-6000.

Table of Contents

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus supplement and the accompanying prospectus. You must not rely on any unauthorized information or representations. This prospectus supplement and the accompanying prospectus is an offer to sell only the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus supplement and the accompanying prospectus is current only as of its date.

TABLE OF CONTENTS

	Page
Prospectus Supplement	
<u>About This Prospectus Supplement</u>	S-i
<u>Market and Industry Data</u>	S-i
<u>Non-GAAP Financial Measure</u>	S-i
<u>Pro Forma Financial Information</u>	S-ii
<u>Exchange Rates</u>	S-iii
<u>Forward-Looking Statements</u>	S-iii
<u>Prospectus Supplement Summary</u>	S-1
<u>Risk Factors</u>	S-14
<u>Use of Proceeds</u>	S-26
<u>Capitalization</u>	S-27
<u>Unaudited Pro Forma Combined Financial Information</u>	S-28
<u>Selected Historical Consolidated Financial Information of Albemarle</u>	S-35
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations of Albemarle</u>	S-37
<u>Selected Historical Combined Financial Information of Akzo Nobel's Refinery Catalysts Business</u>	S-58
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations of Akzo Nobel's Refinery Catalysts Business</u>	S-60
<u>Business</u>	S-63
<u>Management</u>	S-82
<u>Description of the Notes</u>	S-85
<u>Certain U.S. Federal Tax Consequences</u>	S-89
<u>Underwriting</u>	S-93
<u>Legal Matters</u>	S-94
<u>Experts</u>	S-94
<u>Where You Can Find More Information</u>	S-95
<u>Documents Incorporated by Reference</u>	S-95
Prospectus	
<u>About This Prospectus</u>	1
<u>Forward-Looking Statements</u>	1
<u>Albemarle Corporation</u>	2
<u>Ratios of Earnings to Fixed Charges</u>	3
<u>Use of Proceeds</u>	3
<u>Description of Debt Securities</u>	4
<u>Description of Preferred Stock</u>	20
<u>Description of Common Stock</u>	23
<u>Selling Shareholders</u>	27
<u>Plan of Distribution</u>	28
<u>Validity of Securities</u>	29
<u>Experts</u>	29
<u>Where You Can Find More Information</u>	29

\$300,000,000

% Senior Notes due 2014

PROSPECTUS SUPPLEMENT

, 2004

Banc of America Securities LLC

UBS Investment Bank

Bear, Stearns & Co. Inc.

Table of Contents

The information in this prospectus is not complete and may be changed. We may not sell these securities until the Securities and Exchange Commission declares our registration statement effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION DATED DECEMBER 10, 2004

PROSPECTUS

\$700,000,000

Debt Securities

Preferred Stock

Common Stock

Selling Shareholders

1,600,000 Shares of Albemarle Corporation Common Stock

We may offer and sell debt securities, preferred stock and common stock from time to time in one or more offerings, in amounts, at prices and on other terms to be determined at the time of offering. The total offering price of these securities offered by us to the public will be limited to \$700,000,000.

In addition, the selling shareholders named in this prospectus may sell up to 1,600,000 shares of our common stock. We will not receive any of the proceeds from the sale of these shares.

Edgar Filing: ALBEMARLE CORP - Form S-3/A

We will provide you with more specific terms of the securities, and the manner in which they are being offered, in supplements to this prospectus. You should read this prospectus and the applicable prospectus supplement carefully before you invest.

Our common stock is listed on the New York Stock Exchange under the symbol ALB.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

This prospectus is dated _____, 2004

Table of Contents

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement on Form S-3 that we filed with the Securities and Exchange Commission, or the SEC, utilizing the shelf registration process. Under the shelf registration process, (1) we may sell the securities described in this prospectus and the applicable prospectus supplements in one or more offerings up to a total dollar amount of \$700,000,000 and (2) the selling shareholders identified in this prospectus may sell up to an aggregate of 1,600,000 shares of our common stock in one or more offerings.

This prospectus provides you with a general description of the securities we and the selling shareholders may offer. Each time we or the selling shareholders sell securities, we or the selling shareholders will provide a prospectus supplement containing specific information about the terms of the securities being offered. A prospectus supplement may include a discussion of any risk factors or other special considerations applicable to those securities or to us. A prospectus supplement may also add, update or change information in this prospectus. If there is any inconsistency between the information in this prospectus and the applicable prospectus supplement, you should rely on the information in the prospectus supplement. We filed a registration statement containing this prospectus with the SEC. The registration statement includes exhibits that provide more detail on the matters discussed in this prospectus. You should read this prospectus, the related exhibits filed with the SEC and the applicable prospectus supplement together with additional information described under the headings **Where You Can Find More Information** and **Documents Incorporated by Reference**.

When acquiring any securities discussed in this prospectus, you should rely only on the information provided in this prospectus and in the applicable prospectus supplement, including the documents incorporated by reference. Neither we, nor any underwriters or agents, have authorized anyone to provide you with different information. Neither we nor the selling shareholders are offering the securities in any jurisdiction where the offer is prohibited. You should not assume that the information in this prospectus, any prospectus supplement or any document incorporated by reference is truthful or complete at any date other than the date mentioned on the cover page of these documents.

Unless the context otherwise indicates, the terms **Albemarle**, **we**, **us**, **our** or **the company** mean Albemarle Corporation and its consolidated subsidiaries, and **pro forma** means pro forma to reflect our acquisition of the refinery catalysts business of Akzo Nobel N.V., the completion of the financings related to the acquisition, the refinancing of our then-existing credit agreement and the payment of related fees and expenses, as if such transactions had occurred on January 1, 2003. The term **pro forma** also reflects, to the extent appropriate, the realignment of our polyolefin catalysts business from our Polymer Chemicals segment, which we renamed Polymer Additives, to our new Catalysts segment.

FORWARD-LOOKING STATEMENTS

Some of the information presented in this prospectus and the applicable prospectus supplements, 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**, **should**, **will** and variations of such words and similar expressions to identify such forward-looking statements. These forward-looking statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions, which are difficult to predict and many of which are beyond our control. There can be no assurance, therefore, that our actual results will not differ materially from the results and expectations expressed or implied in the forward-looking statements. Factors that could cause actual results to differ materially include, without limitation:

the timing of orders received from customers;

the gain or loss of significant customers;

Table of Contents

competition from other manufacturers;

changes in the demand for our products;

changes in our margins;

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

changes in our manufacturing processes;

changes in our markets in general;

fluctuations in foreign currencies;

changes in new product introductions resulting in increases in capital project requests and approvals leading to additional capital spending;

changes in laws and regulations;

the occurrence of claims or litigation;

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

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

changes in accounting standards;

the integration of the Akzo Nobel refinery catalysts business into our operations;

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

changes in interest rates, to the extent they (1) affect our ability to raise capital or increase our cost of funds, (2) have an impact on the overall performance of our pension fund investments and (3) increase our pension expense and funding obligations; and

the other factors detailed from time to time in the applicable prospective supplements and the reports we file with the SEC.

Edgar Filing: ALBEMARLE CORP - Form S-3/A

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.

ALBEMARLE CORPORATION

We are a leading global developer, manufacturer and marketer of highly-engineered specialty chemicals. We currently operate in three business segments: Polymer Additives, which produces flame retardants and other plastic additives; Catalysts, which is comprised of the refinery catalysts business of Akzo Nobel N.V., which we acquired on July 31, 2004, and our polyolefin catalysts business; and Fine Chemicals, which produces a broad range of fine and specialty chemicals, including pharmaceuticals and agrichemicals, as well as intermediates and performance chemicals, and provides fine chemistry services.

Albemarle was incorporated in Virginia in 1993. Our principal executive offices are located at 330 South Fourth Street, Richmond, Virginia 23219 and our telephone number is (804) 788-6000.

Table of Contents**RATIOS OF EARNINGS TO FIXED CHARGES**

The following table sets forth our ratios of (1) consolidated earnings to fixed charges and (2) consolidated earnings to combined fixed charges and preferred stock dividends for the years and the periods indicated:

	Nine Months Ended September 30,		Year Ended December 31,					
	Pro Forma		Pro Forma					
	2004	2004	2003	2003	2002	2001	2000	1999
Ratio of earnings to fixed charges	4.1x	4.6x	3.9x	9.2x	11.1x	10.1x	13.6x	9.6x
Ratio of earnings to combined fixed charges and preferred stock dividends	4.1x	4.6x	3.9x	9.2x	11.1x	10.1x	13.6x	9.6x

For purposes of computing the ratios of earnings to fixed charges, earnings consist of pre-tax income from continuing operations before adjustment for minority interests in consolidated subsidiaries or income or loss from equity investees plus fixed charges, amortization of capitalized interest, less interest capitalized and minority interest in pre-tax income of subsidiaries that have not incurred fixed charges. Fixed charges consist of interest expense (before capitalized interest), and a portion of rental expense that we believe to be representative of interest. During the periods presented in the table above, no shares of preferred stock were outstanding.

USE OF PROCEEDS

Unless otherwise indicated in the applicable prospectus supplement, we expect to use the net proceeds from the sale of the securities for general corporate purposes, which may include, among other things, working capital, capital expenditures, the repurchase of shares of common stock, the repayment or refinancing of outstanding indebtedness or acquisitions. Specific information concerning the use of proceeds from the sale of any securities will be included in the applicable prospectus supplement relating to such securities. We will not receive any of the proceeds from the sale of shares of our common stock by the selling shareholders.

Table of Contents

DESCRIPTION OF DEBT SECURITIES

This section describes the general terms and provisions of the debt securities that may be offered by this prospectus. This section does not describe every aspect of the indentures or the debt securities. You must look to the indentures for the most complete description of what we describe in summary form in this prospectus and the applicable prospectus supplement. A copy of the form of each indenture is filed as an exhibit to the registration statement of which this prospectus is a part. See *Where You Can Find More Information* for information on how to obtain a copy. You should also refer to the Trust Indenture Act of 1939, certain terms of which are made a part of the indentures by reference.

The terms of the series described in the prospectus supplement relating to that series may vary from the terms described in this prospectus. The prospectus supplement relating to each series of debt securities will be attached to the front of this prospectus. There may also be a further prospectus supplement, known as a pricing supplement, which contains the precise terms of debt securities we are offering.

We may issue as many distinct series of debt securities under either indenture as we wish without limitation as to aggregate principal amount under the terms of the relevant indenture. Neither indenture limits our ability to incur additional indebtedness. This section summarizes the material terms of the debt securities that are common to all series, although the prospectus supplement that describes the terms of each series of debt securities may also describe differences with the material terms summarized in this prospectus.

We may issue senior or subordinated debt securities. Neither the senior debt securities nor the subordinated debt securities will be secured by any of our property or assets. Thus, by owning a debt security, you are one of our unsecured creditors.

The senior debt securities will constitute part of our senior debt and will rank equally with all of our other unsecured and unsubordinated debt. The senior debt securities will be issued under the senior debt indenture. The senior debt indenture has been qualified under the Trust Indenture Act. The senior indenture is an exhibit to the registration statement of which this prospectus is a part.

The subordinated debt securities will constitute part of our subordinated debt and will be subordinate in right of payment to all of our senior indebtedness, as defined in the subordinated debt indenture. The subordinated debt securities will be issued under the subordinated debt indenture. The subordinated debt indenture is an exhibit to the registration statement of which this prospectus is a part. The prospectus supplement for any series of subordinated debt securities will indicate the approximate amount of senior indebtedness outstanding as of the end of the most recent fiscal quarter.

Debt securities in this prospectus refers to both the senior debt securities and the subordinated debt securities. In this *Description of Debt Securities* section, references to Albemarle, the company, we, our or us are only to Albemarle Corporation and not its subsidiaries.

The indentures are substantially identical, except for the covenants described below under *Restrictive Covenants Limitations on Liens and Other Encumbrances* and *Restrictive Covenants Restrictions on Sale and Leaseback Transactions*, which are included only in the senior debt indenture, and the provisions relating to subordination, which are included only in the subordinated debt indenture.

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Reference to the indenture or the trustee with respect to any debt securities means the indenture under which those debt securities are issued and the trustee under that indenture.

Table of Contents

The trustee has two main roles:

First, the trustee can enforce your rights against us if we default on our obligations under the terms of the applicable indenture or the debt securities. There are some limitations, however, on the extent to which the trustee acts on your behalf as described below under Default and Related Matters Events of Default Remedies if an Event of Default Occurs; and

Second, the trustee performs administrative duties for us, such as sending you interest payments, registering the transfer of your debt securities to a new holder and sending you notices.

We may issue the debt securities as original issue discount securities, which are securities that are offered and sold at a substantial discount to their stated principal amount. The prospectus supplement relating to original issue discount securities will describe federal income tax consequences and other special considerations applicable to any such debt securities. The debt securities may also be issued as indexed securities or securities denominated in foreign currencies or currency units, as described in more detail in the prospectus supplement relating to any such debt securities. The prospectus supplement relating to specific debt securities will also describe any special considerations and any material additional tax considerations applicable to such debt securities.

In addition, the specific financial, legal and other terms relating to a particular series of debt securities will be described in a prospectus supplement and any pricing supplement relating to the series. The prospectus supplement relating to a series of debt securities will describe to the extent applicable, the following terms of the series:

the title of the series of debt securities;

whether it is a series of senior debt securities or a series of subordinated debt securities and if subordinated debt securities, the related subordination terms if different from those described under Subordination Provisions;

any limit on the aggregate principal amount of the series of debt securities and whether such series may be reopened for the issuance of additional debt securities of such series;

the person to whom interest on a debt security is payable, if other than the holder on the regular record date;

the date or dates on which the series of debt securities will mature;

the rate or rates, which may be fixed or variable, per annum at which the series of debt securities will bear interest, if any, and the date or dates from which that interest, if any, will accrue;

the place or places where the principal of (and premium, if any) and interest on the debt securities is payable;

the dates on which interest on the series of debt securities will be payable and the regular record dates for the interest payment dates;

Edgar Filing: ALBEMARLE CORP - Form S-3/A

any mandatory or optional sinking funds or analogous provisions or provisions for redemption, in whole or in part, at our option or the option of the holder;

the date, if any, after which and the price or prices at which the series of debt securities may, in accordance with any optional or mandatory redemption provisions, be redeemed and the other detailed terms and provisions of those optional or mandatory redemption provisions, if any;

if the debt securities may be converted into or exercised or exchanged for our common stock or preferred stock, the terms on which conversion, exercise or exchange may occur, including whether conversion, exercise or exchange is mandatory, at the option of the holder or at our option, the period during which conversion, exercise or exchange may occur, the initial conversion, exercise or exchange price or rate and the circumstances or manner in which the amount of common stock or preferred stock issuable upon conversion, exercise or exchange may be adjusted;

Table of Contents

if other than denominations of \$1,000 and any integral multiple thereof, the denominations in which the series of debt securities will be issuable;

if other than the principal amount thereof, the portion of the principal amount of the series of debt securities that will be payable upon the declaration of acceleration of the maturity of such series of debt securities;

the currency of payment of principal, premium, if any, and interest on the series of debt securities, if other than the currency of the United States;

if the currency of payment for principal, premium, if any, and interest on the series of debt securities is subject to our or a holder's election, the currency or currencies in which payment can be made and the period within which, and the terms and conditions upon which, the election can be made;

any index, formula or other method used to determine the amount of payment of principal or premium, if any, and interest on the series of debt securities;

any addition or change to the restrictive covenants applicable to such series of debt securities;

whether the debt securities will be subject to defeasance as described under [Defeasance](#) or otherwise;

any event of default under the series of debt securities if different from, or in addition to, those described under [Default and Related Matters](#) [Events of Default](#) [What Is an Event of Default?](#) ;

if the series of debt securities will be initially issuable only in the form of a global security, as described under [Legal Ownership](#) [Global Securities](#), the depository or its nominee with respect to the series of debt securities, if other than The Depository Trust Company, and the circumstances under which the global security may be registered for transfer or exchange or authenticated and delivered in the name of a person other than the depository or its nominee;

the address of the security register and the paying agent;

any proposed listing of the series of debt securities on any securities exchange; and

any other terms, additional covenants, or special features of the series of debt securities.

Form, Exchange and Transfer

The debt securities will be issued:

only in fully registered form;

without interest coupons; and

unless otherwise indicated in the prospectus supplement, in denominations of \$1,000 and any integral multiple thereof.

A global security will be issued in denominations equal to the aggregate principal amount of outstanding debt securities represented by that global security. See [Legal Ownership](#) below for additional information regarding global securities and the limitations on your rights as the beneficial owner of an interest in a global security.

You may have your debt securities broken into more debt securities of smaller denominations or combined into fewer debt securities of larger denominations, as long as the total principal amount is not changed. This is called an exchange.

You may exchange or transfer debt securities at the office of the trustee. The trustee acts as our agent for registering debt securities in the names of holders and transferring debt securities. We may change this appointment to another entity or perform the service ourselves. The entity performing the role of maintaining the list of registered holders is called the security registrar. It will also register transfers of the debt securities.

Table of Contents

You will not be required to pay a service charge to transfer or exchange debt securities, but you may be required to pay for any tax or other governmental charge associated with the exchange or transfer. The transfer or exchange will only be made if the security registrar is satisfied with your proof of ownership.

If we designate additional transfer agents, they will be named in the prospectus supplement. We may cancel the designation of any particular transfer agent. We may also approve a change in the office through which any transfer agent acts.

Redemption

Provisions relating to the redemption of debt securities, if any, will be set forth in the applicable prospectus supplement. Unless we state otherwise in the applicable prospectus supplement, we may redeem debt securities only upon notice mailed at least 30 but not more than 60 days before the date fixed for redemption. Unless we state otherwise in the applicable prospectus supplement, that notice may state that (1) the redemption will be conditional upon the trustee or paying agent receiving sufficient funds to pay the principal, premium and interest on the debt securities subject to redemption on the date fixed for redemption and (2) if the trustee or the paying agent does not receive those funds, the redemption notice will not apply, and we will not be required to redeem the debt securities subject to redemption.

If the debt securities are redeemable and we redeem less than all of the debt securities of a particular series, we may block the transfer or exchange of debt securities during the period beginning 15 days before the day we mail the notice of redemption and ending on the day of that mailing, in order to freeze the list of holders to prepare the mailing. We may also refuse to register transfers or exchanges of debt securities selected for redemption, except that we will continue to permit transfers and exchanges of the unredeemed portion of any debt security being partially redeemed.

Payment and Paying Agents

We will pay interest to you if you are a holder listed in the trustee's records at the close of business on a particular day in advance of each due date for interest, even if you no longer own the debt security on the interest due date. That particular day, usually about two weeks in advance of the interest due date, is called the regular record date and will be stated in a prospectus supplement. Holders buying and selling debt securities must work out between them how to compensate for the fact that we will pay all the interest for an interest period to the one who is the registered holder on the regular record date. The most common manner is to adjust the sales price of the debt securities to pro rate interest fairly between buyer and seller. This pro rated interest amount is called accrued interest.

Unless the prospectus supplement states otherwise, we will pay principal, interest and any other money due on the debt securities at the office of the paying agent whom we will designate for this purpose. The paying agent will pay interest and any other money due on debt securities issued as global securities by wire transfer to the holder of those global securities. You must make arrangements to have your payments on debt securities that are not in global form picked up at, or wired from, that office; we may also choose to pay interest by mailing checks.

Unless the prospectus supplement states otherwise, an office of the trustee in New York City will be designated as our sole paying agent for payments with respect to the debt securities of each series. We may also arrange for additional paying agents, and may change paying agents, including our use of the trustee's corporate trust office. We may also choose to act as our own paying agent. We must notify the trustee of changes in the paying agents for any particular series of debt securities.

Regardless of who acts as paying agent, all money paid by us to a paying agent that remains unclaimed at the end of two years after the amount is due to holders will be repaid to us. After that two-year period, you may look only to us for payment and not to the trustee, any other paying agent or anyone else.

Table of Contents

Subordination Provisions

Subordinated debt securities will be subject to contractual provisions in the subordinated debt indenture that may prohibit us from making payments on those securities under certain circumstances. Subordinated debt securities are subordinate and junior in right of payment, to the extent and in the manner stated in the subordinated debt indenture, to all of our senior indebtedness, as defined below, including all debt securities we issue under the senior debt indenture. However, payment from the cash or the proceeds of U.S. government notes or bonds held in any defeasance trust (as described below under "Defeasance") will not be subordinated to any senior indebtedness or subject to these restrictions.

Unless otherwise defined in a prospectus supplement for a series of subordinated debt securities, "senior indebtedness" includes all of our obligations to pay principal, premium, interest, penalties, fees and other charges:

for borrowed money;

in the form of or evidenced by notes, debentures, bonds or other similar instruments, including obligations incurred in connection with our acquisition of property, assets or businesses;

under capitalized leases;

under letters of credit, bankers' acceptances or similar facilities issued for our account;

issued or assumed in the form of a deferred purchase price of property or services, such as master leases (but excluding trade accounts payable or accrued liabilities arising in the ordinary course of business);

under swaps and other hedging arrangements;

pursuant to our guarantee or assumption of certain of another entity's obligations and all dividend obligations guaranteed or assumed by us;

to satisfy the expenses and fees of the trustee under the subordinated debt indenture;

pursuant to all amendments, modifications, renewals, extensions, refinancings, replacements and refundings by us of certain of the obligations described above; and

pursuant to guarantees of any of the foregoing.

Unless otherwise defined in a prospectus supplement for a series of subordinated debt securities, the following types of our indebtedness will not rank senior to the subordinated debt securities:

Edgar Filing: ALBEMARLE CORP - Form S-3/A

indebtedness we owe to one of our subsidiaries;

indebtedness that, by its terms, expressly provides that it does not rank senior to the subordinated debt securities;

indebtedness incurred in the form of any accounts payable or other liability to trade creditors arising in the ordinary course of business (including guarantees thereof or instruments evidencing these liabilities);

indebtedness we owe to any trust, or a trustee of such trust, partnership other entity affiliated with us, that is a financing vehicle for us, and that is in connection with the issuance by the vehicle of equity securities; and

indebtedness we may incur in violation of the subordinated debt indenture.

The subordinated debt indenture provides that, unless all principal of and any premium or interest on the senior indebtedness has been paid in full, no payment or other distribution may be made in respect of any subordinated debt securities in the following circumstances:

in the event and during the continuation of any default in the payment of principal, premium, if any, or interest on any senior indebtedness beyond any applicable grace period until the payment default has been cured or waived or ceased to exist and any related acceleration has been rescinded or such senior indebtedness has been paid in full or

Table of Contents

in the event that the trustee or we receive written notice that any event of default with respect to certain designated senior indebtedness has occurred and is continuing, permitting the holders of that designated senior indebtedness (or a trustee) to accelerate the maturity of that designated senior indebtedness, whether or not the maturity is in fact accelerated until, either (1) the event of default has been cured or waived or ceased to exist and any related acceleration has been rescinded or such designated senior indebtedness has been paid in full or (2) the 179th day after the date the trustee or we received the notice referred to above.

If the trustee under the subordinated debt indenture or any holders of the subordinated debt securities receive any payment or distribution that is prohibited under the subordination provisions, then the trustee or the holders will have to deliver that money to the holders of the senior indebtedness.

Even if the subordination provisions prevent us from making any payment when due on the subordinated debt securities of any series, we will be in default on our obligations under that series if we do not make the payment when due. This means that the trustee under the subordinated debt indenture and the holders of that series can take action against us, but they will not receive any money until the claims of the holders of senior indebtedness have been fully satisfied.

Restrictive Covenants

General

We have made certain promises in each indenture called covenants where, among other things, we promise to maintain our corporate existence. In addition, in the senior debt indenture we have made the promises described in the two succeeding subsections. The subordinated debt indenture does not include these promises. Capitalized terms used in the following summary have the meanings specified in the senior debt indenture, unless otherwise defined below.

Limitation on Liens and Other Encumbrances

We have agreed that neither we nor any Restricted Subsidiary (as defined below) will incur, issue, assume or guarantee any indebtedness secured by any Lien upon any Principal Property (as defined below) or shares of capital stock or indebtedness of any Restricted Subsidiary without securing the debt securities equally and ratably with all other indebtedness secured by the Lien. This covenant has exceptions, which permit:

- (1) Liens existing on the date of the senior debt indenture;

- (2) Liens existing on any Principal Property owned or leased by a corporation at the time it becomes a Restricted Subsidiary;

Edgar Filing: ALBEMARLE CORP - Form S-3/A

- (3) Liens existing on any Principal Property at the time of its acquisition by us or a Restricted Subsidiary, which Lien was not incurred in anticipation of such acquisition and was outstanding prior to such acquisition;

- (4) Liens to secure any indebtedness incurred prior to, at the time of, or within 12 months after the acquisition of any Principal Property for the purpose of financing all or any part of the purchase price thereof and any Lien to the extent that it secures indebtedness which is in excess of such purchase price and for the payment of which recourse may be had only against such Principal Property;

- (5) Liens to secure any indebtedness incurred prior to, at the time of, or within 12 months after the completion of the construction and commencement of commercial operation, alteration, repair or improvement of any Principal Property for the purpose of financing all or any part of the cost associated with those activities and any Lien to the extent that it secures indebtedness which is in excess of that cost and for the payment of which recourse may be had only against the Principal Property;

- (6) Liens in favor of us or any of our Restricted Subsidiaries;

- (7) Liens in favor of the United States or any state or any other country, or any agency, instrumentality or political subdivision of any of the foregoing, to secure partial, progress, advance or other

Table of Contents

payments or performance pursuant to the provisions of any contract or statute, or to secure any indebtedness incurred for the purpose of financing all or any part of the purchase price or the cost of constructing or improving the property subject to the Liens;

(8) Liens imposed by law, such as mechanics', workmen's, repairmen's, materialmen's, carriers', warehousemen's, vendors' or other similar Liens arising in the ordinary course of business, or federal, state or municipal government Liens arising out of contracts for the sale of products or services by us or any Restricted Subsidiary, or deposits or pledges to obtain the release of any of the foregoing;

(9) Pledges or deposits under workmen's compensation laws or similar legislation and Liens of judgments thereunder which are not currently dischargeable, or good faith deposits in connection with bids, tenders, contracts (other than for the payment of money) or leases to which we or any Restricted Subsidiary is a party, or deposits to secure public or statutory obligations of us or any Restricted Subsidiary, or deposits in connection with obtaining or maintaining self-insurance or to obtain the benefits of any law, regulation or arrangement pertaining to unemployment insurance, old age pensions, social security or similar matters, or deposits of cash or obligations of the United States to secure surety, appeal or customs bonds to which we or any Restricted Subsidiary is a party, or deposits in litigation or other proceedings such as, but not limited to, interpleader proceedings;

(10) Liens in connection with legal proceedings, including liens arising out of judgments or awards against us or any Restricted Subsidiary;

(11) Liens for taxes or assessments or governmental charges or levies not yet due or delinquent, or which can thereafter be paid without penalty, or which are being contested in good faith by appropriate proceedings;

(12) Liens consisting of restrictions on the use of real property which do not interfere materially with (a) the use of the property covered thereby or (b) the property's value; and

(13) Any extension, renewal or replacement (or successive extensions, renewals or replacements), in whole or in part, of any Lien referred to in the foregoing clauses (2) through (12) above, so long as the principal amount of the debt secured thereby does not exceed the principal amount of debt so secured at the time of the extension, renewal or replacement (except that, where an additional principal amount of debt is incurred to provide funds for the completion of a specific project, the additional principal amount, and any related financing costs, may be secured by the Lien as well) and the Lien is limited to the same property subject to the Lien so extended, renewed or replaced, plus improvements on the property.

Notwithstanding the foregoing, we and any one or more of our Restricted Subsidiaries may issue, assume or guarantee debt secured by a Lien that would otherwise be subject to the foregoing restrictions if at the time of incurrence (the "Incurrence Time"), the amount equal to the sum of:

the aggregate amount of the debt, plus

all of our other debt and the debt of our Restricted Subsidiaries secured by a Lien that would otherwise be subject to the foregoing restrictions (not including debt permitted to be secured under the foregoing restrictions), plus

Edgar Filing: ALBEMARLE CORP - Form S-3/A

the aggregate Attributable Debt (as defined below) determined as of the Incurrence Time of Sale and Leaseback Transactions (as defined below) that are not permitted by the senior debt indenture and entered into after the date of the senior debt indenture and in existence at the Incurrence Time, less

the aggregate amount of proceeds of such Sale and Leaseback Transactions that have been applied in accordance with the terms of the senior debt indenture,

does not exceed 15% of our Consolidated Net Tangible Assets (as defined below).

Attributable Debt means, in respect of a Sale and Leaseback Transaction and as of any particular time, the present value of the obligation of the lessee thereunder for net rental payments during the remaining term of such

Table of Contents

lease, including any extensions. The present value of the obligation of the lessee is discounted at the rate of interest implicit in the terms of the lease involved in the Sale and Leaseback Transaction, as determined in good faith by us. Net rental payments exclude any amounts required to be paid by the lessee, whether or not designated as rent or additional rent, on account of maintenance and repairs, services, insurance, taxes, assessments, water rates or similar charges or any amounts required to be paid by the lessee, subject to monetary inflation or the amount of sales, maintenance and repairs, insurance, taxes, assessments, water rates or similar charges.

Consolidated Net Tangible Assets means the aggregate amount of assets after deducting the following:

- (a) applicable reserves and other properly deductible items;
- (b) all goodwill, trade names, trademarks, patents, unamortized debt discount and expense and other like intangibles; and
- (c) all current liabilities, as reflected in our latest consolidated balance sheet contained in our most recent annual report on Form 10-K or quarterly report on Form 10-Q filed pursuant to the Securities Exchange Act of 1934, or the Exchange Act, prior to the time as of which Consolidated Net Tangible Assets will be determined.

Lien means any mortgage, lien, pledge, charge of any kind (including any conditional sale or other title retention agreement or lease in the nature thereof), security interest or other encumbrance.

Principal Property means all real and tangible personal property owned or leased by Albemarle or any Restricted Subsidiary constituting a part of any manufacturing or processing plant or warehouse located within the United States, exclusive of (1) motor vehicles and other rolling stock, (2) office furnishings and equipment, and information and electronic data processing equipment, (3) any property financed through the issuance of tax-exempt industrial development bonds, (4) any real property held for development or sale, or (5) any property which in the opinion of our board of directors as evidenced by a resolution of the board of directors is not of material importance to the total business conducted by Albemarle and its Restricted Subsidiaries as an entirety.

Restricted Subsidiary means any of our subsidiaries (a) substantially all of whose property is located within the United States and (b) which owns a Principal Property or in which our investment exceeds 1% of the aggregate amount of assets included on our consolidated balance sheet as of the end of the last fiscal quarter for which financial information is available.

Sale and Leaseback Transaction means any arrangement involving any non-affiliate bank, insurance company, or other lender or investor or to which any such lender is a party that provides for the lease by us or one of our Restricted Subsidiaries for a period, including renewals, in excess of three years of any Principal Property which has been or is to be sold or transferred by us or any Restricted Subsidiary to the lender or investor or to any person to whom funds have been or are to be advanced by such lender or investor on the security of the Principal Property.

Restrictions on Sale and Leaseback Transactions

Edgar Filing: ALBEMARLE CORP - Form S-3/A

We have agreed not to, and will not permit any Restricted Subsidiary to, enter into any Sale and Leaseback Transaction, unless:

- (1) we or the Restricted Subsidiary would, at the time of entering into the arrangement, be entitled, without equally and ratably securing the debt securities of each series then outstanding, to incur, issue, assume or guarantee indebtedness secured by a lien on the property, under the provisions described in clauses (2) through (13) under the caption **Limitation on Liens and Other Encumbrances** above; or
- (2) we, within 180 days after the sale or transfer, apply to the retirement of our Funded Debt an amount equal to the greater of:
 - (a) the net proceeds of the sale of the Principal Property sold and leased back in connection with the arrangement; or

Table of Contents

(b) the fair market value of the Principal Property so sold and leased back at the time of entering into such arrangement.

Notwithstanding the foregoing, we and our Restricted Subsidiaries, or any of us, may enter into a Sale and Leaseback Transaction that would otherwise be prohibited as set forth above, if either:

(1) such transaction involves the transfer of property to a governmental body, authority or corporation, such as a development authority, and is entered into primarily for the purpose of obtaining economic incentives and does not involve a third-party lender or investor; or

(2) at the time of and giving effect to the transaction, the amount equal to the sum of:

the aggregate amount of the Attributable Debt in respect of all Sale and Leaseback Transactions existing at the time that could not have been entered into except in reliance on this paragraph, plus

the aggregate amount of outstanding debt secured by Liens in reliance on the second paragraph of Limitation on Liens and Other Encumbrances

does not at the time exceed 15% of our Consolidated Net Tangible Assets.

Funded Debt means: (a) all indebtedness maturing one year or more from the date of its creation, (b) all indebtedness directly or indirectly renewable or extendible, at the option of the debtor, by its terms or by the terms of the instrument or agreement relating thereto, to a date one year or more from the date of its creation, and (c) all indebtedness under a revolving credit or similar agreement obligating the lender or lenders to extend credit over a period of one year or more.

Except for the limitations on Liens and other encumbrances and Sale and Leaseback Transactions described above, each of which is only applicable to senior debt securities, and except as otherwise provided in a prospectus supplement, the indentures and the debt securities do not contain any covenants or other provisions designed to afford holders of the debt securities protection in the event of a highly leveraged transaction involving Albemarle.

Consolidation, Merger and Sale of Assets

We are generally permitted to consolidate or merge with another company. We are also permitted to sell or lease all or substantially all of our properties and assets to another company, or to buy or lease all or substantially all of the properties and assets of another company. However, we may not take any of these actions unless:

Edgar Filing: ALBEMARLE CORP - Form S-3/A

where we merge out of existence or sell or lease all or substantially all our assets, the other company must be a corporation organized and validly existing under the laws of a state of the United States or the District of Columbia or under federal law, and it must expressly assume all our obligations under the applicable indenture and the debt securities;

immediately after giving effect to the merger, sale of assets or other transaction, no default or event of default exists; and

certain other conditions are satisfied.

For the purposes of this provision, the sale, lease, conveyance, assignment, transfer or other disposition of all or substantially all of the properties and assets of one or more subsidiaries of Albemarle, which properties and assets, if held by Albemarle instead of such subsidiaries, would constitute all or substantially all of the properties and assets of Albemarle on a consolidate basis, shall be deemed to be the transfer of all or substantially all of the properties and assets of Albemarle.

In connection with a merger, consolidation or sale of assets, some of our property may become subject to a mortgage, lien, pledge, charge, security interest or other encumbrance giving lenders preferential rights in that property over other lenders, including the holders of the senior debt securities, or over our general creditors if we fail to repay them. We have promised in the senior debt indenture to limit these preferential rights, called Liens,

Table of Contents

as discussed under **Restrictive Covenants Limitation on Liens and Other Encumbrances** ; the subordinated debt indenture will not include a corresponding restriction. If a merger, consolidation or sale of assets would create any Liens on any of our assets covered by the restrictive covenant, we must comply with that restrictive covenant. We would do this either by deciding that the Liens were permitted by the restrictive covenant, or by following the requirements of the restrictive covenant to grant an equivalent or higher-ranking lien on the same assets to the holders of the senior debt securities.

Modification and Waiver

There are three types of changes we can make to either indenture and the debt securities issued under that indenture.

Changes Requiring Your Approval. First, there are changes that cannot be made to your debt securities without the approval of each holder affected thereby. Following is a list of those types of changes:

change the payment date of the principal or any installment of principal or interest on a debt security;

reduce any other amounts due on a debt security;

reduce the amount of principal due and payable upon acceleration of the maturity of a debt security (including the amount payable on an original issue discount security) following a default;

change the place or currency of payment on a debt security;

impair your right to institute suit to enforce any payment of any amount due on your debt security;

impair any right that you may have to exchange or convert the debt security for or into other securities;

amend the subordination provisions of the subordinated debt indenture or add subordination provisions to the senior debt indenture;

reduce the percentage in aggregate principal amount of debt securities of any series whose consent is needed to modify or amend the applicable indenture or any supplement thereto;

reduce the percentage in principal amount of debt securities whose consent is needed to waive our compliance with certain provisions of the applicable indenture or any supplement thereto or to waive certain defaults; and

modify any other aspect of the provisions dealing with modification and waiver of the applicable indenture or any supplement thereto.

Edgar Filing: ALBEMARLE CORP - Form S-3/A

Changes Requiring a Majority Vote. The second type of change to a particular indenture or any supplement thereto and the debt securities is the kind that requires a vote in favor by holders of debt securities owning a majority of the principal amount of all series affected by the change, each series voting together as a single class. Most other changes, including waivers, as described below, fall into this category, except for changes noted above as requiring the approval of the holders of each security affected thereby, and, as noted below, changes not requiring any approval.

We would need a vote by holders of senior debt securities owning a majority of the principal amount of all series affected by the waiver, each series voting together as a single class, to obtain a waiver of certain of the restrictive covenants, including the covenants described above under Restrictive Covenants Limitation on Liens and Other Encumbrances and Restrictive Covenants Restrictions on Sale and Leaseback Transactions. We also need holders of senior debt securities or subordinated debt securities owning a majority of the principal amount of the relevant affected series to obtain a waiver of any past default with respect to such series, except a payment default listed in the first or second category described below under Default and Related Matters Events of Default What is an Event of Default?

Each indenture provides that a supplemental indenture that changes or eliminates any covenant or other provision of the applicable indenture that has expressly been included solely for the benefit of one or more

Table of Contents

particular series of securities, or that modifies the rights of the holders of securities of such series with respect to such covenant or other provision, shall be deemed not to affect the rights under the applicable indenture of the holders of securities of any other series.

Changes Not Requiring Approval. The third type of change does not require any vote by holders of debt securities. This type is limited to clarifications and certain other changes that would benefit or would not adversely affect holders of the debt securities.

Further Details Concerning Voting. When taking a vote, we will use the following rules to decide how much principal amount to attribute to a debt security:

for original issue discount securities, we will use the principal amount that would be due and payable on the voting date if the maturity of the debt securities were accelerated to that date because of a default;

for debt securities whose principal amount is not known (for example, because it is based on an index) we will use a special rule for that debt security described in a prospectus supplement; and

for debt securities denominated in one or more foreign currencies or currency units, we will use the U.S. dollar equivalent determined as of a specified date.

Debt securities will not be considered outstanding, and therefore will not be eligible to vote, if we have deposited or set aside in trust for you money for their payment or redemption or if they have been fully defeased, as described under **Defeasance** **Legal Defeasance**. Debt securities owned by us or any of our affiliates will also not be considered outstanding or eligible to vote.

If we determine to set a record date, we will generally be entitled to set any day as a record date for the purpose of determining the holders of outstanding debt securities of any series that are entitled to vote or take other action under the applicable indenture. In some circumstances, the trustee will be entitled to set a record date for action by holders. If the trustee sets a record date for a vote or other action to be taken by holders of a particular series, that vote or action may be taken only by persons who are holders of outstanding securities of that series on the record date and the action voted upon must be effective within 90 days following the record date.

Indirect holders should consult their banks or brokers for information on how approval may be granted or denied if we seek to change an indenture or the debt securities or request a waiver.

Defeasance

The following discussion of legal defeasance and covenant defeasance provisions will be applicable to your series of debt securities only if the applicable prospectus supplement states that they will apply to that series.

Legal Defeasance

If there is a change in federal income tax law, as described below, we can legally release ourselves from any payment or other obligations, with certain limited exceptions, on any series of debt securities, called legal defeasance, if we put in place the following arrangements for you to be repaid:

we must deposit, or cause to be deposited, in trust for your benefit and the benefit of all other holders of that series of debt securities an amount of cash and U.S. government notes or bonds that will generate enough cash to make interest, principal, premium and any other payments on that series of debt securities on their due date;

we must deliver to the trustee a legal opinion of our counsel that is based on and confirms the tax law change described below;

no event of default or event that with the passage of time or the giving of notice, or both, shall constitute an event of default shall have occurred and be continuing at the time of the deposit described

Table of Contents

above (other than resulting from the borrowing of funds to be applied to such deposit) or, with respect to an event of default described in the seventh bullet point under **Default and Related Matters** **Events of Default** **What is an Event of Default** , on the later of (1) the 91st day after the date of the deposit or (2) the day ending on the day following the expiration of the longest preference period under any bankruptcy law applicable to the Company in respect of such deposit;

such deposit and defeasance will not result in a breach or violation of, or constitute a default under, any agreement or instrument to which we are a party or by which we are bound;

we must comply with certain other conditions; and

in the case of the subordinated debt securities, the following requirements must also be met:

no event or condition may exist that, under the provisions described above under **Subordination Provisions**, would prevent us from making payments of principal, premium or interest on those subordinated debt securities on the date of the deposit referred to above or during the 90 days after that date; and

we must deliver to the trustee an opinion of counsel to the effect that (a) the trust funds will not be subject to any rights of holders of senior indebtedness and (b) after the 90-day period referred to above, the trust funds will not be subject to any applicable bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally, except that if a court were to rule under any of those laws in any case or proceeding that the trust funds remained our property, then the relevant trustee and the holders of the subordinated debt securities would be entitled to some enumerated rights as secured creditors in the trust funds.

There must be a change in current federal income tax law or a U.S. Internal Revenue Service ruling that lets us make the above deposit without causing you to be taxed on the debt securities any differently than if we did not make the deposit and just repaid the debt securities at maturity or redemption.

In the event of legal defeasance, you would have to rely solely on the trust holding the deposited cash and/or U.S. government notes or bonds for repayment of the debt securities. In addition, in the case of subordinated debt securities, the provisions described above under **Subordination Provisions** will not apply. You could not look to us for repayment in the unlikely event of any shortfall. Conversely, the trust would most likely be protected from claims of our lenders and other creditors if we ever become bankrupt or insolvent.

Covenant Defeasance

Under current federal income tax law, we can make the same type of deposit described above under **Defeasance** **Legal Defeasance** and be released from some of the restrictive covenants in the debt securities. This is called covenant defeasance. In that event, you would lose the protection of those restrictive covenants but would gain the protection of having cash and/or U.S. government notes or bonds set aside in trust to repay the debt securities. In order to achieve covenant defeasance, we must do the following:

we must deposit, or cause to be deposited, in trust for your benefit and the benefit of all other holders of that series of debt securities an amount of cash and U.S. government notes or bonds that will generate enough cash to make interest, principal, premium and any other payments on that series of debt securities on their due date;

Edgar Filing: ALBEMARLE CORP - Form S-3/A

we must deliver to the trustee a legal opinion of our counsel confirming that under current federal income tax law we may make the above deposit without causing you to be taxed on the debt securities any differently than if we did not make the deposit and just repaid the debt securities at maturity or redemption;

no event of default or event that with the passage of time or the giving of notice, or both, shall constitute an event of default shall have occurred and be continuing at the time of the deposit described

Table of Contents

above (other than resulting from the borrowing of funds to be applied to such deposit) or, with respect to an event of default described in the seventh bullet point under **Default and Related Matters Events of Default What is an Event of Default**, on the later of (1) the 91st day after the date of the deposit or (2) the day ending on the day following the expiration of the longest preference period under any bankruptcy law applicable to the Company in respect of such deposit;

such deposit and defeasance will not result in a breach or violation of, or constitute a default under, any agreement or instrument to which we are a party or by which we are bound;

we must comply with certain other conditions;

in the case of the subordinated debt securities, the following requirements must also be met:

no event or condition may exist that, under the provisions described above under **Subordination Provisions**, would prevent us from making payments of principal, premium or interest on those subordinated debt securities on the date of the deposit referred to above or during the 90 days after that date; and

we must deliver to the trustee an opinion of counsel to the effect that (a) the trust funds will not be subject to any rights of holders of senior indebtedness and (b) after the 90-day period referred to above, the trust funds will not be subject to any applicable bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally, except that if a court were to rule under any of those laws in any case or proceeding that the trust funds remained our property, then the relevant trustee and the holders of the subordinated debt securities would be entitled to some enumerated rights as secured creditors in the trust funds.

If we accomplish covenant defeasance, the following provisions, among others, of the indentures and the debt securities would no longer apply:

our promises previously described under **Restrictive Covenants Limitation on Liens and Other Encumbrances** and **Restrictive Covenants Restrictions on Sale and Leaseback Transactions**;

the condition regarding the treatment of Liens when we merge or engage in similar transactions, as described under **Consolidation, Merger and Sale of Assets**;

the events of default relating to breach of covenants, described under **Default and Related Matters Events of Default What Is an Event of Default?**; and

any other covenants applicable to the series of debt securities and described in the prospectus supplement.

In addition, in the case of subordinated debt securities, the provisions described above under **Subordination Provisions** will not apply if we accomplish covenant defeasance.

If we accomplish covenant defeasance, you could still look to us for repayment of the debt securities if there were a shortfall in the trust. In fact, if one of the remaining events of default occurs, such as our bankruptcy, and the debt securities become immediately due and payable, there may be a shortfall in the trust.

Default and Related Matters

Events of Default

You will have special rights if an event of default occurs and is not cured, as described later in this subsection.

What Is an Event of Default? The term *event of default* means, with respect to any series of debt securities, any of the following:

we do not pay the principal of or any premium on a debt security of that series on its due date;

we do not pay interest on a debt security within 30 days of its due date;

Table of Contents

we do not deposit money into a separate custodial account, known as a sinking fund, within 30 days of its due date, if we agree to maintain any such sinking fund;

we fail to comply with the conditions described above under Consolidation, Merger and Sale of Assets ;