ALBEMARLE CORP
Form 10-Q
November 09, 2005
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

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

For Quarterly Period Ended September 30, 2005

OR

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

For Transition Period from to .

Commission File Number 1-12658

ALBEMARLE CORPORATION

(Exact name of registrant as specified in its charter)

VIRGINIA	**54-1692118**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
330 SOUTH FOURTH STREET	
RICHMOND, VIRGINIA	**23219**
(Address of principal executive offices)	**(Zip Code)**

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act) Yes x No ¨

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

Number of shares of common stock, $.01 par value, outstanding as of October 31, 2005: 46,620,905

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ALBEMARLE CORPORATION

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PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

ALBEMARLE CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In Thousands of Dollars)

	September 30, 2005	December 31, 2004
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 47,859	$ 46,390
Trade accounts receivable, less allowance for doubtful accounts (2005 - $624; 2004 -$426)	319,652	300,010
Other accounts receivable, less allowance for doubtful accounts (2005 - $356; 2004 -$403)	34,959	41,541
Inventories:		
Finished goods	298,922	248,253
Raw materials	95,730	59,198
Stores, supplies and other	36,864	31,306
	431,516	338,757
Deferred income taxes and prepaid expenses	20,729	20,712
Total current assets	854,715	747,410
Property, plant and equipment, at cost	2,194,471	2,064,585
Less accumulated depreciation and amortization	1,211,712	1,168,601
Net property, plant and equipment	982,759	895,984
Prepaid pension assets	188,056	189,833
Investments	97,930	170,957
Other assets and deferred charges	28,801	34,433
Goodwill	247,548	190,175
Other intangibles, net of amortization	162,116	213,953
Total assets	$ 2,561,925	$ 2,442,745

See accompanying notes to the consolidated financial statements.

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ALBEMARLE CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In Thousands of Dollars, Except Share Amounts)

	September 30, 2005	December 31, 2004
	(Unaudited)	
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 198,296	$ 202,410
Long-term debt, current portion	59,303	45,047
Accrued expenses	106,768	88,048
Dividends payable to shareholders	7,014	4,574
Income taxes payable	59,973	33,667
Total current liabilities	431,354	373,746
Long-term debt	820,613	899,584
Postretirement benefits	64,636	69,775
Pension benefits	51,054	54,989
Other noncurrent liabilities	111,362	84,525
Deferred income taxes	175,303	248,751
Commitments and contingencies (Note 20)		
Shareholders equity:		
Common stock, $.01 par value, issued and outstanding 46,620,905 in 2005 and 41,898,201 in 2004	466	419
Additional paid-in capital	180,556	22,839
Accumulated other comprehensive income	23,430	46,203
Retained earnings	703,151	641,914
Total shareholders equity	907,603	711,375
Total liabilities and shareholders equity	$ 2,561,925	$ 2,442,745

See accompanying notes to the consolidated financial statements.

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ALBEMARLE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(In Thousands of Dollars, Except Per-Share Amounts)

(Unaudited)

	Third Quarter Ended September 30,		Nine Months Ended September 30,	
	2005	**2004**	**2005**	**2004**
Net sales	$ 506,605	$ 413,904	$ 1,519,324	$ 1,062,672
Cost of goods sold	406,994	324,396	1,207,224	845,952
Acquisition-related cost		13,400		13,400
Gross profit	99,611	76,108	312,100	203,320
Selling, general and administrative expenses	50,423	43,075	161,118	106,078
Research and development expenses	10,107	9,101	31,429	18,768
Special items		2,801	(4,868)	7,858
Operating profit	39,081	21,131	124,421	70,616
Interest and financing expenses	(10,882)	(6,250)	(31,270)	(9,168)
Equity in net income of unconsolidated investments	4,124	1,826	22,583	2,494
Other income (expenses), net	534	(15,606)	1,100	(12,278)
Income before income taxes and minority interests	32,857	1,101	116,834	51,664
Income (taxes) benefits	(4,502)	1,097	(29,590)	(12,714)
Income after income taxes and before minority interests	28,355	2,198	87,244	38,950
Minority interests in income of consolidated subsidiaries	(2,063)	(1,371)	(4,575)	(3,748)
Net income	$ 26,292	$ 827	$ 82,669	$ 35,202
Basic earnings per share	$ 0.56	$ 0.02	$ 1.79	$ 0.85
Diluted earnings per share	$ 0.55	$ 0.02	$ 1.74	$ 0.83
Cash dividends declared per share of common stock (Note 13)	$	$	$ 0.46	$ 0.435

See accompanying notes to the consolidated financial statements.

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ALBEMARLE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands of Dollars)

(Unaudited)

	Third Quarter Ended September 30,		Nine Months Ended September 30,	
	2005	**2004**	**2005**	**2004**
Net income	$ 26,292	$ 827	$ 82,669	$ 35,202
Other comprehensive (loss) income, net of tax:				
Unrealized gain (loss) on securities available for sale	1	(4)	16	(30)
Unrealized gain on hedging derivatives	14	77	420	26
Realized (loss) on treasury lock agreements			(932)	
Amortization of realized loss on treasury lock agreements	35		92	
Foreign currency translation adjustments	(12,806)	5,212	(22,369)	1,558
Other comprehensive (loss) income	(12,756)	5,285	(22,773)	1,554
Comprehensive income	$ 13,536	$ 6,112	$ 59,896	$ 36,756

See accompanying notes to the consolidated financial statements.

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ALBEMARLE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of Dollars)

(Unaudited)

	Nine Months Ended September 30,	
	2005	**2004**
Cash and cash equivalents at beginning of year	$ 46,390	$ 35,173
Cash flows from operating activities:		
Net income	82,669	35,202
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation and amortization	86,197	69,288
Minority interests in income of consolidated subsidiaries	4,575	3,748
Compensation payable in common stock and options	5,944	
Loss on hedging of anticipated acquisition purchase price		12,848
Purchased in-process R&D charges		3,000
Working capital changes, net of the effects of acquisitions and the consolidation of Jordan Bromine Company Limited	(45,686)	15,133
Equity in net income of unconsolidated investments	(22,583)	(2,494)
Deferred income tax (benefit) expense	(21,103)	83
Decrease (increase) in prepaid pension assets	1,777	(3,776)
Other, net	2,229	(2,647)
Net cash provided from operating activities	94,019	130,385
Cash flows from investing activities:		
Capital expenditures	(50,594)	(37,602)
Acquisitions	(7,553)	(762,378)
Investments in joint ventures and other investments	(3,088)	(6,742)
Proceeds from the liquidation of equity method investment and sale of nonmarketable security	1,058	
Payments on hedging of anticipated acquisition purchase price		(12,848)
Other	44	832
Net cash used in investing activities	(60,133)	(818,738)
Cash flows from financing activities:		
Proceeds from issuance of senior notes	324,665	
Proceeds from issuance of common stock	147,862	
Proceeds from borrowings	147,639	1,050,946
Proceeds from exercise of stock options	2,893	6,762
Repayments of long-term debt	(617,897)	(325,806)
Dividends paid to shareholders	(18,992)	(17,982)
Payment of financing costs	(2,306)	
Dividends paid to minority interest	(2,200)	(3,269)
Purchases of common stock		(827)

Other	196	
Net cash (used in) provided from financing activities	(18,140)	709,824
Net effect of foreign exchange on cash and cash equivalents	(14,277)	4,173
Increase in cash and cash equivalents	1,469	25,644
Cash and cash equivalents at end of period	$ 47,859	$ 60,817

See accompanying notes to the consolidated financial statements.

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ALBEMARLE CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands of Dollars, Except Share and Per-Share Amounts)

(Unaudited)

1. In the opinion of management, the accompanying consolidated financial statements of Albemarle Corporation and its wholly owned and majority owned subsidiaries (Albemarle or the Company) contain all adjustments necessary for a fair presentation, in all material respects, of the Company s consolidated financial position as of September 30, 2005 and December 31, 2004, the consolidated results of operations and comprehensive income for the third-quarter and nine-month periods ended September 30, 2005 and 2004, and condensed consolidated cash flows for the nine-month periods ended September 30, 2005 and 2004. The Company consolidates its majority owned and controlled subsidiaries and applies the equity method of accounting for investments in which it has an ownership interest of between 20% and 50% owned or where it exercises significant influence over the related investee s operations. All significant intercompany accounts and transactions are eliminated in consolidation. Minority shareholders interests in consolidated subsidiaries are included in other noncurrent liabilities in the consolidated balance sheets and minority interests in income of consolidated subsidiaries in the consolidated statements of income. All adjustments are of a normal and recurring nature. The consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s 2004 Annual Report on Form 10-K. The results of operations for the third quarter ended September 30, 2005 are not necessarily indicative of the results to be expected for the full year. Certain reclassifications have been made regarding minority interests and segment income for the nine-month period ended September 30, 2005 and the third-quarter and nine-month periods ended September 30, 2004 in the accompanying consolidated financial statements and the notes thereto to conform to the current presentation (See Note 18).

2. Cost of goods sold includes foreign exchange transaction gains (losses) of $120 and ($625), and ($907) and ($258) for the third-quarter and nine-month periods ended September 30, 2005 and 2004, respectively.

3. Cost of goods sold for the third-quarter and nine-month periods ended September 30, 2004 included an August 26, 2004 cash settlement whereby the Company and a former insurer settled a dispute related to payments to be made to the Company in connection with certain insurance coverage for the period 1950 through 2000. Pursuant to the agreement, the Company will receive $6,945 ($4,424 after income taxes, or 10 cents per diluted share) with $4,208 paid at the settlement date. Cost of goods sold for the third-quarter and nine-month periods ended September 30, 2004 also included a third-quarter 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 a claim incurred by the Company regarding the discontinuance of product support for and withdrawal from a water treatment venture.

4. Acquisition-related cost totaling $13,400 ($8,536 after income taxes, or 20 cents per diluted share) for the third-quarter and nine-month periods ended September 30, 2004, consisted of a step-up increase in acquired inventory to fair value associated with the July 31, 2004 acquisition of the Akzo Nobel N.V. (Akzo Nobel) refinery catalysts business.

5. Special items:

	Third Quarter Ended September 30,	Nine Months Ended September 30,

	2005	2004	2005	2004
Curtailment gain (a)	$	$	$ 5,603	$
Provisional charge for the potential settlement of future legal claims (b)			(735)	
Purchased in-process research and development charges (c)		(3,000)		(3,000)
Reduction in force adjustments (d)		199		(4,308)
Cleanup of the Pasadena plant zeolite facility (e)				(550)
Special items	$	$ (2,801)	$ 4,868	$ (7,858)

(a) Nine-month period ended September 30, 2005 includes a second-quarter 2005 curtailment gain amounting to $5,603 ($3,569 after income taxes, or seven cents per diluted share) that relates to a reduction in the Company s accumulated postretirement benefit obligation (liability) at the June 29, 2005 remeasurement date associated with a change in coverage in the Company s unfunded postretirement health care benefits plan for active employees future retiree medical premium payments effective December 31, 2005 (See Note 9).

(b) Nine-month period ended September 30, 2005 includes a second-quarter 2005 provisional charge of $735 ($468 after income taxes, or one cent per diluted share) for the potential settlement of future asbestos premises liability claims.

(c) Third-quarter and nine-month periods ended September 30, 2004 included purchased in-process research and development charges amounting to $3,000, or seven cents per diluted share, that were comprised of the write-off of estimated research and development costs associated with the acquired Akzo Nobel refinery catalysts business deemed not to have future use.

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(d) Third-quarter and nine-month periods ended September 30, 2004 included a $199 reversal adjustment of a reserve for work force reduction. Nine months ended September 30, 2004 included a first quarter 2004 charge totaling $4,507 ($2,871 after income taxes, or seven cents per diluted share) for layoffs related to the closing at the Pasadena plant zeolite facility and a related curtailment charge.

(e) Nine-month period ended September 30, 2004 included a second-quarter 2004 charge totaling $550 ($350 after income taxes, or one cent per diluted share) related to the cleanup of the Pasadena plant zeolite facility.

6. Interest and financing expenses for the nine months ended September 30, 2005 include a January 2005 write-off of deferred financing expenses totaling $1,386 ($883 after income taxes, or two cents per diluted share), associated with the 364-day bridge loan that was retired using the proceeds from the Company s January 2005 public offerings of common stock and senior notes. Interest and financing expenses for the third-quarter and nine-month periods ended September 30, 2004 included 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 the Company s previous revolving credit agreement.

7. Other income (expenses), net for the nine-month period ended September 30, 2005 and the third-quarter and nine-month periods ended September 30, 2004 include the reclassification of minority interest for the Company s majority-owned subsidiary, Stannica LLC, totaling ($4,030), and ($1,371) and ($3,748), respectively, from other income (expenses), net to a separate line on our consolidated statements of income. In addition, effective August 1, 2005, the Company began consolidating its 50% ownership interest in Jordan Bromine Company Limited (JBC), a Jordanian-American joint venture company that manufactures and markets bromine and bromine derivatives products from raw materials extracted from the Dead Sea. The Company had previously accounted for this investment on an equity basis. However, as a result of August 2005 amendments to the related joint venture agreement, Albemarle management concluded that consolidation accounting for this investment was appropriate under generally accepted accounting principles in the United States (GAAP). The impact of the consolidation of JBC on minority interests amounted to ($545) for the third-quarter and nine-month periods ended September 30, 2005. This change in accounting had no impact on the Company s net income for the third-quarter and nine-month periods ended September 30, 2005 and 2004, respectively. (See Note 8.) Other income (expenses), net for the third-quarter and nine-month periods ended September 30, 2004 included foreign exchange hedging charges totaling $15,712 ($10,009 after income taxes, or 24 cents per diluted share) and $12,848 ($8,184 after income taxes, or 19 cents per diluted share), respectively, associated with the contracts entered into by the Company to hedge the euro-denominated purchase price for the Company s acquisition of the Akzo Nobel refinery catalysts business.

8. The following unaudited pro forma data summarizes the results of operations for the third-quarter and nine-month periods ended September 30, 2005 as if the consolidation of JBC had been completed as of the beginning of each of the periods presented.

	Third Quarter Ended September 30, 2005	Nine Months Ended September 30, 2005
Net sales	$ 506,605	$ 1,519,324
Operating profit	$ 40,926	$ 136,614
Interest and financing expenses	$ (11,201)	$ (33,426)
Equity in net income of unconsolidated investments	$ 2,984	$ 14,949
Other income, net	$ 534	$ 1,278
Minority interests in income of consolidated subsidiaries	$ (2,449)	$ (7,156)
Net income	$ 26,292	$ 82,669

Basic earnings per share	$	0.56	$	1.79
Diluted earnings per share	$	0.55	$	1.74

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Line items impacted on the Company s September 30, 2005 consolidated balance sheets due to the consolidation of JBC were as follows:

Cash	205
Accounts receivable (including intercompany eliminations)	(218)
Inventory	14,615
Other current assets	3,236
Net property, plant and equipment	113,726
Other assets, primarily investment in JBC	(39,712)
Accounts payable (including intercompany eliminations)	25,837
Long-term debt, current portion	(14,252)
Other current liabilities	(3,855)
Long-term debt (See Note 16)	(65,981)
Minority interest in other noncurrent liabilities	(31,648)
Accumulated other comprehensive income	(195)
Retained earnings	(1,758)

9. On June 29, 2005, the Company announced a change in its coverage for its unfunded postretirement health care benefits plan effective December 31, 2005. The change in coverage (plan change) affects Company paid retiree medical premium payments for future retirees and results in the recognition of a special item for the acceleration of a portion of current unrecognized prior service credits in the current period of $5,603 ($3,569 after income taxes, or seven cents per diluted share). The plan change special item is reflected as a curtailment gain in accordance with Statement of Financial Accounting Standards No. 106 Employers Accounting for Postretirement Benefits Other Than Pensions. The plan change did not affect the medical premium subsidy of retired employees. The plan change will affect the Company s future retiree medical premium subsidy in two ways: (1) active employees who are age 50 or older as of December 31, 2005 and who commence their retirement benefit after January 1, 2006 and otherwise meet all other eligibility requirements will be eligible to receive a revised fixed Company subsidy; and (2) active employees who are under the age of 50 on December 31, 2005 and who otherwise meet the eligibility requirements will remain eligible for retiree medical coverage, but will be responsible for 100% of the cost of their coverage.

The plan change noted above reduced the Company s accumulated postretirement benefit obligation (APBO) under its postretirement health care benefits plan by $16,223; the reduction in APBO will be amortized to income over the remaining service life to full eligibility of affected employees, amounting to four years effective July 1, 2005.

10. Basic and diluted earnings per share for the third-quarter and nine-month periods ended September 30, 2005 and 2004 are calculated as follows:

	Third Quarter Ended September 30,		**Nine Months Ended September 30,**	
	2005	**2004**	**2005**	**2004**
Basic earnings per share:				
Numerator:				
Income available to shareholders, as reported	$ 26,292	$ 827	$ 82,669	$ 35,202
Denominator:				
Average number of shares of common stock outstanding	46,607	41,588	46,242	41,497

Basic earnings per share	$ 0.56	$ 0.02	$ 1.79	$ 0.85
Diluted earnings per share:				
Numerator:				
Income available to shareholders, as reported	$ 26,292	$ 827	$ 82,669	$ 35,202
Denominator:				
Average number of shares of common stock outstanding	46,607	41,588	46,242	41,497
Shares issuable upon exercise of stock options	1,407	956	1,400	845
Total shares	48,014	42,544	47,642	42,342
Diluted earnings per share	$ 0.55	$ 0.02	$ 1.74	$ 0.83

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11. The following table reflects the changes in consolidated shareholders equity from December 31, 2004 through September 30, 2005:

	Common Stock Shares	Common Stock Amounts	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total Share-holders Equity
Balance at December 31, 2004	41,898,201	$ 419	$ 22,839	$ 46,203	$ 641,914	$ 711,375
Net income					82,669	82,669
Foreign currency translation adjustments, net				(22,369)		(22,369)
Realized loss on treasury lock agreements, net				(932)		(932)
Amortization of realized loss on treasury lock agreements, net				92		92
Unrealized gain on securities available for sale, net				16		16
Unrealized gain on hedging derivatives, net				420		420
Cash dividends declared					(21,432)	(21,432)
Compensation payable in common stock			5,944			5,944
Issuance of common stock, net	4,573,000	46	147,816			147,862
Exercise of stock options	120,000	1	2,892			2,893
Issuance of restricted stock	29,704		1,065			1,065
Balance at September 30, 2005	46,620,905	$ 466	$ 180,556	$ 23,430	$ 703,151	$ 907,603

On January 20, 2005, the Company concluded the public offering of 4,573,000 shares of common stock at a public offering price of $34.00 per share ($32.46 per share after underwriting discount but before offering related expenses).

12. The significant differences between the U.S. federal statutory income tax rate on pretax income and the effective income tax rate for the third-quarter and nine-month periods ended September 30, 2005 and 2004, respectively, are as follows:

	% of Income Before Income Taxes			
	Third Quarter Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Federal statutory rate	35.0%	35.0%	35.0%	35.0%
Section 965 repatriation	(14.8)		(4.2)	
Effect of minority interests	(2.2)		(1.4)	(2.5)
Depletion	(1.4)	nm	(1.2)	(2.6)
Extraterritorial income exclusion	(0.8)	nm	(1.2)	(3.1)
Domestic production deduction	(0.4)		(0.3)	
State taxes, net of federal tax benefit	0.3	nm	(0.1)	0.7
Other items, net	(2.0)	nm	(1.3)	(2.9)
Effective income tax rate	13.7%	(99.6%)	25.3%	24.6%

nm not meaningful

During the September 30, 2005 reporting period, the Company reclassified its minority interest in Stannica LLC for the nine-month period ended September 30, 2005 and the third-quarter and nine-month periods ended September 30, 2004 (See Note 7). The reclassification of minority interest for the nine-month period ended September 30, 2004 changed the effective income tax rate from 26.5% to 24.6%. The impact on the third-quarter period ended September 30, 2004 change in the effective income tax rate is not meaningful.

In the third quarter of 2005, the Company adopted FASB Staff Position SFAS 109-1, Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004 (FSP SFAS 109-1) and FASB Staff Position SFAS 109-2, Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004 that were issued in December 2004. The American Jobs Creation Act of 2004 (the Act), which was signed into law on October 22, 2004, provides for a deduction ranging from 3% to 9% for income from qualified domestic production activities (QDPA). The QDPA deduction is being phased in from 2005 through 2010. The QDPA deduction partially replaces the benefits from a two-year phase out of the then existing extra-territorial income exclusion (ETI) for foreign sales. The impact of the adoption of FSP SFAS 109-1 and its related QDPA deduction, which amounts to $129 and $388 for the third-quarter and nine month periods ended September 30, 3005, is being taken as a special deduction for the Company s tax year ending December 31, 2005. The Act also created a temporary one-time tax incentive (savings) on certain accumulated and projected future earnings of certain controlled foreign subsidiaries, which have been or will be repatriated. On August 18, 2005, the Company s chief executive officer approved a domestic reinvestment plan (plan) to repatriate foreign earnings in accordance with the temporary repatriation incentive under Section 965 of the Act. The Company s one-time incentive (29.75%) results in an approximate 5.25% Federal tax rate on the 2005 repatriated earnings that had been previously taxed at the Company s normal Federal tax rate of 35%. The Company recorded a tax benefit for the third-quarter and nine-month period ended September 30, 2005 of $4,857, or 10 cents per diluted share.

13. Cash dividends declared for the nine-month period ended September 30, 2005 totaled 46 cents per share, which included a dividend of 15 cents per share declared on February 2, 2005, paid April 1, 2005, a dividend of 15 cents per share declared on April 19, 2005, paid July 1, 2005, and a dividend of 16 cents per share declared on June 29, 2005, payable October 1, 2005. Cash dividends declared for the nine-month period ended September 30, 2004 totaled 43.5 cents per share, which included a dividend of 14.5 cents per share declared on January 30, 2004, paid April 1, 2004, a dividend of 14.5 cents per share declared March 31, 2004, paid July 1, 2004, and a dividend of 14.5 cents per share declared June 30, 2004, paid October 1, 2004. The reason for no dividend declarations in the third-quarter periods ended September 30, 2005 and 2004 was the timing of the Board of Directors meeting dates.

14. On July 31, 2004, the Company completed the acquisition of the Akzo Nobel refinery catalysts business for approximately $763,000, including expenses, at applicable exchange rates. During 2004 and 2005, the Company increased the purchase price by approximately $23,000 and $8,000, respectively, due primarily to payments to Akzo Nobel as part of the post-closing working capital adjustments. During 2005, significant progress was made in the determination of the final purchase price allocation versus the estimated allocation at December 31, 2004. However, none of the changes made to the December 31, 2004 allocation were material to the financial position or results of operations of the Company. As part of the acquisition, the Company acquired 50% ownership of non-consolidated joint ventures in Brazil (Fábrica Carioca de Catalisadores S.A.), Japan (Nippon Ketjen Co., Ltd,) and France (Eurecat S.A. with affiliates in the United States, Saudi Arabia and Italy).

The final purchase price allocation is summarized below:

Cash	$ 31,341
Accounts receivable	78,404
Inventory	108,117
Other current assets	5,048
Net property, plant and equipment	402,252
Other assets, including investment in joint ventures	50,228
Goodwill and other intangibles	304,160
In-process research and development assets	3,235
Current liabilities	(53,487)
Noncurrent deferred tax liabilities	(70,738)
Other noncurrent liabilities	(28,116)
Long-term environmental liabilities	(5,403)
Net cash paid	825,041
Less: cash acquired	(31,341)
Net cash paid less cash acquired	$ 793,700

The following unaudited pro forma data summarizes the results of operations for the third-quarter and nine-month periods ended September 30, 2004 as if the acquisition of the Akzo Nobel refinery catalysts business had been completed as of the beginning of each of the periods presented. The pro forma data gives effect to actual operating results prior to the acquisition, and includes adjustments for tangible and intangible asset depreciation and amortization, interest expense, various other income (expenses), net accounts and related income tax effects associated with the acquisition. Additionally, non-recurring items associated with the acquisition, including acquired inventory step-up charges, in-process research and development charges and net losses associated with the contracts used to hedge the euro-denominated purchase price, are reflected in the pro forma data for each of the periods presented. These pro forma amounts do not purport to be indicative of the results that would have actually been obtained if the acquisition had occurred as of the beginning of each of the periods presented or that may be obtained in the future.

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	Third Quarter Ended September 30, 2004	Nine Months Ended September 30, 2004
Net sales	$ 447,846	$ 1,345,639
Net income	$ 5,193	$ 50,806
Basic earnings per share	$ 0.12	$ 1.22
Diluted earnings per share	$ 0.12	$ 1.20

The above pro forma data includes pro forma amounts for depreciation and amortization, interest expense and income taxes as follows:

	Third Quarter Ended September 30, 2004	Nine Months Ended September 30, 2004
Depreciation and amortization	$ 29,084	$ 88,291
Interest and financing expenses	$ 7,549	$ 22,658
Income taxes (benefits)	$ 1,195	$ 17,620

15. At September 30, 2005, goodwill and other intangibles consist principally of goodwill, customer lists, trademarks, patents and other intangibles.

	Balances at Beginning of Year	Additions and Other Changes	Amortization Charged to Expense	Foreign Exchange	Balances at September 30, 2005
Changes by operating segment:					
Goodwill:					
Polymer Additives	$ 24,322	$	$	$ (828)	$ 23,494
Catalysts	145,824	61,100(a)		(1,195)	205,729
Fine Chemicals	20,029			(1,704)	18,325
	$ 190,175	$ 61,100	$	$ (3,727)	$ 247,548
Other intangibles:					
Polymer Additives	$ 75,275	$	$ 3,388	$ (2,895)	$ 68,992
Catalysts	136,742	(39,021)(b)	6,117		91,604
Fine Chemicals	1,936		348	(68)	1,520
	$ 213,953	$ (39,021)	$ 9,853	$ (2,963)	$ 162,116

(a) The increase in goodwill in the Catalysts segment is associated with changes, principally in second-quarter 2005, to the allocation of the purchase price of the Akzo Nobel refinery catalysts business primarily in other assets $50,135, other intangibles $39,021, property, plant and equipment ($22,252), and other various items ($13,357) as well as additional cash payments made in 2005.

(b) Other intangibles changes in the Catalysts segment are associated with changes, principally in second-quarter 2005, to the allocation of the purchase price of the Akzo Nobel refinery catalysts business as follows: trade name ($51,706), patents ($9,154), customer list and relationships $21,946, non-compete agreements ($5,423), and licenses and other $5,316. The estimated useful lives range from 2.5 to 22 years with a weighted average of approximately 14 years. These changes do not have a material impact on previously reported results. Consistent with previous disclosures, amortization for each of the next five years should approximate $8,500.

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16. Long-term debt consists of the following:

	September 30, 2005	December 31, 2004
Variable-rate bank loans	$ 460,790	$ 923,624
Senior notes	324,688	
Industrial revenue bonds	11,000	11,000
Foreign borrowings and obligations	82,573	9,095
Miscellaneous	865	912
Total	879,916	944,631
Less amounts due within one year	59,303	45,047
Long-term debt	$ 820,613	$ 899,584

On July 29, 2004, in connection with the acquisition of the Akzo Nobel refinery catalysts business, the Company entered into (1) a senior credit agreement, with a group of lenders, consisting of a $300,000 revolving credit facility ($25,000 outstanding at September 30, 2005) and a $450,000 five-year term loan facility ($393,750 outstanding at September 30, 2005), and (2) a $450,000 364-day loan agreement. The Company used the initial borrowings under the senior credit agreement and the $450,000 364-day loan agreement to consummate the acquisition, refinance the then-existing credit agreement and pay related fees and expenses incurred in connection therewith. The $450,000 five-year loan facility is payable in quarterly installments of $11,250 through September 30, 2008, with three final quarterly payments of $90,000 beginning September 30, 2008 through March 31, 2009. The revolving credit facility and the five-year term loan facility bore variable interest rates at September 30, 2005 of 4.42% and 4.64%, respectively. These credit facilities contain certain restrictive financial covenants, including fixed charge coverage, debt to capitalization and other covenants as set forth in the agreements. The credit facilities were amended on July 8, 2005. The amendment reduces the applicable borrowing rates and fees payable under the revolving credit facility and five-year term loan facility, based on the ratings of the Company s senior unsecured long-term debt as rated by outside credit rating agencies, eliminates certain conditions for borrowings under the revolving credit facility, and provides an option to increase the amount available for borrowings under the revolving credit facility by up to $50,000.

On January 20, 2005, the Company concluded the sale of $325,000 aggregate principal amount of senior notes through a public offering at a price of 99.897% of par. The Company used the net proceeds from the sale of the senior notes along with the proceeds from its concurrent sale of common stock through a public offering to retire the $450,000 364-day bridge loan. The senior notes bear an interest rate of 5.10%, which is payable semi-annually on February 1 and August 1 of each year, beginning on August 1, 2005. The notes mature on February 1, 2015.

On August 1, 2005, the Company s reported debt balances increased when it began consolidating its 50% ownership interest in JBC (See Note 7). The JBC debt, which amounts to $80,233 at September 30, 2005, consists of (1) foreign plant-related construction borrowings amounting to $47,299, which bear interest at rates ranging from 4.28% to 7.12% at September 30, 2005 with principal and interest payable in 22 semiannual installments and (2) a capitalized lease obligation related to certain plant equipment amounting to $19,195 with semiannual payments of $1,370, including interest calculated at 5.50%, through June 1, 2012. Additionally, the JBC debt also included unsecured short-term debt totaling $7,725 and a $6,014 unsecured non-interest bearing loan from its minority interest shareholder.

17. The Company has the following recorded environmental liabilities primarily included in Other noncurrent liabilities at September 30, 2005:

Beginning balance at December 31, 2004	$ 33,739
Additions	1,635
Expenditures	(1,134)
Change in estimate	(1,162)
Foreign exchange	(3,055)
Ending balance at September 30, 2005	$ 30,023

The amounts recorded represent the Company s probable future remediation and other anticipated environmental liabilities. Although it is difficult to quantify the potential financial impact of compliance with environmental protection laws, management estimates (based on the latest available information) that there is a reasonable possibility that future environmental remediation costs associated with the Company s past operations, in excess of amounts already recorded, could be up to approximately $12,000 before income taxes.

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

On another matter, the Company is awaiting a response from the arbitration panel in its arbitration against Aventis S. A., the predecessor in interest to Sanofi Aventis (Aventis), to confirm that Aventis is obligated to indemnify the Company pursuant to the terms of a stock purchase agreement for certain present and future claims asserted against the Company arising out of soil and groundwater contamination at the site of the Thann, France facility. (See Note 20.)

18. The presentation of the Company s segment results has been modified during the nine-month period ended September 30, 2005 for the following items:

(a) Effective January 1, 2005, the Company revised the way it evaluates the performance of its segment results by including the operating results of its joint ventures termed equity in net income (losses) of unconsolidated investments along with its operating profit (losses), which represents income (loss) before income taxes and minority interests, and before interest and financing expenses and other income (expenses), net. Segment results for the 2004 were reclassified to reflect the manner in which the chief operating decision maker reviews our three segments. The change to segment income versus segment operating profit resulted from the material effect of the joint ventures acquired from Akzo Nobel as part of our acquisition of Akzo Nobel s refinery catalysts business on July 31, 2004.

(b) Effective August 1, 2005, the Company began consolidating its 50% ownership interest in JBC (See Note 7). Segment income for the nine-months ended September 30, 2005 reflects the impact of this change.

(c) The presentation of segment results was further changed during third-quarter 2005 to reflect the reclassification of the minority ownership interest in Stannica LLC from other income (expenses), net to a separate disclosure line under income after income taxes and before minority interests in the consolidated statements of income. Reclassifications have been made herein for third-quarter 2004 and nine-month periods ended September 30, 2005 and 2004 totaling ($4,030), and ($1,371) and ($3,748), respectively, to reflect the change.

Segment data continues to include intersegment transfers of raw materials at cost and foreign exchange transaction gains and losses, as well as allocations for certain corporate costs.

Summarized financial information concerning the Company s reportable segments is shown in the following table. Corporate & Other expenses include corporate-related items not allocated to the reportable segments.

Third Quarter Ended September 30, 2005	Polymer Additives	Catalysts	Fine Chemicals	Corporate & Other	Total
Net sales	$ 195,356	$ 173,501	$ 137,748		$ 506,605

Operating profit (loss)	$ 21,860	$ 12,837	$ 11,836	$ (7,452)	$ 39,081
Equity in net income (losses) of unconsolidated investments	1,586	1,929	646	(37)	4,124
Segment income (loss)	$ 23,446	$ 14,766	$ 12,482	$ (7,489)	43,205
Interest and financing expenses					(10,882)
Other income (expenses), net					534
Income before income taxes and minority interests					$ 32,857

Third Quarter Ended September 30, 2004	Polymer Additives	Catalysts	Fine Chemicals	Corporate & Other	Total
Net sales	$ 185,902	$ 106,518	$ 121,484		$ 413,904
Operating profit (loss)	$ 24,279	$ (2,962)	$ 9,830	$ (10,016)	$ 21,131
Equity in net income of unconsolidated investments	993	1,654	(728)	(93)	1,826
Segment income (loss)	$ 25,272	$ (1,308)	$ 9,102	$ (10,109)	22,957
Interest and financing expenses					(6,250)
Other (expenses) income, net					(15,606)
Income before income taxes and minority interests					$ 1,101

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Nine Months Ended September 30, 2005	Polymer Additives	Catalysts	Fine Chemicals	Corporate & Other	Total
Net sales	$ 597,893	$ 493,629	$ 427,802		$ 1,519,324
Operating profit (loss)	$ 70,460	$ 52,075	$ 34,377	$ (32,491)	$ 124,421
Equity in net income (losses) of unconsolidated investments	6,159	12,096	4,505	(177)	22,583
Segment income (loss)	$ 76,619	$ 64,171	$ 38,882	$ (32,668)	147,004
Interest and financing expenses					(31,270)
Other income (expenses), net					1,100
Income before income taxes and minority interests					$ 116,834

Nine Months Ended September 30, 2004	Polymer Additives	Catalysts	Fine Chemicals	Corporate & Other	Total
Net sales	$ 538,630	$ 153,795	$ 370,247	$	$ 1,062,672
Operating profit (loss)	$ 65,688	$ 2,227	$ 25,886	$ (23,185)	$ 70,616
Equity in net income (losses) of unconsolidated investments	2,538	1,794	(1,611)	(227)	2,494
Segment income (loss)	$ 68,226	$ 4,021	$ 24,275	$ (23,412)	73,110
Interest and financing expenses					(9,168)
Other (expenses) income, net					(12,278)
Income before income taxes and minority interests					$ 51,664

19. SFAS No. 123, Accounting for Stock-Based Compensation, (SFAS No. 123) encourages, but does not require, companies to record, at fair value, compensation cost for stock-based employee compensation plans. The Company continues to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Under the intrinsic method, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company s stock at the date of the grant over the amount an employee must pay to acquire the stock. If compensation cost had been determined based on the fair value at the grant date under the plans consistent with the method of SFAS No. 123, the Company s net income and earnings per share would have been reduced to the pro forma amounts indicated below:

	Third Quarter Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Stock based compensation (income) expense, net of taxes				
as reported	$ (277)	$ 950	$ 4,025	$ 2,741
pro forma	$ 25	$ 1,358	$ 4,648	$ 4,309

Net income				
as reported	$ 26,292	$ 827	$ 82,669	$ 35,202
pro forma	$ 25,990	$ 419	$ 82,046	$ 33,634
Basic earnings per share on net income				
as reported	$ 0.56	$ 0.02	$ 1.79	$ 0.85
pro forma	$ 0.56	$ 0.01	$ 1.77	$ 0.81
Diluted earnings per share on net income				
as reported	$ 0.55	$ 0.02	$ 1.74	$ 0.83
pro forma	$ 0.54	$ 0.01	$ 1.70	$ 0.79

The fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for options granted in the third-quarter and nine-months periods ended September 30, 2005 and 2004.

	Third Quarter Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Fair values of options granted	$ 11.24	$ 8.95	$ 11.22	$ 8.58
Dividend yield	1.97%	2.37%	1.97%	2.37%
Volatility	30.19%	29.74%	30.14%	29.91%
Average expected life (in years)	6	5.97	6	5.61
Risk-free interest rate	4.48%	4.42%	4.49%	4.37%

20. Commitments and Contingencies

The following table summarizes the Company s contractual obligations and commitments at September 30, 2005:

	4Q 2005	2006	2007	2008	2009	2010	There-after
Long-term debt borrowings and obligations	$ 22,211	$ 51,670	$ 51,882	$ 209,606	$ 165,707	$ 7,591	$ 371,249
Expected interest payments on long-term debt borrowings and obligations*	11,884	33,434	31,779	29,187	18,790	17,615	74,619
Operating lease obligations (rental)	2,986	8,264	5,951	4,772	3,273	3,220	25,759
Take or pay / throughput agreements	88,183	111,809	12,868	8,898	7,394	5,875	27,416
Letters of credit and guarantees	6,062	37,253	8,257	3,342	221	53	1,128
Capital projects	16,679	6,023	1,019	607	607	607	607
Additional investment commitment payments	163	115	105	55			
Other	196						
Total	$ 148,364	$ 248,568	$ 111,861	$ 256,467	$ 195,992	$ 34,961	$ 500,778

* These amounts are based on a weighted-average interest rate of 5.1% for term loans and the revolving credit facility, 4.3% for variable rate long-term debt obligations and an interest rate of 5.1% for senior notes for 2005. The weighted average rate for years 2006 and thereafter are 4.8% for term loans and the revolving credit facility and 4.0% for the variable rate long-term debt obligations and an interest rate of 5.1% for the senior notes.

The Company has pledged certain of its land and housing facilities at its Bergheim, Germany plant site with a recorded value of $5,360 in connection with the Company s remediation of a local landfill site as required by German environmental authorities.

The Company has commitments, in the form of guarantees, for 50% of certain plant construction loans and obligations of its consolidated 50%-owned joint venture investment, JBC. At September 30, 2005, the Company s share of these amounts was $33,247.

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

On April 2, 2004, Albemarle Overseas Development Company (AODC), a wholly owned subsidiary of the Company, initiated a Request for Arbitration against Aventis through the International Chamber of Commerce, International Court of Arbitration, Paris, France. The dispute arises out of a 1992 Stock Purchase Agreement (Agreement) between a predecessor to AODC, and a predecessor to Aventis under which 100% of the stock of Potasse et Produits Chimiques, S.A., now known as Albemarle PPC (APPC), was acquired by AODC. The dispute relates to a chemical facility in Thann, France owned by APPC. Under the terms of the Agreement, the Company believes that Aventis is obligated to indemnify AODC and APPC, 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.

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Beginning in May 2000, the French government, with respect to the management of pollution risk on the site of active industrial installations, required APPC to conduct an environmental risk study of the Thann facility. In June 2002, the French government directed APPC 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. AODC has demanded indemnification from Aventis for the cost of the studies, but Aventis has refused to pay.

The Request for Arbitration requests indemnification of AODC by Aventis for certain costs incurred by APPC, in connection with any environmental claims of the French government for the APPC facility and a declaratory judgment as to the liability of Aventis under the Agreement for costs to be incurred in the future by APPC in connection with such claims. Arbitration related to the question of liability took place in June 2005 and we currently expect a response from the arbitration panel by the end of 2005.

On July 13, 2005, the French environmental authorities instructed APPC to conduct additional testing and take certain measures with respect to the containment of certain contamination at the Thann facility. At this time, it is not possible to predict what the French government will otherwise require, since this matter is in its initial stages and environmental matters are subject to many uncertainties. The Company believes, however, that it is entitled to be fully indemnified by Aventis for all liabilities arising from this matter, but no assurance can be given that it will prevail in this matter. If the Company does not prevail in the arbitration and the government requires additional remediation, the costs of remediation could be significant.

21. In accordance with SFAS No. 132 (R), Employers Disclosures about Pensions and Other Postretirement Benefits an amendment of FASB Statements No. 87, 88, and 106, the following information is provided for interim domestic and foreign pension and postretirement benefit plans:

	Third Quarter Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net Periodic Pension Benefit Cost:				
Service cost	$ 4,470	$ 2,494	$ 14,081	$ 7,491
Interest cost	7,546	6,370	22,477	19,124
Expected return of assets	(10,827)	(10,338)	(32,634)	(31,014)
Plan curtailment*				898
Amortization of Unrecognized Amounts:				
Net transition obligation	7	6	26	17
Prior service cost	106	180	318	540
Net loss	2,285	758	6,453	2,272
Total expense (income)	$ 3,587	$ (530)	$ 10,721	$ (672)
Net Periodic Postretirement Benefit Expense:				
Service cost	$ 191	$ 417	$ 1,128	$ 1,249
Interest cost	832	1,062	3,027	3,186
Expected return of assets	(136)	(128)	(376)	(383)
Plan curtailment*			(5,603)	
Amortization of Unrecognized Amounts:				
Prior service benefit	(1,035)	(349)	(1,751)	(1,047)
Net loss	182	74	374	221

Total expense (benefit)	$ 34	$ 1,076	$ (3,201)	$ 3,226

* During the second quarter ended June 30, 2005, the Company benefited from a curtailment gain amounting to $5,603 relating to a reduction in the Company s accumulated postretirement benefit obligation (liability) at the June 29, 2005 remeasurement date. This reduction was associated with a change in coverage in the Company s unfunded postretirement heath care benefits plan for active employees future retiree medical premium payments effective December 31, 2005. During the first quarter ended March 31, 2004, a SFAS No. 88 pension curtailment charge was incurred totaling $898 due to the layoffs at the zeolite facility in Pasadena, Texas.

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The Company did not make any contributions to its pension plans in the first nine months of 2005.

22. Recently Issued Accounting Pronouncements

In November 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 151, Inventory Costs, an amendment of ARB No. 43, Chapter 4 (SFAS No. 151). SFAS No. 151 amends the guidance in ARB No. 43, Chapter 4, Inventory Pricing, to clarify the accounting for abnormal amounts of idle facility expense, freight, handing costs, and spoilage. This statement requires that those items be recognized as current period charges regardless of whether they meet the criterion of so abnormal which was the criterion specified in ARB No. 43. In addition, this statement requires that allocation of fixed production overheads to the cost of production be based on normal capacity of the production facilities. This statement is effective for fiscal years beginning after June 15, 2005. The adoption of SFAS No. 151 is not expected to have a material effect on the Company.

In December 2004, FASB issued SFAS No. 123 (revised 2004), Share-Based Payment (SFAS No. 123R), which supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, (APB No. 25) and its related implementation guidance. SFAS No. 123R will be effective as of the first annual reporting period that begins after June 15, 2005. SFAS No. 123R will result in the recognition of additional compensation expense relating to the Company s incentive plans. This revision will require the Company to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The cost will be recognized over the period during which an employee is required to provide service in exchange for the award. The Company currently uses the intrinsic value method from APB No. 25 to measure compensation expense for stock-based awards to its employees. Under this standard, the Company generally does not recognize any compensation related to stock option grants the Company issues under its incentive plans. Under the new rules, the Company is required to adopt a fair-value-based method for measuring the compensation expense related to incentive stock awards. The adoption of SFAS No. 123R is not expected to have a significant impact on the Company s reported results of operations.

In March 2005, the FASB issued FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143 (FIN 47). FIN 47 clarifies that conditional asset retirement