

ALBEMARLE CORP  
Form 10-Q  
October 18, 2013  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20549

---

FORM 10-Q

---

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

For Quarterly Period Ended September 30, 2013

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 1-12658

---

ALBEMARLE CORPORATION  
(Exact name of registrant as specified in its charter)

---

VIRGINIA  
(State or other jurisdiction of  
incorporation or organization)

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

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

70801  
(Zip Code)

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

---

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

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

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

Large accelerated filer ☒ Accelerated filer ☐

Non-accelerated filer ☐ Smaller reporting company ☐

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

Number of shares of common stock, \$.01 par value, outstanding as of October 9, 2013: 81,399,291



Table of Contents

ALBEMARLE CORPORATION  
INDEX – FORM 10-Q

|                   | Page<br>Number(s)                                                                                                       |
|-------------------|-------------------------------------------------------------------------------------------------------------------------|
| <u>PART I.</u>    | <u>FINANCIAL INFORMATION</u>                                                                                            |
| <u>Item 1.</u>    | <u>Financial Statements (Unaudited)</u>                                                                                 |
|                   | <u>Consolidated Statements of Income – Three Months and Nine Months Ended September 30, 2013 and 2012</u>               |
|                   | <u>3</u>                                                                                                                |
|                   | <u>Consolidated Statements of Comprehensive Income – Three Months and Nine Months Ended September 30, 2013 and 2012</u> |
|                   | <u>4</u>                                                                                                                |
|                   | <u>Condensed Consolidated Balance Sheets – September 30, 2013 and December 31, 2012</u>                                 |
|                   | <u>5</u>                                                                                                                |
|                   | <u>Consolidated Statements of Changes in Equity – Nine Months Ended September 30, 2013 and 2012</u>                     |
|                   | <u>6</u>                                                                                                                |
|                   | <u>Condensed Consolidated Statements of Cash Flows – Nine Months Ended September 30, 2013 and 2012</u>                  |
|                   | <u>7</u>                                                                                                                |
|                   | <u>Notes to the Condensed Consolidated Financial Statements</u>                                                         |
|                   | 8-23                                                                                                                    |
| <u>Item 2.</u>    | <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>                            |
|                   | 24-39                                                                                                                   |
| <u>Item 3.</u>    | <u>Quantitative and Qualitative Disclosures About Market Risk</u>                                                       |
|                   | <u>39</u>                                                                                                               |
| <u>Item 4.</u>    | <u>Controls and Procedures</u>                                                                                          |
|                   | <u>40</u>                                                                                                               |
| <u>PART II.</u>   | <u>OTHER INFORMATION</u>                                                                                                |
| <u>Item 1.</u>    | <u>Legal Proceedings</u>                                                                                                |
|                   | <u>40</u>                                                                                                               |
| <u>Item 1A.</u>   | <u>Risk Factors</u>                                                                                                     |
|                   | <u>40</u>                                                                                                               |
| <u>Item 2.</u>    | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>                                                      |
|                   | <u>40</u>                                                                                                               |
| <u>Item 5.</u>    | <u>Other Information</u>                                                                                                |
|                   | <u>40</u>                                                                                                               |
| <u>Item 6.</u>    | <u>Exhibits</u>                                                                                                         |
|                   | <u>41</u>                                                                                                               |
| <u>SIGNATURES</u> | <u>42</u>                                                                                                               |
| <u>EXHIBITS</u>   |                                                                                                                         |



Table of Contents

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements (Unaudited).

## ALBEMARLE CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

(In Thousands, Except Per Share Amounts)

(Unaudited)

|                                                                                   | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |             |
|-----------------------------------------------------------------------------------|-------------------------------------|-----------|------------------------------------|-------------|
|                                                                                   | 2013                                | 2012      | 2013                               | 2012        |
| Net sales                                                                         | \$648,638                           | \$661,226 | \$1,924,460                        | \$2,057,824 |
| Cost of goods sold                                                                | 436,989                             | 443,476   | 1,316,582                          | 1,339,806   |
| Gross profit                                                                      | 211,649                             | 217,750   | 607,878                            | 718,018     |
| Selling, general and administrative expenses                                      | 62,543                              | 53,404    | 190,193                            | 189,143     |
| Research and development expenses                                                 | 19,441                              | 19,831    | 60,959                             | 59,791      |
| Restructuring and other charges, net (Note 13)                                    | —                                   | —         | —                                  | 94,703      |
| Operating profit                                                                  | 129,665                             | 144,515   | 356,726                            | 374,381     |
| Interest and financing expenses                                                   | (9,496)                             | (7,914)   | (22,335)                           | (25,134)    |
| Other (expenses) income, net                                                      | (389)                               | 2,370     | (6,295)                            | 1,564       |
| Income before income taxes and equity in net income of unconsolidated investments | 119,780                             | 138,971   | 328,096                            | 350,811     |
| Income tax expense                                                                | 27,274                              | 32,472    | 74,916                             | 93,382      |
| Income before equity in net income of unconsolidated investments                  | 92,506                              | 106,499   | 253,180                            | 257,429     |
| Equity in net income of unconsolidated investments (net of tax)                   | 5,338                               | 7,935     | 25,308                             | 29,233      |
| Net income                                                                        | 97,844                              | 114,434   | 278,488                            | 286,662     |
| Net income attributable to noncontrolling interests                               | (7,332)                             | (4,975)   | (21,250)                           | (12,852)    |
| Net income attributable to Albemarle Corporation                                  | \$90,512                            | \$109,459 | \$257,238                          | \$273,810   |
| Basic earnings per share                                                          | \$1.11                              | \$1.23    | \$3.04                             | \$3.07      |
| Diluted earnings per share                                                        | \$1.11                              | \$1.22    | \$3.02                             | \$3.04      |
| Weighted-average common shares outstanding – basic                                | 81,385                              | 89,327    | 84,711                             | 89,246      |
| Weighted-average common shares outstanding – diluted                              | 81,852                              | 89,879    | 85,192                             | 89,959      |
| Cash dividends declared per share of common stock                                 | \$0.24                              | \$0.20    | \$0.72                             | \$0.60      |

See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of ContentsALBEMARLE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands)

(Unaudited)

|                                                                            | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |           |
|----------------------------------------------------------------------------|-------------------------------------|-----------|------------------------------------|-----------|
|                                                                            | 2013                                | 2012      | 2013                               | 2012      |
| Net income                                                                 | \$97,844                            | \$114,434 | \$278,488                          | \$286,662 |
| Other comprehensive income (loss), net of tax:                             |                                     |           |                                    |           |
| Foreign currency translation                                               | 40,613                              | 29,165    | 11,945                             | 2,295     |
| Pension and postretirement benefits                                        | (201                                | ) (168    | ) (605                             | ) (502    |
| Other                                                                      | 38                                  | 29        | 99                                 | 95        |
| Total other comprehensive income, net of tax                               | 40,450                              | 29,026    | 11,439                             | 1,888     |
| Comprehensive income                                                       | 138,294                             | 143,460   | 289,927                            | 288,550   |
| Comprehensive income attributable to non-controlling interests             | (7,669                              | ) (4,975  | ) (21,658                          | ) (13,007 |
| Comprehensive income attributable to Albemarle Corporation                 | \$130,625                           | \$138,485 | \$268,269                          | \$275,543 |
| See accompanying Notes to the Condensed Consolidated Financial Statements. |                                     |           |                                    |           |

Table of ContentsALBEMARLE CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

(In Thousands)

(Unaudited)

|                                                                                                     | September 30,<br>2013 | December 31,<br>2012 |
|-----------------------------------------------------------------------------------------------------|-----------------------|----------------------|
| Assets                                                                                              |                       |                      |
| Current assets:                                                                                     |                       |                      |
| Cash and cash equivalents                                                                           | \$401,427             | \$477,696            |
| Trade accounts receivable, less allowance for doubtful accounts (2013 – \$1,537;<br>2012 – \$1,641) | 409,206               | 378,973              |
| Other accounts receivable                                                                           | 37,507                | 43,844               |
| Inventories                                                                                         | 485,804               | 428,145              |
| Other current assets                                                                                | 60,762                | 78,655               |
| Total current assets                                                                                | 1,394,706             | 1,407,313            |
| Property, plant and equipment, at cost                                                              | 2,934,613             | 2,818,604            |
| Less accumulated depreciation and amortization                                                      | 1,585,637             | 1,522,033            |
| Net property, plant and equipment                                                                   | 1,348,976             | 1,296,571            |
| Investments                                                                                         | 208,077               | 207,141              |
| Other assets                                                                                        | 149,076               | 154,836              |
| Goodwill                                                                                            | 279,668               | 276,966              |
| Other intangibles, net of amortization                                                              | 89,562                | 94,464               |
| Total assets                                                                                        | \$3,470,065           | \$3,437,291          |
| Liabilities And Equity                                                                              |                       |                      |
| Current liabilities:                                                                                |                       |                      |
| Accounts payable                                                                                    | \$192,897             | \$172,866            |
| Accrued expenses                                                                                    | 160,025               | 177,546              |
| Current portion of long-term debt                                                                   | 19,602                | 12,700               |
| Dividends payable                                                                                   | 19,185                | 17,471               |
| Income taxes payable                                                                                | 19,128                | 4,426                |
| Total current liabilities                                                                           | 410,837               | 385,009              |
| Long-term debt                                                                                      | 1,060,282             | 686,588              |
| Postretirement benefits                                                                             | 59,730                | 60,815               |
| Pension benefits                                                                                    | 192,374               | 195,481              |
| Other noncurrent liabilities                                                                        | 100,925               | 114,022              |
| Deferred income taxes                                                                               | 68,768                | 63,368               |
| Commitments and contingencies (Note 8)                                                              |                       |                      |
| Equity:                                                                                             |                       |                      |
| Albemarle Corporation shareholders' equity:                                                         |                       |                      |
| Common stock, \$.01 par value, issued and outstanding – 81,396 in 2013<br>and 88,899 in 2012        | 814                   | 889                  |
| Additional paid-in capital                                                                          | 6,016                 | 2,761                |
| Accumulated other comprehensive income                                                              | 96,295                | 85,264               |
| Retained earnings                                                                                   | 1,363,970             | 1,744,684            |
| Total Albemarle Corporation shareholders' equity                                                    | 1,467,095             | 1,833,598            |
| Noncontrolling interests                                                                            | 110,054               | 98,410               |
| Total equity                                                                                        | 1,577,149             | 1,932,008            |

|                              |             |             |
|------------------------------|-------------|-------------|
| Total liabilities and equity | \$3,470,065 | \$3,437,291 |
|------------------------------|-------------|-------------|

See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents

ALBEMARLE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
(Unaudited)

| (In Thousands,<br>Except Share<br>Data)                                                  | Common Stock<br>Shares | Amounts | Additional<br>Paid-in<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Income | Retained<br>Earnings | Total<br>Albemarle<br>Shareholders'<br>Equity | Non-<br>controlling<br>Interests | Total<br>Equity |
|------------------------------------------------------------------------------------------|------------------------|---------|----------------------------------|-------------------------------------------------|----------------------|-----------------------------------------------|----------------------------------|-----------------|
| Balance at<br>January 1, 2013                                                            | 88,899,209             | \$ 889  | \$ 2,761                         | \$ 85,264                                       | \$ 1,744,684         | \$ 1,833,598                                  | \$ 98,410                        | \$ 1,932,008    |
| Net income                                                                               |                        |         |                                  |                                                 | 257,238              | 257,238                                       | 21,250                           | 278,488         |
| Other<br>comprehensive<br>income                                                         |                        |         |                                  | 11,031                                          |                      | 11,031                                        | 408                              | 11,439          |
| Cash dividends<br>declared                                                               |                        |         |                                  |                                                 | (60,288 )            | (60,288 )                                     | (10,014 )                        | (70,302 )       |
| Stock-based<br>compensation<br>and other                                                 |                        |         | 6,324                            |                                                 |                      | 6,324                                         |                                  | 6,324           |
| Exercise of stock<br>options                                                             | 152,739                | 1       | 4,509                            |                                                 |                      | 4,510                                         |                                  | 4,510           |
| Shares<br>repurchased                                                                    | (7,814,045 )           | (78 )   | (4,556 )                         |                                                 | (577,664 )           | (582,298 )                                    |                                  | (582,298 )      |
| Tax benefit related<br>to stock<br>plans                                                 |                        |         | 3,078                            |                                                 |                      | 3,078                                         |                                  | 3,078           |
| Issuance of<br>common stock, net                                                         | 254,334                | 3       | (3 )                             |                                                 |                      | —                                             |                                  | —               |
| Shares withheld<br>for withholding<br>taxes associated<br>with common<br>stock issuances | (96,080 )              | (1 )    | (6,097 )                         |                                                 |                      | (6,098 )                                      |                                  | (6,098 )        |
| Balance at<br>September 30,<br>2013                                                      | 81,396,157             | \$ 814  | \$ 6,016                         | \$ 96,295                                       | \$ 1,363,970         | \$ 1,467,095                                  | \$ 110,054                       | \$ 1,577,149    |
| Balance at<br>January 1, 2012                                                            | 88,841,240             | \$ 888  | \$ 15,194                        | \$ 60,329                                       | \$ 1,514,866         | \$ 1,591,277                                  | \$ 87,550                        | \$ 1,678,827    |
| Net income                                                                               |                        |         |                                  |                                                 | 273,810              | 273,810                                       | 12,852                           | 286,662         |
| Other<br>comprehensive<br>income                                                         |                        |         |                                  | 1,733                                           |                      | 1,733                                         | 155                              | 1,888           |
| Cash dividends<br>declared                                                               |                        |         |                                  |                                                 | (53,567 )            | (53,567 )                                     | (7,628 )                         | (61,195 )       |
| Stock-based<br>compensation<br>and other                                                 |                        |         | 10,294                           |                                                 |                      | 10,294                                        |                                  | 10,294          |

Edgar Filing: ALBEMARLE CORP - Form 10-Q

|                                                                              |            |       |           |          |             |             |             |
|------------------------------------------------------------------------------|------------|-------|-----------|----------|-------------|-------------|-------------|
| Exercise of stock options                                                    | 897,069    | 9     | 19,968    |          | 19,977      |             | 19,977      |
| Shares repurchased                                                           | (680,000 ) | (7 )  | (40,463 ) |          | (40,470 )   |             | (40,470 )   |
| Tax benefit related to stock plans                                           |            |       | 14,424    |          | 14,424      |             | 14,424      |
| Issuance of common stock, net                                                | 341,620    | 4     | (4 )      |          | —           |             | —           |
| Shares withheld for withholding taxes associated with common stock issuances | (140,054 ) | (1 )  | (9,123 )  |          | (9,124 )    |             | (9,124 )    |
| Balance at September 30, 2012                                                | 89,259,875 | \$893 | \$10,290  | \$62,062 | \$1,735,109 | \$1,808,354 | \$92,929    |
|                                                                              |            |       |           |          |             |             | \$1,901,283 |

See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of ContentsALBEMARLE CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

(Unaudited)

|                                                                                 | Nine Months Ended<br>September 30, |           |
|---------------------------------------------------------------------------------|------------------------------------|-----------|
|                                                                                 | 2013                               | 2012      |
| Cash and cash equivalents at beginning of year                                  | \$477,696                          | \$469,416 |
| Cash flows from operating activities:                                           |                                    |           |
| Net income                                                                      | 278,488                            | 286,662   |
| Adjustments to reconcile net income to cash flows from operating activities:    |                                    |           |
| Depreciation and amortization                                                   | 79,477                             | 74,428    |
| Non-cash charges associated with restructuring and other, net                   | —                                  | 70,587    |
| Stock-based compensation                                                        | 7,036                              | 10,808    |
| Excess tax benefits realized from stock-based compensation arrangements         | (3,078)                            | (14,424)  |
| Equity in net income of unconsolidated investments (net of tax)                 | (25,308)                           | (29,233)  |
| Dividends received from unconsolidated investments and nonmarketable securities | 18,889                             | 23,244    |
| Pension and postretirement expense (benefit)                                    | 4,730                              | (10,117)  |
| Pension and postretirement contributions                                        | (9,892)                            | (19,705)  |
| Unrealized gain on investments in marketable securities                         | (1,924)                            | (1,412)   |
| Deferred income taxes                                                           | 7,115                              | 14,442    |
| Working capital changes                                                         | (39,353)                           | (106,492) |
| Other, net                                                                      | 1,341                              | 7,694     |
| Net cash provided by operating activities                                       | 317,521                            | 306,482   |
| Cash flows from investing activities:                                           |                                    |           |
| Capital expenditures                                                            | (135,028)                          | (218,708) |
| Cash payments related to acquisitions and other                                 | (250)                              | (2,488)   |
| Sales of (investments in) marketable securities, net                            | 1,214                              | (1,137)   |
| Long-term advances to joint venture                                             | —                                  | (22,500)  |
| Net cash used in investing activities                                           | (134,064)                          | (244,833) |
| Cash flows from financing activities:                                           |                                    |           |
| Repayments of long-term debt                                                    | (93,913)                           | (11,701)  |
| Proceeds from borrowings of long-term debt                                      | 117,000                            | —         |
| Other borrowings (repayments), net                                              | 357,379                            | (37,542)  |
| Dividends paid to shareholders                                                  | (58,574)                           | (51,287)  |
| Dividends paid to noncontrolling interests                                      | (10,014)                           | (7,628)   |
| Repurchases of common stock                                                     | (582,298)                          | (40,470)  |
| Proceeds from exercise of stock options                                         | 4,510                              | 19,977    |
| Excess tax benefits realized from stock-based compensation arrangements         | 3,078                              | 14,424    |
| Withholding taxes paid on stock-based compensation award distributions          | (6,098)                            | (9,124)   |
| Debt financing costs                                                            | (108)                              | —         |
| Net cash used in financing activities                                           | (269,038)                          | (123,351) |
| Net effect of foreign exchange on cash and cash equivalents                     | 9,312                              | (5,072)   |
| Decrease in cash and cash equivalents                                           | (76,269)                           | (66,774)  |
| Cash and cash equivalents at end of period                                      | \$401,427                          | \$402,642 |

See accompanying Notes to the Condensed Consolidated Financial Statements.



Table of Contents

ALBEMARLE CORPORATION AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

NOTE 1—Basis of Presentation:

In the opinion of management, the accompanying unaudited condensed consolidated financial statements of Albemarle Corporation and our wholly-owned, majority-owned and controlled subsidiaries (collectively, “Albemarle,” “we,” “us,” “our” or “the Company”) contain all adjustments necessary for a fair statement, in all material respects, of our condensed consolidated balance sheets as of September 30, 2013 and December 31, 2012, our consolidated statements of income and consolidated statements of comprehensive income for the three-month and nine-month periods ended September 30, 2013 and 2012 and our condensed consolidated statements of cash flows and consolidated statements of changes in equity for the nine-month periods ended September 30, 2013 and 2012. All adjustments are of a normal and recurring nature. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2012, which was filed with the Securities and Exchange Commission (SEC) on February 15, 2013. The December 31, 2012 consolidated balance sheet data herein was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles (GAAP) in the United States (U.S.). The results of operations for the three-month and nine-month periods ended September 30, 2013 are not necessarily indicative of the results to be expected for the full year. Certain reclassifications have been made to the accompanying consolidated financial statements and the notes thereto to conform to the current presentation.

Change in accounting principle regarding pension and other postretirement benefits

During 2012, we elected to change our method of accounting for actuarial gains and losses relating to our global pension and other postretirement benefit (OPEB) plans. Previously, we recognized actuarial gains and losses from our pension and OPEB plans in our consolidated balance sheets as Accumulated other comprehensive income (loss) within shareholders’ equity, with amortization of these gains and losses that exceeded ten percent of the greater of plan assets or projected benefit obligations recognized each quarter in our consolidated statements of income over the average future service period of active employees. Under the new method of accounting, referred to as mark-to-market accounting, these gains and losses will be recognized annually in our consolidated statements of income in the fourth quarter and whenever a plan is determined to qualify for a remeasurement during a fiscal year. The remaining components of pension and OPEB plan expense, primarily service cost, interest cost and expected return on assets, will be recorded on a quarterly basis. The gain/loss subject to amortization and expected return on assets components of our pension expense has historically been calculated using a five-year smoothing of asset gains and losses referred to as the market-related value. Under mark-to-market accounting, the market-related value of assets will equal the actual market value as of the date of measurement. While our historical policy of recognizing pension and OPEB plan expense is considered acceptable under U.S. GAAP, we believe that the new policy is preferable as it eliminates the delay in recognizing gains and losses within operating results. This change will also improve transparency within our operating results by immediately recognizing the effects of economic and interest rate trends on plan investments and assumptions in the year these gains and losses are actually incurred. This change in accounting principle has been applied retrospectively, adjusting all prior periods presented. In the second quarter of 2013, we identified that our consolidated statement of income for the nine-month period ended September 30, 2012 included a correction of \$10.3 million for pension and OPEB plan actuarial gains that related to 2011. This amount was deemed to be not material with respect to our financial statements for the year ended December 31, 2012 and any prior period financial statements.

Table of Contents

## ALBEMARLE CORPORATION AND SUBSIDIARIES

## Notes to the Condensed Consolidated Financial Statements - (Continued)

(Unaudited)

The impact of this accounting policy change on Albemarle's consolidated financial statements for the three-month and nine-month periods ended September 30, 2012 is summarized below:

## Consolidated Statements of Income

| Three Months Ended September 30, 2012 (In Thousands, Except Per Share Amounts)    | As Previously Reported | Effect of Accounting Change | As Adjusted |
|-----------------------------------------------------------------------------------|------------------------|-----------------------------|-------------|
| Net sales                                                                         | \$661,226              | \$—                         | \$661,226   |
| Cost of goods sold                                                                | 446,469                | (2,993 )                    | 443,476     |
| Gross profit                                                                      | 214,757                | 2,993                       | 217,750     |
| Selling, general and administrative expenses                                      | 59,982                 | (6,578 )                    | 53,404      |
| Research and development expenses                                                 | 19,831                 | —                           | 19,831      |
| Restructuring and other charges, net                                              | 6,508                  | (6,508 )                    | —           |
| Operating profit                                                                  | 128,436                | 16,079                      | 144,515     |
| Interest and financing expenses                                                   | (7,914 )               | —                           | (7,914 )    |
| Other income, net                                                                 | 2,370                  | —                           | 2,370       |
| Income before income taxes and equity in net income of unconsolidated investments | 122,892                | 16,079                      | 138,971     |
| Income tax expense                                                                | 26,591                 | 5,881                       | 32,472      |
| Income before equity in net income of unconsolidated investments                  | 96,301                 | 10,198                      | 106,499     |
| Equity in net income of unconsolidated investments (net of tax)                   | 7,935                  | —                           | 7,935       |
| Net income                                                                        | 104,236                | 10,198                      | 114,434     |
| Net income attributable to noncontrolling interests                               | (4,975 )               | —                           | (4,975 )    |
| Net income attributable to Albemarle Corporation                                  | \$99,261               | \$10,198                    | \$109,459   |
| Basic earnings per share                                                          | \$1.11                 | \$0.12                      | \$1.23      |
| Diluted earnings per share                                                        | \$1.10                 | \$0.12                      | \$1.22      |
| Weighted-average common shares outstanding – basic                                | 89,327                 | —                           | 89,327      |
| Weighted-average common shares outstanding – diluted                              | 89,879                 | —                           | 89,879      |
| Cash dividends declared per share of common stock                                 | \$0.20                 | \$—                         | \$0.20      |

Table of Contents

## ALBEMARLE CORPORATION AND SUBSIDIARIES

## Notes to the Condensed Consolidated Financial Statements - (Continued)

(Unaudited)

| Nine Months Ended September 30, 2012 (In Thousands, Except Per Share Amounts)     | As Previously Reported | Effect of Accounting Change | As Adjusted |
|-----------------------------------------------------------------------------------|------------------------|-----------------------------|-------------|
| Net sales                                                                         | \$2,057,824            | \$—                         | \$2,057,824 |
| Cost of goods sold                                                                | 1,352,495              | (12,689 )                   | 1,339,806   |
| Gross profit                                                                      | 705,329                | 12,689                      | 718,018     |
| Selling, general and administrative expenses                                      | 215,298                | (26,155 )                   | 189,143     |
| Research and development expenses                                                 | 59,791                 | —                           | 59,791      |
| Restructuring and other charges, net                                              | 101,211                | (6,508 )                    | 94,703      |
| Operating profit                                                                  | 329,029                | 45,352                      | 374,381     |
| Interest and financing expenses                                                   | (25,134 )              | —                           | (25,134 )   |
| Other income, net                                                                 | 1,564                  | —                           | 1,564       |
| Income before income taxes and equity in net income of unconsolidated investments | 305,459                | 45,352                      | 350,811     |
| Income tax expense                                                                | 76,804                 | 16,578                      | 93,382      |
| Income before equity in net income of unconsolidated investments                  | 228,655                | 28,774                      | 257,429     |
| Equity in net income of unconsolidated investments (net of tax)                   | 29,233                 | —                           | 29,233      |
| Net income                                                                        | 257,888                | 28,774                      | 286,662     |
| Net income attributable to noncontrolling interests                               | (12,852 )              | —                           | (12,852 )   |
| Net income attributable to Albemarle Corporation                                  | \$245,036              | \$28,774                    | \$273,810   |
| Basic earnings per share                                                          | \$2.75                 | \$0.32                      | \$3.07      |
| Diluted earnings per share                                                        | \$2.72                 | \$0.32                      | \$3.04      |
| Weighted-average common shares outstanding – basic                                | 89,246                 | —                           | 89,246      |
| Weighted-average common shares outstanding – diluted                              | 89,959                 | —                           | 89,959      |
| Cash dividends declared per share of common stock                                 | \$0.60                 | \$—                         | \$0.60      |

## Consolidated Statements of Comprehensive Income

| Three Months Ended September 30, 2012 (In Thousands)           | As Previously Reported | Effect of Accounting Change | As Adjusted |
|----------------------------------------------------------------|------------------------|-----------------------------|-------------|
| Net income                                                     | \$104,236              | \$10,198                    | \$114,434   |
| Other comprehensive income (loss), net of tax:                 |                        |                             |             |
| Foreign currency translation                                   | 29,165                 | —                           | 29,165      |
| Pension and postretirement benefits                            | 10,030                 | (10,198 )                   | (168 )      |
| Other                                                          | 29                     | —                           | 29          |
| Total other comprehensive income, net of tax                   | 39,224                 | (10,198 )                   | 29,026      |
| Comprehensive income                                           | 143,460                | —                           | 143,460     |
| Comprehensive income attributable to non-controlling interests | (4,975 )               | —                           | (4,975 )    |
| Comprehensive income attributable to Albemarle Corporation     | \$138,485              | \$—                         | \$138,485   |

Table of Contents

## ALBEMARLE CORPORATION AND SUBSIDIARIES

## Notes to the Condensed Consolidated Financial Statements - (Continued)

(Unaudited)

| Nine Months Ended September 30, 2012 (In Thousands)            | As Previously<br>Reported | Effect of<br>Accounting<br>Change | As Adjusted |
|----------------------------------------------------------------|---------------------------|-----------------------------------|-------------|
| Net income                                                     | \$257,888                 | \$28,774                          | \$286,662   |
| Other comprehensive income (loss), net of tax:                 |                           |                                   |             |
| Foreign currency translation                                   | 2,295                     | —                                 | 2,295       |
| Pension and postretirement benefits                            | 28,272                    | (28,774 )                         | (502 )      |
| Other                                                          | 95                        | —                                 | 95          |
| Total other comprehensive income, net of tax                   | 30,662                    | (28,774 )                         | 1,888       |
| Comprehensive income                                           | 288,550                   | —                                 | 288,550     |
| Comprehensive income attributable to non-controlling interests | (13,007 )                 | —                                 | (13,007 )   |
| Comprehensive income attributable to Albemarle Corporation     | \$275,543                 | \$—                               | \$275,543   |

## Consolidated Statements of Changes In Equity

| Nine Months Ended September 30, 2012 (In Thousands) | As Previously<br>Reported | Effect of<br>Accounting<br>Change | As Adjusted |
|-----------------------------------------------------|---------------------------|-----------------------------------|-------------|
| Accumulated other comprehensive (loss) income:      |                           |                                   |             |
| Balance at January 1, 2012                          | \$(222,922 )              | \$283,251                         | \$60,329    |
| Other comprehensive income                          | 30,507                    | (28,774 )                         | 1,733       |
| Balance at September 30, 2012                       | \$(192,415 )              | \$254,477                         | \$62,062    |
| Retained earnings:                                  |                           |                                   |             |
| Balance at January 1, 2012                          | \$1,798,117               | \$(283,251 )                      | \$1,514,866 |
| Net income                                          | 245,036                   | 28,774                            | 273,810     |
| Cash dividends declared                             | (53,567 )                 | —                                 | (53,567 )   |
| Balance at September 30, 2012                       | \$1,989,586               | \$(254,477 )                      | \$1,735,109 |

## Consolidated Statements of Cash Flows

| Nine Months Ended September 30, 2012 (In Thousands)           | As Previously<br>Reported | Effect of<br>Accounting<br>Change | As Adjusted |
|---------------------------------------------------------------|---------------------------|-----------------------------------|-------------|
| Cash flows from operating activities:                         |                           |                                   |             |
| Net income                                                    | \$257,888                 | \$28,774                          | \$286,662   |
| Non-cash charges associated with restructuring and other, net | 77,095                    | (6,508 )                          | 70,587      |
| Pension and postretirement expense (benefit)                  | 28,727                    | (38,844 )                         | (10,117 )   |
| Deferred income taxes                                         | (2,136 )                  | 16,578                            | 14,442      |

Table of Contents

## ALBEMARLE CORPORATION AND SUBSIDIARIES

## Notes to the Condensed Consolidated Financial Statements - (Continued)

(Unaudited)

## NOTE 2—Foreign Exchange:

Our consolidated statements of income include foreign exchange transaction (losses) gains of \$(2.0) million and \$(9.1) million for the three-month and nine-month periods ended September 30, 2013, respectively, and \$0.9 million and \$(2.5) million for the three-month and nine-month periods ended September 30, 2012, respectively.

## NOTE 3—Income Taxes:

The effective income tax rate for the three-month and nine-month periods ended September 30, 2013 was 22.8% , compared to 23.4% and 26.6% for the three-month and nine-month periods ended September 30, 2012, respectively. The Company's effective income tax rate fluctuates based on, among other factors, our level and location of income. The difference between the U.S. federal statutory income tax rate and our effective income tax rate for the 2013 and 2012 periods is mainly due to the impact of earnings from outside the U.S. Our effective income tax rate for the nine-month period ended September 30, 2012 was also impacted by \$94.7 million in pre-tax charges (\$73.6 million after income taxes) associated with our exit of the phosphorus flame retardants business (see Note 13).

## NOTE 4—Earnings Per Share:

Basic and diluted earnings per share for the three-month and nine-month periods ended September 30, 2013 and 2012 are calculated as follows:

|                                                             | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |           |
|-------------------------------------------------------------|-------------------------------------|-----------|------------------------------------|-----------|
|                                                             | 2013                                | 2012      | 2013                               | 2012      |
| (In thousands, except per share amounts)                    |                                     |           |                                    |           |
| Basic earnings per share                                    |                                     |           |                                    |           |
| Numerator:                                                  |                                     |           |                                    |           |
| Net income attributable to Albemarle Corporation            | \$90,512                            | \$109,459 | \$257,238                          | \$273,810 |
| Denominator:                                                |                                     |           |                                    |           |
| Weighted-average common shares for basic earnings per share | 81,385                              | 89,327    | 84,711                             | 89,246    |
| Basic earnings per share                                    | \$1.11                              | \$1.23    | \$3.04                             | \$3.07    |
| Diluted earnings per share                                  |                                     |           |                                    |           |
| Numerator:                                                  |                                     |           |                                    |           |
| Net income attributable to Albemarle Corporation            | \$90,512                            | \$109,459 | \$257,238                          | \$273,810 |
| Denominator:                                                |                                     |           |                                    |           |
| Weighted-average common shares for basic earnings per share | 81,385                              | 89,327    | 84,711                             | 89,246    |
| Incremental shares under stock compensation plans           | 467                                 | 552       | 481                                | 713       |
| Total shares                                                | 81,852                              | 89,879    | 85,192                             | 89,959    |
| Diluted earnings per share                                  | \$1.11                              | \$1.22    | \$3.02                             | \$3.04    |

On February 12, 2013, the Company increased the regular quarterly dividend by 20% to \$0.24 per share. On July 10, 2013, the Company declared a cash dividend of \$0.24 per share, which was paid on October 1, 2013 to shareholders of record at the close of business as of September 13, 2013. On October 7, 2013, the Company declared a cash dividend of \$0.24 per share, which is payable on January 2, 2014 to shareholders of record at the close of business as of December 13, 2013.

On February 12, 2013, Albemarle's Board of Directors authorized an increase in the number of shares the Company is permitted to repurchase under our share repurchase program, pursuant to which the Company is now permitted to repurchase up to a maximum of 15 million shares, including those shares previously authorized but not yet repurchased.

Under the existing Board authorized share repurchase program, on May 9, 2013, the Company entered into an agreement (the ASR Agreement) with J.P. Morgan Securities LLC (JPMorgan) relating to a fixed-dollar, uncollared accelerated share repurchase program (the ASR Program). Pursuant to the terms of the ASR Agreement, JPMorgan immediately borrowed shares of Albemarle common stock that were sold to the Company, thereby decreasing the Company's issued and outstanding shares (with no change to its authorized shares). On May 10, 2013, the Company paid \$450 million to JPMorgan and received an initial delivery of 5,680,921 shares with a fair market value of approximately \$360 million. This purchase was funded through a combination of available cash on hand and debt.

Table of Contents

## ALBEMARLE CORPORATION AND SUBSIDIARIES

## Notes to the Condensed Consolidated Financial Statements - (Continued)

(Unaudited)

The Company has determined that the ASR Agreement meets the criteria to be accounted for as a forward contract indexed to its stock and is therefore being treated as an equity instrument. Although the ASR Agreement can be settled, at the Company's option, in cash or in shares of common stock, the Company intends to settle in shares of common stock.

The initial delivery of 5,680,921 shares reduced the Company's weighted average shares outstanding for purposes of calculating basic and diluted earnings per share for the three-month and nine-month periods ended September 30, 2013. The total number of shares to ultimately be purchased by the Company under the ASR Program will be based on the Rule 10b-18 volume-weighted average price of the Company's common stock during the term of the ASR Agreement, less a forward price adjustment amount of approximately \$1.01.

The Company evaluated the ASR Agreement for its potential dilution of earnings per share and has determined that, based on the Rule 10b-18 volume-weighted average price calculated as of September 30, 2013, additional shares expected to be received upon final settlement (approximately 1.5 million shares) would have an anti-dilutive impact on earnings per share and therefore were not included in the Company's diluted earnings per share calculation for the three-month and nine-month periods ended September 30, 2013. The final settlement amount may increase or decrease depending upon the Rule 10b-18 volume-weighted average price of the Company's common stock during the remaining term of the ASR Agreement. The ASR Program will be completed no later than the end of 2013 and is expected to result in a decrease to the Company's issued and outstanding shares upon completion.

During the nine-month period ended September 30, 2013, the Company repurchased 7,814,045 shares of its common stock pursuant to the terms of its share repurchase program and the ASR Program. As of September 30, 2013, there were 7,185,955 remaining shares available for repurchase under the Company's authorized share repurchase program.

## NOTE 5—Inventories:

The following table provides a breakdown of inventories at September 30, 2013 and December 31, 2012:

|                            | September 30,<br>2013<br>(In thousands) | December 31,<br>2012 |
|----------------------------|-----------------------------------------|----------------------|
| Finished goods             | \$382,298                               | \$325,762            |
| Raw materials              | 57,086                                  | 57,245               |
| Stores, supplies and other | 46,420                                  | 45,138               |
| Total inventories          | \$485,804                               | \$428,145            |

## NOTE 6—Investments:

The carrying value of our unconsolidated investment in Stannica LLC, a variable interest entity for which we are not the primary beneficiary, was \$5.5 million and \$6.6 million at September 30, 2013 and December 31, 2012, respectively. Our maximum exposure to loss in connection with our continuing involvement with Stannica LLC is limited to our investment carrying value.

Additionally, during the nine-month period ended September 30, 2012, we and our joint venture partner each advanced \$22.5 million to our 50%-owned joint venture, SOCC, pursuant to a long-term loan arrangement.

Table of Contents

## ALBEMARLE CORPORATION AND SUBSIDIARIES

## Notes to the Condensed Consolidated Financial Statements - (Continued)

(Unaudited)

## NOTE 7—Long-Term Debt:

Long-term debt at September 30, 2013 and December 31, 2012 consisted of the following:

|                                                                                                                   | September 30,<br>2013<br>(In thousands) | December 31,<br>2012 |
|-------------------------------------------------------------------------------------------------------------------|-----------------------------------------|----------------------|
| 5.10% Senior notes, net of unamortized discount of \$45 at September 30, 2013 and \$70 at December 31, 2012       | \$324,955                               | \$324,930            |
| 4.50% Senior notes, net of unamortized discount of \$2,264 at September 30, 2013 and \$2,500 at December 31, 2012 | 347,736                                 | 347,500              |
| Commercial paper notes                                                                                            | 363,000                                 | —                    |
| Fixed-rate foreign borrowings                                                                                     | 10,728                                  | 19,458               |
| Variable-rate foreign bank loans                                                                                  | 33,168                                  | 7,006                |
| Miscellaneous                                                                                                     | 297                                     | 394                  |
| Total long-term debt                                                                                              | 1,079,884                               | 699,288              |
| Less amounts due within one year                                                                                  | 19,602                                  | 12,700               |
| Long-term debt, less current portion                                                                              | \$1,060,282                             | \$686,588            |

On May 29, 2013, we entered into agreements to initiate a commercial paper program on a private placement basis under which we may issue unsecured commercial paper notes (the “Notes”) from time-to-time up to a maximum aggregate principal amount outstanding at any time of \$750 million. The proceeds from the issuance of the Notes are expected to be used for general corporate purposes, including the repayment of other debt of the Company. Our September 2011 credit agreement is available to repay the Notes, if necessary. Aggregate borrowings outstanding under the September 2011 credit agreement and the commercial paper program will not exceed the \$750 million current maximum amount available under the September 2011 credit agreement. The Notes will be sold at a discount from par, or alternatively, will be sold at par and bear interest at rates that will vary based upon market conditions at the time of the issuance of the Notes. The maturities of the Notes will vary but may not exceed 397 days from the date of issue. The definitive documents relating to the Program contain customary representations, warranties, default and indemnification provisions.

At September 30, 2013, we had \$363.0 million of Notes outstanding bearing a weighted-average interest rate of approximately 0.32% and a weighted-average maturity of 41 days. While the outstanding Notes generally have short-term maturities, we classify the Notes as long-term based on our ability and intent to refinance the Notes on a long-term basis through the issuance of additional Notes or borrowings under the September 2011 credit agreement.

## NOTE 8—Commitments and Contingencies:

We had the following activity in our recorded environmental liabilities for the nine months ended September 30, 2013, as follows (in thousands):

|                                                     |          |   |
|-----------------------------------------------------|----------|---|
| Beginning balance at December 31, 2012              | \$20,322 |   |
| Expenditures                                        | (2,248)  | ) |
| Changes in estimates recorded to earnings and other | (902)    | ) |
| Foreign currency translation                        | (147)    | ) |
| Ending balance at September 30, 2013                | 17,025   |   |
| Less amounts reported in Accrued expenses           | 7,984    |   |
| Amounts reported in Other noncurrent liabilities    | \$9,041  |   |

The amounts recorded represent our future remediation and other anticipated environmental liabilities. These liabilities typically arise during the normal course of our operational and environmental management activities or at the time of acquisition of the site, and are based on internal analysis as well as input from outside consultants. As evaluations proceed at each relevant site, changes in risk assessment practices, remediation techniques and regulatory

requirements can occur, therefore such liability estimates may be adjusted accordingly. The timing and duration of remediation activities at these sites will be determined when evaluations are completed. Although it is difficult to quantify the potential financial impact of these remediation liabilities, management estimates (based on the latest available information) that there is a reasonable possibility

Table of Contents

ALBEMARLE CORPORATION AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements - (Continued)

(Unaudited)

that future environmental remediation costs associated with our past operations, in excess of amounts already recorded, could be up to approximately \$17 million before income taxes.

Approximately \$7.3 million of our recorded liability is related to the closure and post-closure activities at a former landfill associated with our Bergheim, Germany site, which was recorded at the time of our acquisition of this site in 2001. This closure project has been approved under the authority of the governmental permit for this site and is scheduled for completion in 2017, with post-closure monitoring to occur for 30 years thereafter. The remainder of our recorded liability is associated with sites that are being evaluated under governmental authority but for which final remediation plans have not yet been approved. In connection with the remediation activities at our Bergheim, Germany site as required by the German environmental authorities, we have pledged certain of our land and housing facilities at this site which has an estimated fair value of \$6.0 million.

During the second quarter of 2012, the Company recorded \$8.7 million in estimated site remediation liabilities at our Avonmouth, United Kingdom site as part of the charges associated with our exit of the phosphorus flame retardant business. Included in these estimated charges are anticipated costs of site investigation, remediation and cleanup activities. We are in the process of reviewing our investigation and remediation plans with local government authorities. Based on current information about site conditions, we anticipate this investigation and remediation program will be substantially completed during 2014.

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

On July 3, 2006, we received a Notice of Violation (the 2006 NOV) from the U.S. Environmental Protection Agency Region 4 (EPA) regarding the implementation of the Pharmaceutical Maximum Achievable Control Technology standards at our plant in Orangeburg, South Carolina. The alleged violations involve (i) the applicability of the specific regulations to certain intermediates manufactured at the plant, (ii) failure to comply with certain reporting requirements, (iii) improper evaluation and testing to properly implement the regulations and (iv) the sufficiency of the leak detection and repair program at the plant. In the second quarter of 2011, the Company was served with a complaint by the EPA in the U.S. District Court for the District of South Carolina, based on the alleged violations set out in the 2006 NOV seeking civil penalties and injunctive relief. The complaint was subsequently amended to add the State of South Carolina as a plaintiff. We intend to vigorously defend this action. Any settlement or finding adverse to us could result in the payment by us of fines, penalties, capital expenditures or some combination thereof. At this time, it is not possible to predict with any certainty the outcome of this litigation or the financial impact which may result therefrom. However, we do not expect any financial impact to have a material adverse effect on the Company's results of operations, financial condition or cash flows.

In addition, we are involved from time to time in legal proceedings of types regarded as common in our business, including administrative or judicial proceedings seeking remediation under environmental laws, such as the federal Comprehensive Environmental Response, Compensation and Liability Act, commonly known as CERCLA or Superfund, products liability, breach of contract liability and premises liability litigation. Where appropriate, we may establish financial reserves as estimated by our general counsel for such proceedings. We also maintain insurance to mitigate certain of such risks. Costs for legal services are generally expensed as incurred.

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



Table of Contents

## ALBEMARLE CORPORATION AND SUBSIDIARIES

## Notes to the Condensed Consolidated Financial Statements - (Continued)

(Unaudited)

## NOTE 9—Operating Segments:

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

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

|                                                           | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |             |
|-----------------------------------------------------------|-------------------------------------|-----------|------------------------------------|-------------|
|                                                           | 2013                                | 2012      | 2013                               | 2012        |
|                                                           | (In thousands)                      |           |                                    |             |
| Net sales:                                                |                                     |           |                                    |             |
| Polymer Solutions                                         | \$224,320                           | \$216,992 | \$663,410                          | \$692,139   |
| Catalysts                                                 | 226,042                             | 251,201   | 695,433                            | 773,867     |
| Fine Chemistry                                            | 198,276                             | 193,033   | 565,617                            | 591,818     |
| Total net sales                                           | \$648,638                           | \$661,226 | \$1,924,460                        | \$2,057,824 |
| Segment operating profit:                                 |                                     |           |                                    |             |
| Polymer Solutions                                         | \$40,678                            | \$44,694  | \$128,169                          | \$162,648   |
| Catalysts                                                 | 53,878                              | 55,093    | 146,536                            | 189,104     |
| Fine Chemistry                                            | 43,894                              | 48,336    | 120,349                            | 142,403     |
| Total segment operating profit                            | 138,450                             | 148,123   | 395,054                            | 494,155     |
| Equity in net income of unconsolidated investments:       |                                     |           |                                    |             |
| Polymer Solutions                                         | 1,735                               | 1,199     | 6,371                              | 4,957       |
| Catalysts                                                 | 3,603                               | 6,736     | 18,937                             | 24,276      |
| Fine Chemistry                                            | —                                   | —         | —                                  | —           |
| Corporate & other                                         | —                                   | —         | —                                  | —           |
| Total equity in net income of unconsolidated investments  | 5,338                               | 7,935     | 25,308                             | 29,233      |
| Net income attributable to noncontrolling interests:      |                                     |           |                                    |             |
| Polymer Solutions                                         | (916                                | ) (602    | ) (4,118                           | ) (1,255    |
| Catalysts                                                 | —                                   | —         | —                                  | —           |
| Fine Chemistry                                            | (6,416                              | ) (4,373  | ) (17,132                          | ) (11,577   |
| Corporate & other                                         | —                                   | —         | —                                  | (20         |
| Total net income attributable to noncontrolling interests | (7,332                              | ) (4,975  | ) (21,250                          | ) (12,852   |
| Segment income:                                           |                                     |           |                                    |             |
| Polymer Solutions                                         | 41,497                              | 45,291    | 130,422                            | 166,350     |
| Catalysts                                                 | 57,481                              | 61,829    | 165,473                            | 213,380     |
| Fine Chemistry                                            | 37,478                              | 43,963    | 103,217                            | 130,826     |
| Total segment income                                      | 136,456                             | 151,083   | 399,112                            | 510,556     |
| Corporate & other                                         | (8,785                              | ) (3,608  | ) (38,328                          | ) (25,091   |
| Restructuring and other charges, net <sup>(1)</sup>       | —                                   | —         | —                                  | (94,703     |
| Interest and financing expenses                           | (9,496                              | ) (7,914  | ) (22,335                          | ) (25,134   |
| Other (expenses) income, net                              | (389                                | ) 2,370   | (6,295                             | ) 1,564     |
| Income tax expense                                        | (27,274                             | ) (32,472 | ) (74,916                          | ) (93,382   |
| Net income attributable to Albemarle Corporation          | \$90,512                            | \$109,459 | \$257,238                          | \$273,810   |

(1) See Note 13, “Restructuring and Other.”

Table of Contents

## ALBEMARLE CORPORATION AND SUBSIDIARIES

## Notes to the Condensed Consolidated Financial Statements - (Continued)

(Unaudited)

Effective January 1, 2014, the Company's assets and businesses will be realigned under two operating segments. The Performance Chemicals segment will include Fire Safety Solutions, Specialty Chemicals and Fine Chemistry Services, and the Catalyst Solutions segment will include Refinery Catalyst Solutions, Performance Catalyst Solutions and Antioxidants.

## NOTE 10—Pension Plans and Other Postretirement Benefits:

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

|                                                                     | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |            |
|---------------------------------------------------------------------|-------------------------------------|-----------|------------------------------------|------------|
|                                                                     | 2013                                | 2012      | 2013                               | 2012       |
|                                                                     | (In thousands)                      |           |                                    |            |
| Net Periodic Pension Benefit Cost (Credit):                         |                                     |           |                                    |            |
| Service cost                                                        | \$3,488                             | \$3,174   | \$10,462                           | \$9,391    |
| Interest cost                                                       | 7,470                               | 8,076     | 22,403                             | 24,269     |
| Expected return on assets                                           | (9,848)                             | ) (11,634 | ) (29,541                          | ) (34,913  |
| Actuarial gain <sup>(a)</sup>                                       | —                                   | —         | —                                  | (5,840)    |
| Amortization of prior service benefit                               | (173)                               | ) (245    | ) (517                             | ) (731     |
| Total net periodic pension benefit cost (credit)                    | \$937                               | \$ (629   | ) \$2,807                          | ) \$(7,824 |
| Net Periodic Postretirement Benefit Cost (Credit):                  |                                     |           |                                    |            |
| Service cost                                                        | \$78                                | \$69      | \$232                              | \$206      |
| Interest cost                                                       | 691                                 | 793       | 2,073                              | 2,379      |
| Expected return on assets                                           | (104)                               | ) (122    | ) (310                             | ) (366     |
| Actuarial gain <sup>(a)</sup>                                       | —                                   | —         | —                                  | (4,439)    |
| Amortization of prior service benefit                               | (24)                                | ) (25     | ) (72                              | ) (73      |
| Total net periodic postretirement benefit cost (credit)             | \$641                               | \$715     | \$1,923                            | \$(2,293)  |
| Total net periodic pension and postretirement benefit cost (credit) | \$1,578                             | \$86      | \$4,730                            | \$(10,117) |

In the second quarter of 2013, we identified that our consolidated statement of income for the nine-month period ended September 30, 2012 included a correction of \$10.3 million for pension and OPEB plan actuarial gains that related to 2011. This amount was deemed to be not material with respect to our financial statements for the year ended December 31, 2012 and any prior period financial statements.

During the three-month and nine-month periods ended September 30, 2013, we made contributions of \$4.8 million and \$6.8 million, respectively, to our qualified and nonqualified pension plans. During the three-month and nine-month periods ended September 30, 2012, we made contributions of \$0.3 million and \$3.0 million, respectively, to our qualified and nonqualified pension plans, and we also made a contribution of \$14.1 million to our SERP in connection with the retirement of our former CEO and executive chairman.

We paid \$0.9 million and \$3.1 million in premiums to the U.S. postretirement benefit plan during the three-month and nine-month periods ended September 30, 2013, respectively. Also, we paid \$0.7 million and \$2.6 million in premiums to the U.S. postretirement benefit plan during the three-month and nine-month periods ended September 30, 2012, respectively.



Table of Contents

## ALBEMARLE CORPORATION AND SUBSIDIARIES

## Notes to the Condensed Consolidated Financial Statements - (Continued)

(Unaudited)

## NOTE 11—Fair Value of Financial Instruments:

In assessing the fair value of financial instruments, we use methods and assumptions that are based on market conditions and other risk factors existing at the time of assessment. Fair value information for our financial instruments is as follows:

**Long-Term Debt**—The fair values of our senior notes and other fixed rate foreign borrowings are estimated using Level 1 inputs and account for the majority of the difference between the recorded amount and fair value of our long-term debt. The carrying value of our remaining long-term debt reported in the accompanying condensed consolidated balance sheets approximates fair value as substantially all of such debt bears interest based on prevailing variable market rates currently available in the countries in which we have borrowings.

|                | September 30, 2013                   |             | December 31, 2012  |            |
|----------------|--------------------------------------|-------------|--------------------|------------|
|                | Recorded<br>Amount<br>(In thousands) | Fair Value  | Recorded<br>Amount | Fair Value |
| Long-term debt | \$1,079,884                          | \$1,111,458 | \$699,288          | \$764,784  |

**Foreign Currency Forward Contracts**—we enter into foreign currency forward contracts in connection with our risk management strategies in an attempt to minimize the financial impact of changes in foreign currency exchange rates. These derivative financial instruments are used to manage risk and are not used for trading or other speculative purposes. The fair values of our foreign currency forward contracts are estimated based on current settlement values. At September 30, 2013 and December 31, 2012, we had outstanding foreign currency forward contracts with notional values totaling \$255.9 million and \$274.0 million, respectively. At September 30, 2013, \$0.1 million was included in Other accounts receivable and \$0.1 million was included in Accrued expenses associated with the fair value of our foreign currency forward contracts. At December 31, 2012, \$0.3 million was included in Other accounts receivable and \$0.8 million was included in Accrued expenses associated with the fair value of our foreign currency forward contracts.

Gains and losses on foreign currency forward contracts are recognized currently in Other (expenses) income, net; further, fluctuations in the value of these contracts are intended to offset the changes in the value of the underlying exposures being hedged. For the three-month and nine-month periods ended September 30, 2013, we recognized gains (losses) of \$0.4 million and \$(1.8) million, respectively, in Other (expenses) income, net in our consolidated statements of income related to the change in the fair value of our foreign currency forward contracts. For the three-month and nine-month periods ended September 30, 2012, we recognized gains (losses) of \$3.0 million and \$(1.1) million, respectively, in Other (expenses) income, net in our consolidated statements of income related to the change in the fair value of our foreign currency forward contracts. These amounts are intended to offset changes in the value of the underlying exposures being hedged which are also reported in Other (expenses) income, net. Also, for the nine-month periods ended September 30, 2013 and 2012, we recorded \$1.8 million and \$1.1 million, respectively, related to the change in the fair value of our foreign currency forward contracts, and cash settlements of \$(2.2) million and \$(1.6) million, respectively, in Other, net in our condensed consolidated statements of cash flows.

## NOTE 12—Fair Value Measurement:

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

Level 1      Unadjusted quoted prices in active markets for identical assets or liabilities

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

Level 3      Unobservable inputs for the asset or liability

We endeavor to utilize the best available information in measuring fair value. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Transfers between levels of the fair value hierarchy are deemed to have occurred on the date of the event or change in circumstance that caused the transfer. There were no transfers between Levels 1 and 2 during the nine-month period ended September 30, 2013. The following tables

18

---

Table of Contents

## ALBEMARLE CORPORATION AND SUBSIDIARIES

## Notes to the Condensed Consolidated Financial Statements - (Continued)

(Unaudited)

set forth our financial assets and liabilities that were accounted for at fair value on a recurring basis as of September 30, 2013 and December 31, 2012 (in thousands):

|                                                                       | September 30,<br>2013 | Quoted Prices in<br>Active Markets<br>for Identical<br>Items<br>(Level 1) | Quoted Prices in<br>Active Markets<br>for Similar Items<br>(Level 2) |
|-----------------------------------------------------------------------|-----------------------|---------------------------------------------------------------------------|----------------------------------------------------------------------|
| <b>Assets:</b>                                                        |                       |                                                                           |                                                                      |
| Investments under executive deferred compensation plan <sup>(a)</sup> | \$20,976              | \$20,976                                                                  | \$—                                                                  |
| Equity securities <sup>(b)</sup>                                      | \$23                  | \$23                                                                      | \$—                                                                  |
| Foreign currency forward contracts <sup>(c)</sup>                     | \$56                  | \$—                                                                       | \$56                                                                 |
| <b>Liabilities:</b>                                                   |                       |                                                                           |                                                                      |
| Obligations under executive deferred compensation plan <sup>(a)</sup> | \$20,976              | \$20,976                                                                  | \$—                                                                  |
| Foreign currency forward contracts <sup>(c)</sup>                     | \$130                 | \$—                                                                       | \$130                                                                |
|                                                                       | December 31,<br>2012  | Quoted Prices in<br>Active Markets<br>for Identical<br>Items<br>(Level 1) | Quoted Prices in<br>Active Markets<br>for Similar Items<br>(Level 2) |
| <b>Assets:</b>                                                        |                       |                                                                           |                                                                      |
| Investments under executive deferred compensation plan <sup>(a)</sup> | \$20,265              | \$20,265                                                                  | \$—                                                                  |
| Equity securities <sup>(b)</sup>                                      | \$25                  | \$25                                                                      | \$—                                                                  |
| Foreign currency forward contracts <sup>(c)</sup>                     | \$262                 | \$—                                                                       | \$262                                                                |
| <b>Liabilities:</b>                                                   |                       |                                                                           |                                                                      |
| Obligations under executive deferred compensation plan <sup>(a)</sup> | \$20,265              | \$20,265                                                                  | \$—                                                                  |
| Foreign currency forward contracts <sup>(c)</sup>                     | \$771                 | \$—                                                                       | \$771                                                                |

We maintain an Executive Deferred Compensation Plan (EDCP) that was adopted in 2001 and subsequently amended. The purpose of the EDCP is to provide current tax planning opportunities as well as supplemental funds upon the retirement or death of certain of our employees. The EDCP is intended to aid in attracting and retaining employees of exceptional ability by providing them with these benefits. We also maintain a Benefit Protection Trust (the Trust) that was created to provide a source of funds to assist in meeting the obligations of the EDCP, subject to the claims of our creditors in the event of our insolvency. Assets of the Trust are consolidated in accordance with authoritative guidance. The assets of the Trust consist primarily of mutual fund investments (which are accounted for as trading securities and are marked-to-market on a monthly basis through the consolidated statements of income) and cash and cash equivalents. As such, these assets and obligations are classified within Level 1.

Our investments in equity securities are classified as available-for-sale and are reported in Investments in the condensed consolidated balance sheets. The changes in fair value are reported in Other in our consolidated statements of comprehensive income. These securities are classified within Level 1.

As a result of our global operating and financing activities, we are exposed to market risks from changes in foreign currency exchange rates, which may adversely affect our operating results and financial position. When deemed appropriate, we minimize our risks from foreign currency exchange rate fluctuations through the use of derivative (c) financial instruments. The foreign currency forward contracts are valued using broker quotations or market transactions in either the listed or over-the-counter markets. As such, these derivative instruments are classified within Level 2.

Table of Contents

## ALBEMARLE CORPORATION AND SUBSIDIARIES

## Notes to the Condensed Consolidated Financial Statements - (Continued)

(Unaudited)

## NOTE 13—Restructuring and Other

We had the following activity in our recorded workforce reduction liabilities for the nine months ended September 30, 2013 (in thousands):

|                                                  |          |   |
|--------------------------------------------------|----------|---|
| Beginning balance at December 31, 2012           | \$15,898 |   |
| Workforce reduction charges                      | —        |   |
| Payments                                         | (6,214   | ) |
| Amount reversed to income                        | (991     | ) |
| Foreign currency translation                     | (138     | ) |
| Ending balance at September 30, 2013             | 8,555    |   |
| Less amounts reported in Accrued expenses        | 8,084    |   |
| Amounts reported in Other noncurrent liabilities | \$471    |   |

The nine-month period ended September 30, 2012 included net charges amounting to \$94.7 million (\$73.6 million after income taxes) in connection with our exit of the phosphorus flame retardants business, whose products were sourced mainly at our Avonmouth, United Kingdom and Nanjing, China manufacturing sites. The charges were comprised mainly of non-cash items consisting of net asset write-offs of approximately \$57 million and write-offs of foreign currency translation adjustments of approximately \$12 million, as well as accruals for cash costs associated with related severance programs of approximately \$13 million, estimated site remediation costs of approximately \$9 million and other estimated exit costs of approximately \$4 million. Payments under this restructuring plan are expected to occur through 2014.

The nine months ended September 30, 2012 includes a gain of \$8.1 million (\$5.1 million after income taxes) resulting from proceeds received in connection with the settlement of certain commercial litigation (net of estimated reimbursement of related legal fees of approximately \$0.9 million). The litigation involved claims and cross-claims relating to alleged breaches of a purchase and sale agreement. The settlement resolved all outstanding issues and claims between the parties and they agreed to dismiss all outstanding litigation and release all existing and potential claims against each other that were or could have been asserted in the litigation. The nine months ended September 30, 2012 also includes an \$8 million (\$5.1 million after income taxes) charitable contribution to the Albemarle Foundation, a non-profit organization that sponsors grants, health and social projects, educational initiatives, disaster relief, matching gift programs, scholarships and other charitable initiatives in locations where our employees live and operate. These items are included in our consolidated Selling, general and administrative expenses for the nine months ended September 30, 2012.

In the fourth quarter of 2012, we revised our presentation of Restructuring and other charges in our consolidated statements of cash flows. The corrected presentation is reflected in Non-cash charges associated with restructuring and other, net, to report the non-cash portion of such charges separately from the portion which affects working capital. We believe this presentation better reflects the impacts of restructuring events in our financial statements. The change in presentation had no impact on Net cash provided by operating activities, Net cash used in investing activities or Net cash used in financing activities for the year ended December 31, 2012 or any interim periods within that year.

Table of Contents

## ALBEMARLE CORPORATION AND SUBSIDIARIES

## Notes to the Condensed Consolidated Financial Statements - (Continued)

(Unaudited)

## NOTE 14—Accumulated Other Comprehensive Income:

The components and activity in Accumulated other comprehensive income (net of deferred income taxes) consisted of the following during the three and nine months ended September 30, 2013 (in thousands):

|                                                                     | Foreign<br>Currency<br>Translation | Pension<br>and Post-<br>Retirement<br>Benefits <sup>(a)</sup> | Other   | Total      |
|---------------------------------------------------------------------|------------------------------------|---------------------------------------------------------------|---------|------------|
| Three months ended September 30, 2013                               |                                    |                                                               |         |            |
| Balance at June 30, 2013                                            | \$56,378                           | \$585                                                         | \$(781) | ) \$56,182 |
| Other comprehensive income before reclassifications                 | 40,613                             | —                                                             | 4       | 40,617     |
| Amounts reclassified from accumulated other comprehensive income    | —                                  | (201                                                          | ) 34    | (167       |
| Other comprehensive income (loss), net of tax                       | 40,613                             | (201                                                          | ) 38    | 40,450     |
| Other comprehensive income attributable to noncontrolling interests | (337                               | ) —                                                           | —       | (337       |
| Balance at September 30, 2013                                       | \$96,654                           | \$384                                                         | \$(743) | ) \$96,295 |
| Nine months ended September 30, 2013                                |                                    |                                                               |         |            |
| Balance at December 31, 2012                                        | \$85,117                           | \$989                                                         | \$(842) | ) \$85,264 |
| Other comprehensive income (loss) before reclassifications          | 11,945                             | —                                                             | (1      | ) 11,944   |
| Amounts reclassified from accumulated other comprehensive income    | —                                  | (605                                                          | ) 100   | (505       |
| Other comprehensive income (loss), net of tax                       | 11,945                             | (605                                                          | ) 99    | 11,439     |
| Other comprehensive income attributable to noncontrolling interests | (408                               | ) —                                                           | —       | (408       |
| Balance at September 30, 2013                                       | \$96,654                           | \$384                                                         | \$(743) | ) \$96,295 |

<sup>(a)</sup> Amounts reclassified from accumulated other comprehensive income consist of amortization of prior service benefit. See Note 10, "Pension Plans and Other Postretirement Benefits."

The amount of income tax benefit (expense) allocated to each component of Other comprehensive income (loss) for the three-month and nine-month periods ended September 30, 2013 and 2012 is provided in the following (in thousands):

|                                                  | Three Months Ended September 30,<br>2013 |                                                |       | 2012                               |                                                |       |
|--------------------------------------------------|------------------------------------------|------------------------------------------------|-------|------------------------------------|------------------------------------------------|-------|
|                                                  | Foreign<br>Currency<br>Translation       | Pension<br>and Post-<br>retirement<br>Benefits | Other | Foreign<br>Currency<br>Translation | Pension<br>and Post-<br>retirement<br>Benefits | Other |
| Other comprehensive income (loss),<br>before tax | \$40,436                                 | \$(197 )                                       | \$58  | \$29,445                           | \$(268 )                                       | \$49  |
| Income tax benefit (expense)                     | 177                                      | (4 )                                           | (20 ) | (280 )                             | 100                                            | (20 ) |
| Other comprehensive income (loss),               | \$40,613                                 | \$(201 )                                       | \$38  | \$29,165                           | \$(168 )                                       | \$29  |

net of tax

21

---

Table of Contents

## ALBEMARLE CORPORATION AND SUBSIDIARIES

## Notes to the Condensed Consolidated Financial Statements - (Continued)

(Unaudited)

|                                                  | Nine Months Ended September 30,<br>2013 |                                                |       | 2012                               |                                                |       |
|--------------------------------------------------|-----------------------------------------|------------------------------------------------|-------|------------------------------------|------------------------------------------------|-------|
|                                                  | Foreign<br>Currency<br>Translation      | Pension<br>and Post-<br>retirement<br>Benefits | Other | Foreign<br>Currency<br>Translation | Pension<br>and Post-<br>retirement<br>Benefits | Other |
| Other comprehensive income (loss),<br>before tax | \$10,654                                | \$(589 )                                       | \$159 | \$743                              | \$(798 )                                       | \$155 |
| Income tax benefit (expense)                     | 1,291                                   | (16 )                                          | (60 ) | 1,552                              | 296                                            | (60 ) |
| Other comprehensive income (loss),<br>net of tax | \$11,945                                | \$(605 )                                       | \$99  | \$2,295                            | \$(502 )                                       | \$95  |

**NOTE 15—Recently Issued Accounting Pronouncements:**

In December 2011, the Financial Accounting Standards Board (FASB) issued accounting guidance that requires entities to disclose information about financial instruments (including derivatives) and transactions eligible for offset in the statement of financial position or subject to an agreement similar to a master netting arrangement. In January 2013, the FASB issued additional guidance that limits the scope of these new requirements to certain derivatives, repurchase agreements and reverse repurchase agreements and securities borrowing and lending transactions. These amendments became effective on January 1, 2013 and had no impact on our consolidated financial statements.

In February 2013, the FASB issued accounting guidance that requires companies to present either in a single note or on the face of the financial statements the effect of significant amounts reclassified from each component of accumulated other comprehensive income, and the income statement line items affected by the reclassification. If a component is not required to be reclassified to net income in its entirety, companies instead cross reference to the related footnote for additional information. These amendments became effective for us beginning with the first quarter of 2013 and did not have a material impact on our consolidated financial statements.

In February 2013, the FASB issued accounting guidance that requires entities that have obligations resulting from joint and several liability arrangements and for which the total amount is fixed at the reporting date to measure such obligations as the sum of (a) the amount the entity agreed to pay on the basis of its arrangement among its co-obligors, and (b) any additional amount the reporting entity expects to pay on behalf of its co-obligors. Entities are also required to disclose the nature, amount and any other relevant information about such obligations. This accounting guidance will become effective for fiscal years, and interim periods within those years, beginning after December 15, 2013 and should be applied retrospectively to all prior periods presented for obligations that exist at the beginning of an entity's fiscal year of adoption. We are assessing the impact of these new requirements on our financial statements.

In March 2013, the FASB issued accounting guidance that clarifies a parent company's accounting for the cumulative foreign currency translation adjustment when the parent sells a part or all of its investment in a foreign entity. The guidance clarifies that the sale of an investment in a foreign entity includes both (a) events that result in the loss of a controlling financial interest in a foreign entity, and (b) events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately before the acquisition date (sometimes also referred to as a step acquisition). Accordingly, the cumulative foreign currency translation adjustment should be released into net income upon the occurrence of those events. This accounting guidance will become effective for fiscal years, and interim periods within those years, beginning after December 15, 2013, and should be applied prospectively to derecognition events occurring after the effective date. We are assessing the impact of these new requirements on our financial statements.

In July 2013, the FASB issued accounting guidance designed to reduce diversity in practice of financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit

carryforward exists. These new requirements become effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. We do not expect this new guidance to have a material effect on our consolidated financial statements.

Table of Contents

ALBEMARLE CORPORATION AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements - (Continued)

(Unaudited)

NOTE 16—Subsequent Events:

Restructuring

In connection with the announced realignment of our operating segments, in October 2013, we initiated a voluntary separation program available to salaried employees in the U.S. At this time, we cannot reasonably estimate the total restructuring charge that will be incurred in the fourth quarter of 2013, as not all of our restructuring initiatives have been finalized, but as of this filing we expect the charge to be no more than \$20 million.

Acquisition

On October 1, 2013, we acquired Cambridge Chemical Company, Ltd. for approximately \$3.6 million.

## Table of Contents

### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following is a discussion and analysis of our financial condition and results of operations since December 31, 2012. A discussion of consolidated financial condition and sources of additional capital is included under a separate heading "Financial Condition and Liquidity" on page 36.

#### Forward-looking Statements

Some of the information presented in this Quarterly Report on Form 10-Q, including the documents incorporated by reference, may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are based on our current expectations, which are in turn based on assumptions that we believe are reasonable based on our current knowledge of our business and operations. We have used words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "should," "will" and 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. Therefore, there can be no assurance that our actual results will not differ materially from the results and expectations expressed or implied in the forward-looking statements. Factors that could cause actual results to differ materially include, without limitation:

- changes in economic and business conditions;
- changes in financial and operating performance of our major customers and industries and markets served by us;
- the timing of orders received from customers;
- the gain or loss of significant customers;
- competition from other manufacturers;
- changes in the demand for our products;
- limitations or prohibitions on the manufacture and sale of our products;
- availability of raw materials;
- changes in the cost of raw materials and energy, and our ability to pass through such increases;
- acquisitions and divestitures, and changes in performance of acquired companies;
- changes in our markets in general;
- fluctuations in foreign currencies;
- changes in laws and government regulation impacting our operations or our products;
- the occurrence of claims or litigation;
- the occurrence of natural disasters;
- the inability to maintain current levels of product or premises liability insurance or the denial of such coverage;
- political unrest affecting the global economy, including adverse effects from terrorism or hostilities;
- political instability affecting our manufacturing operations or joint ventures;
- changes in accounting standards;
- the inability to achieve results from our global manufacturing cost reduction initiatives as well as our ongoing continuous improvement and rationalization programs;
- changes in the jurisdictional mix of our earnings and changes in tax laws and rates;
- changes in monetary policies, inflation or interest rates that may impact our ability to raise capital or increase our cost of funds, impact the performance of our pension fund investments and increase our pension expense and funding obligations;
- volatility and substantial uncertainties in the debt and equity markets;
- technology or intellectual property infringement, including cyber security breaches, and other innovation risks;
- decisions we may make in the future; and
- the other factors detailed from time to time in the reports we file with the SEC.

We assume no obligation to provide revisions to any forward-looking statements should circumstances change, except as otherwise required by securities and other applicable laws. The following discussion should be read together with our consolidated financial statements and related notes included in this Quarterly Report on Form 10-Q.



## Table of Contents

### Overview

We are a leading global developer, manufacturer and marketer of highly-engineered specialty chemicals that meet customer needs across an exceptionally diverse range of end markets including the petroleum refining, consumer electronics, plastics/packaging, construction, automotive, lubricants, pharmaceuticals, crop protection, food safety and custom chemistry services markets. We are committed to global sustainability and are advancing responsible eco-practices and solutions in our three business segments. We believe that our commercial and geographic diversity, technical expertise, innovative capability, flexible, low cost global manufacturing base, experienced management team and strategic focus on our core base technologies will enable us to maintain leading market positions in those areas of the specialty chemicals industry in which we operate.

Secular trends favorably impacting demand within the end markets that we serve combined with our diverse product portfolio, broad geographic presence and customer-focused solutions will continue to be key drivers to our future earnings growth. We continue to build upon our existing green solutions portfolio and our ongoing mission to provide innovative, yet commercially viable, clean energy products and services to the marketplace. We believe our disciplined cost reduction efforts, ongoing productivity improvements and strong balance sheet will position us well to take advantage of strengthening economic conditions as they occur while softening the negative impact of the current challenging economic environment.

### Third Quarter 2013

During the third quarter of 2013:

• We achieved quarterly earnings of \$1.11 per share (on a diluted basis), a decrease of 9% from third quarter 2012 results.

• Our net sales for the quarter were \$648.6 million, down 2% from net sales of \$661.2 million in the third quarter of 2012.

• Our board of directors declared a quarterly dividend of \$0.24 per share on July 10, 2013, which was paid on October 1, 2013 to shareholders of record at the close of business as of September 13, 2013.

• We announced the successful start-up of a new catalyst manufacturing plant at our facility in Yeosu, South Korea.

• The plant will produce commercial quantities of single site metallocene catalysts, including grades enhanced by our proprietary ActivCat® activation technology, as well as catalyst components such as methylaluminoxane.

• We announced that we will realign our operating segments, effective January 1, 2014. The Performance Chemicals segment will include Fire Safety Solutions, Specialty Chemicals and Fine Chemistry Services, consolidating our bromine, mineral and custom manufacturing assets under one business unit. The Catalyst Solutions segment will include Refinery Catalyst Solutions, Performance Catalyst Solutions and Antioxidants. Each segment will have a dedicated team of sales, research and development, process engineering, manufacturing and sourcing, and business strategy personnel that will have full accountability for improving execution through greater asset and market focus, agility and responsiveness. The new structure will also facilitate the continued standardization of business processes across the organization as part of our ongoing One Albemarle strategy.

• We expanded our presence in the electronic materials market with the acquisition of Cambridge Chemical Company, Ltd., effective October 1, 2013. Based in Cambridge, UK, Cambridge Chemical is a key technology player for producing high purity metal organic chemicals used in the laser market. Cambridge Chemical's technology and products will further strengthen Albemarle's offerings in the electronic market including LED, semiconductor, OLED and now Laser. Albemarle will also benefit from a number of R&D and distribution synergies resulting from the acquisition.

### Outlook

As we expected, current dynamics in both the global economy and in select businesses have resulted in continued headwinds during the first nine months of 2013, and could potentially continue to impact our results, although we have seen a slight upturn in our overall business results in the second half of 2013. We believe our business fundamentals are sound and that we are strategically well-positioned as we remain focused on increasing sales volumes, managing costs and delivering value to our customers. We believe that when the end markets we serve begin to stabilize and resume growth, our businesses will respond quickly to the improved market conditions and new business opportunities. Further, we believe the recently announced reorganization into Performance Chemicals and

Catalysts Solutions will enhance our ability to generate sustainable growth in our bromine and catalyst businesses. Polymer Solutions: Sales volumes in many of our core products were favorable in the first nine months of 2013 compared to the prior year, more than offset by lower prices in our Flame Retardants, Additives and Curatives businesses. Overall, year-over-year segment revenue was down, driven mainly by our exit of the phosphorus flame retardants business in the second quarter of 2012. We closely monitor customer order patterns and other key indicators in our business, some of which

## Table of Contents

show trends that indicate the current pace of business, which is still below our historical norms, could continue. These trends, should they continue, could have adverse impacts on our net sales and profitability, including impacts from operating our production assets below optimum levels.

Despite these current trends and concerns, we believe that the combination of solid, long-term business fundamentals with our competitive position, product innovations and effective management of raw material inflation will enable our business to manage through periods of end market challenges and to capitalize on opportunities that will come with a sustained economic recovery.

On a long-term basis, we continue to believe that improving global standards of living and the potential for increasingly stringent fire safety regulations in developing markets are likely to drive continued demand for fire safety products. Further, we continue to focus on globalization in this segment, with our antioxidants facilities and planned mineral flame retardants joint venture in China positioning us well for growth in the Asia region. We remain well-positioned to meet future demand as global economic growth and global bromine supply/demand dynamics improve.

Catalysts: Lower metals surcharges in Refinery Catalyst Solutions, and lower sales volumes and pricing in Performance Catalyst Solutions, have resulted in overall lower year-over-year net sales for our Catalysts segment during the first nine months of 2013. On a longer term basis, we believe increased global demand for transportation fuels and implementation of more stringent fuel quality requirements will drive growth in our Refinery Catalyst Solutions business. In addition, we expect growth in our Performance Catalysts Solutions division to come from growing global demand for plastics driven by rising standards of living and infrastructure spending, particularly in Asia and the Middle East. With the recent acquisition of Cambridge Chemicals, we enhanced our strategic positioning in the rapidly growing LED market, which is driven by global demand for greater energy efficiencies in lighting and related applications.

New market penetration and introduction of innovative cost-effective products for the refining and polyolefins industries continue to provide benefits. We believe our focus on advanced product development in Catalysts positions us well for commercial success, and we have introduced new value-added refining solutions and technologies that enable refiners to increase yields, a critical advantage for refiners, as well as offering advanced polyolefin catalyst technologies to lower cost-in-use and increase flexibility for our customers. Our marketing and research groups are tightly aligned, enabling us to continue to bring innovative technologies to the market.

We expect to leverage our existing positions in the Middle East and Asia to capitalize on growth opportunities and further develop our leading position in those emerging markets. Our joint venture in Saudi Arabia with SABIC, which is now operational, positions us to lead in the fast-growing Middle East polyolefins catalysts market. Construction at our

Yeosu, South Korea site is complete for our metallocene/single site catalyst production facility and we are currently in the process of customer qualification. Construction at Yeosu continues for our Pure Growth line of products for the LED and electronics industry.

Fine Chemistry: In our Fine Chemistry segment, during the first nine months of 2013 we saw favorable year-over-year sales volumes in our bromine portfolio, partly offsetting lower pricing in some regions. Fine Chemistry Services continues to benefit from the rapid pace of innovation and the introduction of new products, coupled with the movement by companies to outsource certain research, product development and manufacturing functions. We believe we can sustain healthy margins with continued focus on the two strategic areas in our Fine Chemistry segment – maximizing our bromine franchise value in the Performance Chemicals sector and continued growth of our Fine Chemistry Services business.

On a longer term basis, we are focused on profitably growing our globally competitive bromine and derivatives production network to serve all major bromine consuming products and markets. We believe the gap between global supply and demand will continue to tighten as demand for existing and new uses of bromine expands.

Our Fine Chemistry Services businesses continue to deliver strong net sales and profitability, and opportunities are expanding in the renewables, life sciences and electronic materials markets. Our pharmaceutical and crop protection businesses continue to deliver solid results. We expect product development opportunities to continue, especially in the pharmaceutical and electronic materials space where our product pipeline is growing.

Our technical expertise, manufacturing capabilities and speed to market allow us to develop a preferred outsourcing position serving leading chemical, renewable and life science innovators in diverse industries. We believe we will continue to generate growth in profitable niche products leveraged from this service business.

Table of Contents

Corporate and Other: We continue to focus on cash generation, working capital management and process efficiencies. We expect our global effective tax rate for 2013 to be approximately 22.8%; however, our rate will vary based on the locales in which income is actually earned and remains subject to potential volatility from changing legislation in the U.S. and other tax jurisdictions.

In the first quarter of 2013, we increased our quarterly dividend payout to \$0.24 per share. During the nine months ended September 30, 2013, we repurchased approximately 7.8 million shares of our common stock with a fair market value of \$492.3 million under our existing share repurchase program and the ASR Program, and we may periodically repurchase shares in the future on an opportunistic basis.

In connection with the announced realignment of our operating segments, in October 2013, we initiated a voluntary separation program available to salaried employees in the U.S. At this time, we cannot reasonably estimate the total restructuring charge that will be incurred in the fourth quarter of 2013, as not all of our restructuring initiatives have been finalized, but as of this filing we expect the charge to be no more than \$20 million.

We expect that our fourth quarter 2013 mark-to-market adjustment related to our defined benefit pension and OPEB plans will likely be material. Based on market conditions and interest rate levels as of September 30, 2013, the mark-to-market adjustment would result in an actuarial gain of approximately \$100 million.

We remain committed to evaluating the merits of any opportunities that may arise for acquisitions or other business development activities that will complement our business footprint. Additional information regarding our products, markets and financial performance is provided at our web site, [www.albemarle.com](http://www.albemarle.com). Our web site is not a part of this document nor is it incorporated herein by reference.

Table of Contents

## Results of Operations

The following data and discussion provides an analysis of certain significant factors affecting our results of operations during the periods included in the accompanying consolidated statements of income. Results for 2012 have been retrospectively adjusted to reflect our election to change our method of accounting for actuarial gains and losses relating to our global pension and OPEB plans in 2012 (see Note 1, "Basis of Presentation" to the condensed consolidated financial statements included in this report).

Third Quarter 2013 Compared to Third Quarter 2012

Selected Financial Data (Unaudited)

|                                                                                      | Three Months Ended<br>September 30,                      |           | Percentage<br>Change |    |
|--------------------------------------------------------------------------------------|----------------------------------------------------------|-----------|----------------------|----|
|                                                                                      | 2013                                                     | 2012      | 2013 vs. 2012        |    |
|                                                                                      | (In thousands, except percentages and per share amounts) |           |                      |    |
| NET SALES                                                                            | \$648,638                                                | \$661,226 | (2                   | )% |
| Cost of goods sold                                                                   | 436,989                                                  | 443,476   | (1                   | )% |
| GROSS PROFIT                                                                         | 211,649                                                  | 217,750   | (3                   | )% |
| GROSS PROFIT MARGIN                                                                  | 32.6                                                     | % 32.9    | %                    |    |
| Selling, general and administrative expenses                                         | 62,543                                                   | 53,404    | 17                   | %  |
| Research and development expenses                                                    | 19,441                                                   | 19,831    | (2                   | )% |
| OPERATING PROFIT                                                                     | 129,665                                                  | 144,515   | (10                  | )% |
| OPERATING PROFIT MARGIN                                                              | 20.0                                                     | % 21.9    | %                    |    |
| Interest and financing expenses                                                      | (9,496                                                   | ) (7,914  | ) 20                 | %  |
| Other (expenses) income, net                                                         | (389                                                     | ) 2,370   | (116                 | )% |
| INCOME BEFORE INCOME TAXES AND EQUITY IN<br>NET INCOME OF UNCONSOLIDATED INVESTMENTS | 119,780                                                  | 138,971   | (14                  | )% |
| Income tax expense                                                                   | 27,274                                                   | 32,472    | (16                  | )% |
| Effective tax rate                                                                   | 22.8                                                     | % 23.4    | %                    |    |
| INCOME BEFORE EQUITY IN NET INCOME OF<br>UNCONSOLIDATED INVESTMENTS                  | 92,506                                                   | 106,499   | (13                  | )% |
| Equity in net income of unconsolidated investments (net of<br>tax)                   | 5,338                                                    | 7,935     | (33                  | )% |
| NET INCOME                                                                           | 97,844                                                   | 114,434   | (14                  | )% |
| Net income attributable to noncontrolling interests                                  | (7,332                                                   | ) (4,975  | ) 47                 | %  |
| NET INCOME ATTRIBUTABLE TO ALBEMARLE<br>CORPORATION                                  | \$90,512                                                 | \$109,459 | (17                  | )% |
| PERCENTAGE OF NET SALES                                                              | 14.0                                                     | % 16.6    | %                    |    |
| Basic earnings per share                                                             | \$1.11                                                   | \$1.23    | (10                  | )% |
| Diluted earnings per share                                                           | \$1.11                                                   | \$1.22    | (9                   | )% |

## Net Sales

For the three-month period ended September 30, 2013, we recorded net sales of \$648.6 million, a decrease of 2% compared to net sales of \$661.2 million for the three-month period ended September 30, 2012. This decrease was due primarily to unfavorable pricing impacts of 4% (mainly lower pass through metals surcharges in Refinery Catalyst Solutions and lower flame retardant pricing), partly offset by favorable volume impacts of 2% (mainly in Flame Retardants).

## Gross Profit

For the three-month period ended September 30, 2013, our gross profit decreased \$6.1 million, or 3%, from the corresponding 2012 period due mainly to overall unfavorable pricing impacts and higher manufacturing costs, partly offset by favorable volume impacts, primarily in Flame Retardants and FCC Catalysts. Overall, these factors

contributed to a lower gross profit margin for the three-month period ended September 30, 2013 of 32.6%, down from 32.9% for the corresponding period in 2012.

Table of Contents

Selling, General and Administrative Expenses

For the three-month period ended September 30, 2013, our selling, general and administrative (SG&A) expenses increased \$9.1 million, or 17%, from the three-month period ended September 30, 2012. This increase was primarily due to higher personnel-related costs and outside services costs. As a percentage of net sales, SG&A expenses were 9.6% for the three-month period ended September 30, 2013, compared to 8.1% for the corresponding period in 2012.

Research and Development Expenses

For the three-month period ended September 30, 2013, our research and development (R&D) expenses decreased \$0.4 million, or 2%, from the three-month period ended September 30, 2012, as a result of lower spending. As a percentage of net sales, R&D expenses were 3.0% for the three-month periods ended September 30, 2013 and 2012.

Interest and Financing Expenses

Interest and financing expenses for the three-month period ended September 30, 2013 increased \$1.6 million to \$9.5 million from the corresponding 2012 period, due mainly to decreases in interest capitalized on lower average construction work in progress balances in the 2013 period.

Other (Expenses) Income, Net

Other (expenses) income, net for the three-month period ended September 30, 2013 was \$(0.4) million versus \$2.4 million for the corresponding 2012 period. This change was due primarily to unfavorable currency impacts compared to the corresponding period in 2012.

Income Tax Expense

The effective income tax rate for the third quarter of 2013 was 22.8% compared to 23.4% for the third quarter of 2012. Our effective income tax rate differs from the U.S. federal statutory income tax rates in the comparative periods mainly due to the impact of earnings from outside the U.S.

Equity in Net Income of Unconsolidated Investments

Equity in net income of unconsolidated investments was \$5.3 million for the three-month period ended September 30, 2013 compared to \$7.9 million in the same period last year. This decrease was due primarily to lower equity income amounts reported from our Catalysts segment joint ventures Nippon Ketjen Company Limited, Eurecat, and Fábrica Carioca de Catalisadores SA.

Net Income Attributable to Noncontrolling Interests

For the three-month period ended September 30, 2013, net income attributable to noncontrolling interests was \$7.3 million compared to \$5.0 million in the same period last year. This increase of \$2.3 million was due primarily to the 2013 change in profit sharing allocations between the shareholders of our Jordan Bromine Company joint venture.

Net Income Attributable to Albemarle Corporation

Net income attributable to Albemarle Corporation decreased to \$90.5 million in the three-month period ended September 30, 2013, from \$109.5 million in the three-month period ended September 30, 2012 primarily due to unfavorable pricing in Flame Retardants and Catalysts on lower pass through metals surcharges, higher manufacturing costs, lower equity in net income of unconsolidated investments, and higher net income attributable to noncontrolling interests, partly offset by favorable volumes, primarily in Flame Retardants.

Table of Contents

Segment Information Overview. We have identified three reportable segments according to the nature and economic characteristics of our products as well as the manner in which the information is used internally by the Company's key decision maker, our Chief Executive Officer, in accordance with current accounting guidance. Our Polymer Solutions segment is comprised of the flame retardants and stabilizers and curatives product areas. Our Catalysts segment is comprised of the Refinery Catalyst Solutions and Performance Catalyst Solutions product areas. Our Fine Chemistry segment is comprised of the Performance Chemicals and Fine Chemistry Services product areas. Segment income represents operating profit (adjusted for significant non-recurring items) and equity in net income of unconsolidated investments and is reduced by net income attributable to noncontrolling interests. Segment data includes intersegment transfers of raw materials at cost and allocations for certain corporate costs.

|                                                           | Three Months Ended September 30,   |                |             |                |               | Percentage Change |  |
|-----------------------------------------------------------|------------------------------------|----------------|-------------|----------------|---------------|-------------------|--|
|                                                           | 2013                               | % of net sales | 2012        | % of net sales | 2013 vs. 2012 |                   |  |
|                                                           | (In thousands, except percentages) |                |             |                |               |                   |  |
| Net sales:                                                |                                    |                |             |                |               |                   |  |
| Polymer Solutions                                         | \$224,320                          | 34.6           | % \$216,992 | 32.8           | % 3           | %                 |  |
| Catalysts                                                 | 226,042                            | 34.8           | % 251,201   | 38.0           | % (10         | )%                |  |
| Fine Chemistry                                            | 198,276                            | 30.6           | % 193,033   | 29.2           | % 3           | %                 |  |
| Total net sales                                           | \$648,638                          | 100.0          | % \$661,226 | 100.0          | % (2          | )%                |  |
| Segment operating profit:                                 |                                    |                |             |                |               |                   |  |
| Polymer Solutions                                         | \$40,678                           | 18.1           | % \$44,694  | 20.6           | % (9          | )%                |  |
| Catalysts                                                 | 53,878                             | 23.8           | % 55,093    | 21.9           | % (2          | )%                |  |
| Fine Chemistry                                            | 43,894                             | 22.1           | % 48,336    | 25.0           | % (9          | )%                |  |
| Total segment operating profit                            | 138,450                            |                | 148,123     |                | (7            | )%                |  |
| Equity in net income of unconsolidated investments:       |                                    |                |             |                |               |                   |  |
| Polymer Solutions                                         | 1,735                              |                | 1,199       |                | 45            | %                 |  |
| Catalysts                                                 | 3,603                              |                | 6,736       |                | (47           | )%                |  |
| Fine Chemistry                                            | —                                  |                | —           |                | —             | %                 |  |
| Corporate & other                                         | —                                  |                | —           |                | —             | %                 |  |
| Total equity in net income of unconsolidated investments  | 5,338                              |                | 7,935       |                | (33           | )%                |  |
| Net income attributable to noncontrolling interests:      |                                    |                |             |                |               |                   |  |
| Polymer Solutions                                         | (916                               | )              | (602        | )              | 52            | %                 |  |
| Catalysts                                                 | —                                  |                | —           |                | —             | %                 |  |
| Fine Chemistry                                            | (6,416                             | )              | (4,373      | )              | 47            | %                 |  |
| Corporate & other                                         | —                                  |                | —           |                | —             | %                 |  |
| Total net income attributable to noncontrolling interests | (7,332                             | )              | (4,975      | )              | 47            | %                 |  |
| Segment income:                                           |                                    |                |             |                |               |                   |  |
| Polymer Solutions                                         | 41,497                             | 18.5           | % 45,291    | 20.9           | % (8          | )%                |  |
| Catalysts                                                 | 57,481                             | 25.4           | % 61,829    | 24.6           | % (7          | )%                |  |
| Fine Chemistry                                            | 37,478                             | 18.9           | % 43,963    | 22.8           | % (15         | )%                |  |
| Total segment income                                      | 136,456                            |                | 151,083     |                | (10           | )%                |  |
| Corporate & other                                         | (8,785                             | )              | (3,608      | )              | 143           | %                 |  |
| Interest and financing expenses                           | (9,496                             | )              | (7,914      | )              | 20            | %                 |  |
| Other (expenses) income, net                              | (389                               | )              | 2,370       |                | (116          | )%                |  |

Edgar Filing: ALBEMARLE CORP - Form 10-Q

|                                                  |           |           |        |
|--------------------------------------------------|-----------|-----------|--------|
| Income tax expense                               | (27,274 ) | (32,472 ) | (16 )% |
| Net income attributable to Albemarle Corporation | \$90,512  | \$109,459 | (17 )% |

Table of Contents

Our segment information includes measures we refer to as “Segment operating profit” and “Segment income” which are financial measures that are not required by, or presented in accordance with, GAAP. The Company has reported Segment operating profit and Segment income because management believes that these financial measures provide transparency to investors and enable period-to-period comparability of financial performance. Segment operating profit and Segment income should not be considered as an alternative to Operating profit or Net income attributable to Albemarle Corporation, respectively, as determined in accordance with GAAP.

See below for a reconciliation of Segment operating profit and Segment income, the non-GAAP financial measures, to Operating profit and Net income attributable to Albemarle Corporation, respectively, the most directly comparable financial measures calculated and reported in accordance with GAAP.

|                                                       | Three Months Ended<br>September 30, |               |
|-------------------------------------------------------|-------------------------------------|---------------|
|                                                       | 2013                                | 2012          |
|                                                       | (In thousands)                      |               |
| Total segment operating profit                        | \$138,450                           | \$148,123     |
| Add (less):                                           |                                     |               |
| Corporate & other                                     | (8,785                              | ) (3,608      |
| GAAP Operating profit                                 | \$129,665                           | \$144,515     |
| <br>Total segment income                              | <br>\$136,456                       | <br>\$151,083 |
| Add (less):                                           |                                     |               |
| Corporate & other                                     | (8,785                              | ) (3,608      |
| Interest and financing expenses                       | (9,496                              | ) (7,914      |
| Other (expenses) income, net                          | (389                                | ) 2,370       |
| Income tax expense                                    | (27,274                             | ) (32,472     |
| GAAP Net income attributable to Albemarle Corporation | \$90,512                            | \$109,459     |

**Polymer Solutions**

Polymer Solutions segment net sales for the three-month period ended September 30, 2013 were \$224.3 million, up \$7.3 million, or 3%, in comparison to the same period in 2012. The increase was driven mainly by favorable volumes (net of the unfavorable impact of our exit of the phosphorus flame retardants business), partly offset by lower pricing in Flame Retardants. Segment income for Polymer Solutions was down 8%, or \$3.8 million, to \$41.5 million for the three-month period ended September 30, 2013, compared to the same period in 2012, as a result of lower pricing mainly in Flame Retardants and higher manufacturing costs, partly offset by favorable volumes, mainly in Flame Retardants and Additives.

**Catalysts**

Catalysts segment net sales for the three-month period ended September 30, 2013 were \$226.0 million, a decrease of \$25.2 million, or 10%, compared to the three-month period ended September 30, 2012. This decrease was due mainly to unfavorable pricing on lower pass through metals surcharges and lower volumes in Refinery Catalyst Solutions, and unfavorable pricing and volumes in Performance Catalyst Solutions. Catalysts segment income decreased 7%, or \$4.3 million, to \$57.5 million for the three-month period ended September 30, 2013 in comparison to the corresponding period of 2012. This decrease was due primarily to higher manufacturing costs, unfavorable pricing in Performance Catalysts Solutions and lower equity in net income of unconsolidated investments.

**Fine Chemistry**

Fine Chemistry segment net sales for the three-month period ended September 30, 2013 were \$198.3 million, an increase of \$5.2 million, or 3%, versus the three-month period ended September 30, 2012. This increase was primarily attributable to favorable volumes in our Fine Chemistry Services businesses. Segment income for the three-month period ended September 30, 2013 was \$37.5 million, down 15% from the corresponding period in 2012. The decrease was due to higher manufacturing costs and higher net income attributable to noncontrolling interests associated with a

change in profit sharing allocations at our Jordan Bromine Company joint venture. These were partly offset by favorable volumes in our Fine Chemistry Services businesses.

Table of Contents

## Corporate and other

For the three-month period ended September 30, 2013, our Corporate and other expense was \$8.8 million compared to \$3.6 million for the corresponding period in 2012. This increase was primarily due to unfavorable personnel costs.

## Nine Months 2013 Compared to Nine Months 2012

## Selected Financial Data (Unaudited)

|                                                                                      | Nine Months Ended<br>September 30, |             | Percentage<br>Change<br>2013 vs. 2012 |    |
|--------------------------------------------------------------------------------------|------------------------------------|-------------|---------------------------------------|----|
|                                                                                      | 2013                               | 2012        |                                       |    |
| (In thousands, except percentages and per share amounts)                             |                                    |             |                                       |    |
| NET SALES                                                                            | \$1,924,460                        | \$2,057,824 | (6                                    | )% |
| Cost of goods sold                                                                   | 1,316,582                          | 1,339,806   | (2                                    | )% |
| GROSS PROFIT                                                                         | 607,878                            | 718,018     | (15                                   | )% |
| GROSS PROFIT MARGIN                                                                  | 31.6                               | % 34.9      | %                                     |    |
| Selling, general and administrative expenses                                         | 190,193                            | 189,143     | 1                                     | %  |
| Research and development expenses                                                    | 60,959                             | 59,791      | 2                                     | %  |
| Restructuring and other charges, net                                                 | —                                  | 94,703      | (100                                  | )% |
| OPERATING PROFIT                                                                     | 356,726                            | 374,381     | (5                                    | )% |
| OPERATING PROFIT MARGIN                                                              | 18.5                               | % 18.2      | %                                     |    |
| Interest and financing expenses                                                      | (22,335                            | ) (25,134   | ) (11                                 | )% |
| Other (expenses) income, net                                                         | (6,295                             | ) 1,564     | *                                     |    |
| INCOME BEFORE INCOME TAXES AND EQUITY IN<br>NET INCOME OF UNCONSOLIDATED INVESTMENTS | 328,096                            | 350,811     | (6                                    | )% |
| Income tax expense                                                                   | 74,916                             | 93,382      | (20                                   | )% |
| Effective tax rate                                                                   | 22.8                               | % 26.6      | %                                     |    |
| INCOME BEFORE EQUITY IN NET INCOME OF<br>UNCONSOLIDATED INVESTMENTS                  | 253,180                            | 257,429     | (2                                    | )% |
| Equity in net income of unconsolidated investments (net of<br>tax)                   | 25,308                             | 29,233      | (13                                   | )% |
| NET INCOME                                                                           | 278,488                            | 286,662     | (3                                    | )% |
| Net income attributable to noncontrolling interests                                  | (21,250                            | ) (12,852   | ) 65                                  | %  |
| NET INCOME ATTRIBUTABLE TO ALBEMARLE<br>CORPORATION                                  | \$257,238                          | \$273,810   | (6                                    | )% |
| PERCENTAGE OF NET SALES                                                              | 13.4                               | % 13.3      | %                                     |    |
| Basic earnings per share                                                             | \$3.04                             | \$3.07      | (1                                    | )% |
| Diluted earnings per share                                                           | \$3.02                             | \$3.04      | (1                                    | )% |

\* Percentage calculation is not meaningful.

## Net Sales

For the nine-month period ended September 30, 2013, we recorded net sales of \$1.92 billion, a decrease of 6% compared to net sales of \$2.06 billion for the nine-month period ended September 30, 2012. This decrease was due primarily to unfavorable pricing impacts of 7% (mainly lower metals surcharges in Refinery Catalyst Solutions, lower regional pricing on bromine, and lower flame retardant pricing), lower volume impacts due to our exit of the phosphorus flame retardants business in the second quarter of 2012 and custom service project volumes, and unfavorable foreign currency impacts (mainly the weaker Japanese yen), partly offset by favorable volumes, primarily in Flame Retardants, our bromine portfolio, and Additives.

## Gross Profit

For the nine-month period ended September 30, 2013, our gross profit decreased \$110.1 million, or 15%, from the corresponding 2012 period due mainly to overall unfavorable pricing impacts, unfavorable currency impacts mainly from a weaker Japanese yen, and higher manufacturing costs. These were partly offset by favorable impacts from

lower variable input costs and favorable overall volumes. Overall, these factors contributed to a lower gross profit margin for the nine-month period ended September 30, 2013 of 31.6%, down from 34.9% for the corresponding period in 2012.

## Table of Contents

### Selling, General and Administrative Expenses

For the nine-month period ended September 30, 2013, our SG&A expenses increased \$1.1 million, or 1%, from the nine-month period ended September 30, 2012. This increase was primarily due to unfavorable nonoperating pension and OPEB costs related to the correction explained in Notes 1 and 10 to the condensed consolidated financial statements, partly offset by lower sales commissions, personnel costs, and other spending. As a percentage of net sales, SG&A expenses were 9.9% for the nine-month period ended September 30, 2013, compared to 9.2% for the corresponding period in 2012.

### Research and Development Expenses

For the nine-month period ended September 30, 2013, our R&D expenses increased \$1.2 million, or 2%, from the nine-month period ended September 30, 2012, as a result of higher spending. As a percentage of net sales, R&D expenses were 3.2% for the nine-month period ended September 30, 2013, compared to 2.9% for the corresponding period in 2012.

### Restructuring and Other Charges

The nine-month period ended September 30, 2012 included charges amounting to \$94.7 million (\$73.6 million after income taxes) in connection with our exit of the phosphorus flame retardants business. The charges were comprised mainly of non-cash items consisting of net asset write-offs of approximately \$57 million and write-offs of foreign currency translation adjustments of approximately \$12 million, as well as accruals for cash costs associated with related severance programs of approximately \$13 million, estimated site remediation costs of approximately \$9 million and other estimated exit costs of approximately \$4 million.

### Interest and Financing Expenses

Interest and financing expenses for the nine-month period ended September 30, 2013 decreased \$2.8 million to \$22.3 million from the corresponding 2012 period due mainly to lower interest rates on variable-rate borrowings and higher capitalized interest in the 2013 period.

### Other (Expenses) Income, Net

Other (expenses) income, net for the nine-month period ended September 30, 2013 was \$(6.3) million versus \$1.6 million for the corresponding 2012 period. This change was due primarily to unfavorable currency impacts compared to the corresponding period in 2012.

### Income Tax Expense

The effective income tax rate for the first nine months of 2013 was 22.8% compared to 26.6% for the first nine months of 2012. Our effective income tax rate differs from the U.S. federal statutory income tax rates in the comparative periods mainly due to the impact of earnings from outside the U.S. Also, our effective income tax rate for the 2012 period was impacted by \$94.7 million of pre-tax net charges (\$73.6 million after taxes) associated with our exit of the phosphorus flame retardants business.

### Equity in Net Income of Unconsolidated Investments

Equity in net income of unconsolidated investments was \$25.3 million for the nine-month period ended September 30, 2013 compared to \$29.2 million in the same period last year. This decrease was due primarily to lower equity income amounts reported from our Catalysts segment joint ventures Fábrica Carioca de Catalisadores SA, Nippon Ketjen and Nippon Aluminum Alkyls, partly offset by higher equity income amounts reported from our Polymer Solutions joint venture Magnifin.

### Net Income Attributable to Noncontrolling Interests

For the nine-month period ended September 30, 2013, net income attributable to noncontrolling interests was \$21.3 million compared to \$12.9 million in the same period last year. This increase of \$8.4 million was due primarily to a contractually based reduction in our share of profits in our joint venture in Jordan.

### Net Income Attributable to Albemarle Corporation

Net income attributable to Albemarle Corporation decreased to \$257.2 million in the nine-month period ended September 30, 2013, from \$273.8 million in the nine-month period ended September 30, 2012 primarily due to lower pricing, including impacts from both volatility in metals surcharges and related cost impacts in Refinery Catalyst Solutions (particularly rare earths) and in certain products in our bromine portfolio and Flame Retardants, unfavorable manufacturing costs, lower equity in net income of unconsolidated investments and unfavorable foreign currency

impacts. These impacts were partly offset by higher sales volumes, favorable restructuring and other charges and favorable overall variable input costs.

Table of Contents

## Segment Information Overview

|                                                           | Nine Months Ended September 30,    |                |             |                |               | Percentage Change |  |
|-----------------------------------------------------------|------------------------------------|----------------|-------------|----------------|---------------|-------------------|--|
|                                                           | 2013                               | % of net sales | 2012        | % of net sales | 2013 vs. 2012 |                   |  |
|                                                           | (In thousands, except percentages) |                |             |                |               |                   |  |
| Net sales:                                                |                                    |                |             |                |               |                   |  |
| Polymer Solutions                                         | \$663,410                          | 34.5 %         | \$692,139   | 33.6 %         | (4            | )%                |  |
| Catalysts                                                 | 695,433                            | 36.1 %         | 773,867     | 37.6 %         | (10           | )%                |  |
| Fine Chemistry                                            | 565,617                            | 29.4 %         | 591,818     | 28.8 %         | (4            | )%                |  |
| Total net sales                                           | \$1,924,460                        | 100.0          | \$2,057,824 | 100.0          | (6            | )%                |  |
| Segment operating profit:                                 |                                    |                |             |                |               |                   |  |
| Polymer Solutions                                         | \$128,169                          | 19.3 %         | \$162,648   | 23.5 %         | (21           | )%                |  |
| Catalysts                                                 | 146,536                            | 21.1 %         | 189,104     | 24.4 %         | (23           | )%                |  |
| Fine Chemistry                                            | 120,349                            | 21.3 %         | 142,403     | 24.1 %         | (15           | )%                |  |
| Total segment operating profit                            | 395,054                            |                | 494,155     |                | (20           | )%                |  |
| Equity in net income of unconsolidated investments:       |                                    |                |             |                |               |                   |  |
| Polymer Solutions                                         | 6,371                              |                | 4,957       |                | 29            | %                 |  |
| Catalysts                                                 | 18,937                             |                | 24,276      |                | (22           | )%                |  |
| Fine Chemistry                                            | —                                  |                | —           |                | —             | %                 |  |
| Corporate & other                                         | —                                  |                | —           |                | —             | %                 |  |
| Total equity in net income of unconsolidated investments  | 25,308                             |                | 29,233      |                | (13           | )%                |  |
| Net income attributable to noncontrolling interests:      |                                    |                |             |                |               |                   |  |
| Polymer Solutions                                         | (4,118 )                           |                | (1,255 )    |                | 228           | %                 |  |
| Catalysts                                                 | —                                  |                | —           |                | —             | %                 |  |
| Fine Chemistry                                            | (17,132 )                          |                | (11,577 )   |                | 48            | %                 |  |
| Corporate & other                                         | —                                  |                | (20 )       |                | (100          | )%                |  |
| Total net income attributable to noncontrolling interests | (21,250 )                          |                | (12,852 )   |                | 65            | %                 |  |
| Segment income:                                           |                                    |                |             |                |               |                   |  |
| Polymer Solutions                                         | 130,422                            | 19.7 %         | 166,350     | 24.0 %         | (22           | )%                |  |
| Catalysts                                                 | 165,473                            | 23.8 %         | 213,380     | 27.6 %         | (22           | )%                |  |
| Fine Chemistry                                            | 103,217                            | 18.2 %         | 130,826     | 22.1 %         | (21           | )%                |  |
| Total segment income                                      | 399,112                            |                | 510,556     |                | (22           | )%                |  |
| Corporate & other                                         | (38,328 )                          |                | (25,091 )   |                | 53            | %                 |  |
| Restructuring and other charges, net                      | —                                  |                | (94,703 )   |                | (100          | )%                |  |
| Interest and financing expenses                           | (22,335 )                          |                | (25,134 )   |                | (11           | )%                |  |
| Other (expenses) income, net                              | (6,295 )                           |                | 1,564       |                | *             |                   |  |
| Income tax expense                                        | (74,916 )                          |                | (93,382 )   |                | (20           | )%                |  |
| Net income attributable to Albemarle Corporation          | \$257,238                          |                | \$273,810   |                | (6            | )%                |  |

\* Percentage calculation is not meaningful.

Our segment information includes measures we refer to as “Segment operating profit” and “Segment income” which are financial measures that are not required by, or presented in accordance with, GAAP. The Company has reported Segment operating profit and Segment income because management believes that these financial measures provide transparency to investors and enable period-to-period comparability of financial performance. Segment operating

profit and Segment income should not be considered as an alternative to Operating profit or Net income attributable to Albemarle Corporation, respectively, as determined in accordance with GAAP.

See below for a reconciliation of Segment operating profit and Segment income, the non-GAAP financial measures, to Operating profit and Net income attributable to Albemarle Corporation, respectively, the most directly comparable financial measures calculated and reported in accordance with GAAP.

Table of Contents

|                                                       | Nine Months Ended<br>September 30, |               |
|-------------------------------------------------------|------------------------------------|---------------|
|                                                       | 2013                               | 2012          |
|                                                       | (In thousands)                     |               |
| Total segment operating profit                        | \$395,054                          | \$494,155     |
| Add (less):                                           |                                    |               |
| Corporate & other <sup>(a)</sup>                      | (38,328)                           | (25,071)      |
| Restructuring and other charges, net                  | —                                  | (94,703)      |
| GAAP Operating profit                                 | \$356,726                          | \$374,381     |
| <br>Total segment income                              | <br>\$399,112                      | <br>\$510,556 |
| Add (less):                                           |                                    |               |
| Corporate & other                                     | (38,328)                           | (25,091)      |
| Restructuring and other charges, net                  | —                                  | (94,703)      |
| Interest and financing expenses                       | (22,335)                           | (25,134)      |
| Other (expenses) income, net                          | (6,295)                            | 1,564         |
| Income tax expense                                    | (74,916)                           | (93,382)      |
| GAAP Net income attributable to Albemarle Corporation | \$257,238                          | \$273,810     |

<sup>(a)</sup> Excludes corporate noncontrolling interest adjustments of \$(20) for the nine-month period ended September 30, 2012.

**Polymer Solutions**

Polymer Solutions segment net sales for the nine-month period ended September 30, 2013 were \$663.4 million, down \$28.7 million, or 4%, in comparison to the same period in 2012. The decrease was driven mainly by our mid-year 2012 exit of the phosphorus flame retardants business. Other unfavorable impacts from lower pricing in Flame Retardants and Additives and the weaker Japanese yen were offset by favorable volumes across all products. Segment income for Polymer Solutions was down 22%, or \$35.9 million, to \$130.4 million for the nine-month period ended September 30, 2013, compared to the same period in 2012, as a result of lower pricing mainly in Flame Retardants and Additives, higher variable input costs, higher manufacturing costs, and unfavorable currency impacts mainly due to the weaker Japanese yen. These were partly offset by favorable volume impacts in Brominated Flame Retardants and Additives.

**Catalysts**

Catalysts segment net sales for the nine-month period ended September 30, 2013 were \$695.4 million, a decrease of \$78.4 million, or 10%, compared to the nine-month period ended September 30, 2012. This decrease was due mainly to unfavorable pricing on lower metals surcharges in Refinery Catalyst Solutions, and lower pricing and volumes in Performance Catalyst Solutions, partly offset by favorable volumes in Refinery Catalyst Solutions. Catalysts segment income decreased 22%, or \$47.9 million, to \$165.5 million for the nine-month period ended September 30, 2013 in comparison to the corresponding period of 2012. This decrease was due primarily to net unfavorable pricing impacts from volatility in metals surcharges and related cost impacts in Refinery Catalyst Solutions, unfavorable manufacturing costs, and lower equity in net income of unconsolidated investments.

**Fine Chemistry**

Fine Chemistry segment net sales for the nine-month period ended September 30, 2013 were \$565.6 million, a decrease of \$26.2 million, or 4%, versus the nine-month period ended September 30, 2012. This decrease was primarily attributable to the timing of custom services projects, lower pricing in Performance Chemicals and unfavorable volumes in the pharmaceutical businesses, partly offset by favorable bromine portfolio volumes. Segment income for the nine-month period ended September 30, 2013 was \$103.2 million, down 21% from the corresponding period in 2012. The decrease was due to lower pricing mainly in Performance Chemicals, delays in product launches in our Fine Chemistry Services businesses, unfavorable volumes in our agricultural intermediates business, higher

manufacturing costs and higher net income attributable to noncontrolling interests associated with a contractual reduction in our share of profits at our Jordan joint venture. These were partly offset by favorable variable input costs.

## Table of Contents

### Corporate and other

For the nine-month period ended September 30, 2013, our Corporate and other expense was \$38.3 million compared to \$25.1 million for the corresponding period in 2012. This increase was primarily due to unfavorable nonoperating pension costs related to the correction explained in Notes 1 and 10 to the condensed consolidated financial statements.

### Financial Condition and Liquidity

#### Overview

The principal uses of cash in our business generally have been capital investments, funding working capital and repayment of debt. We also make contributions to our U.S. defined benefit pension plans, pay dividends to our shareholders and repurchase shares of our common stock. Historically, cash to fund the needs of our business has been principally provided by cash from operations, debt financing and equity issuances.

We are continually focused on working capital efficiency particularly in the areas of accounts receivable and inventory. We anticipate that cash on hand, cash provided by operating activities and long-term borrowings will be sufficient to pay our operating expenses, satisfy debt service obligations, fund capital expenditures and other investing activities, fund pension contributions and pay dividends for the foreseeable future.

#### Cash Flow

During the first nine months of 2013, proceeds from borrowings net of repayments, cash on hand and cash provided by operations funded payments of \$582.3 million for repurchases of our common stock, capital expenditures for plant, machinery and equipment of \$135.0 million, dividends to shareholders of \$58.6 million and pension and postretirement contributions of \$9.9 million. Additionally, during the third quarter of 2013 our consolidated joint venture, Jordan Bromine Company Limited, paid a dividend of approximately \$38 million, which resulted in a dividend to noncontrolling interests of \$10.0 million. Our operations provided \$317.5 million of cash flows during the first nine months of 2013, as compared to \$306.5 million for the first nine months of 2012. Overall, our cash and cash equivalents decreased by \$76.3 million to \$401.4 million at September 30, 2013, down from \$477.7 million at December 31, 2012.

Net current assets decreased to \$983.9 million at September 30, 2013 from \$1.0 billion at December 31, 2012. This decrease was due primarily to decreases in cash and cash equivalents and other current assets and increases in accounts payable and income taxes payable, partly offset by an increase in accounts receivable, an increase in inventories to meet expected future demand and a decrease in accrued expenses.

Capital expenditures for the nine-month period ended September 30, 2013 of \$135.0 million were associated with property, plant and equipment additions. We expect our capital expenditures to approximate \$175 million in 2013 for capacity increases, cost reduction and continuity of operations projects.

On February 12, 2013, we increased our quarterly dividend payout to \$0.24 per share, a 20% increase from the quarterly rate of \$0.20 per share paid in 2012. Additionally, on February 12, 2013, our Board of Directors authorized an increase in the number of shares the Company is permitted to repurchase under its existing share repurchase program to 15 million from 3.9 million shares that remained outstanding under the program as of December 31, 2012, and we announced our expectation to repurchase approximately 10% of our outstanding shares over the following 10 to 15 months. Under the existing Board authorized share repurchase program, on May 9, 2013, the Company entered into an ASR Agreement with JPMorgan relating to a fixed-dollar, uncollared ASR Program. Pursuant to the terms of the ASR Agreement, on May 10, 2013, the Company paid \$450 million to JPMorgan and received an initial delivery of 5,680,921 shares with a fair market value of approximately \$360 million. This purchase was funded through a combination of available cash on hand and debt. The total number of shares to ultimately be purchased by the Company under the ASR Program will be based on the Rule 10b-18 volume-weighted average price of the Company's common stock during the term of the ASR Agreement, less a forward price adjustment amount of approximately \$1.01. Based on the Rule 10b-18 volume-weighted average price calculated as of September 30, 2013, additional shares expected to be received upon final settlement would be approximately 1.5 million shares. The final settlement amount may increase or decrease depending upon the Rule 10b-18 volume-weighted average price of the Company's common stock during the remaining term of the ASR Agreement. The ASR Program will be completed no later than the end of 2013.

At September 30, 2013 and December 31, 2012, our cash and cash equivalents included \$349.1 million and \$319.3 million, respectively, held by our foreign subsidiaries. The majority of these foreign cash balances are associated with earnings that we have asserted are permanently reinvested and which we plan to use to support our continued growth plans outside the U.S. through funding of capital expenditures, acquisitions, research, operating expenses or other similar cash needs of our foreign operations. From time to time, we repatriate cash from our foreign subsidiaries to the U.S. for normal operating needs

## Table of Contents

through intercompany dividends, but only from subsidiaries whose earnings we have not asserted to be permanently reinvested or whose earnings qualify as “previously taxed income” as defined by the Internal Revenue Code. For the three and nine-month periods ended September 30, 2013, we repatriated approximately \$7.2 million in cash as part of these foreign cash repatriation activities. For the three and nine-month periods ended September 30, 2012, we repatriated approximately \$16.5 million and \$46.8 million in cash, respectively, as part of these foreign cash repatriation activities.

While we continue to closely monitor our cash generation, working capital management and capital spending in light of continuing uncertainties in the global economy, we are optimistic that we will continue to have the financial flexibility and capability to opportunistically fund future growth initiatives. Additionally, we anticipate that future capital spending including business acquisitions, share repurchases and other cash outlays should be financed primarily with cash flow provided from operations and cash on hand, with additional cash needed, if any, provided by borrowings, including borrowings under our September 2011 credit agreement or our commercial paper program. The amount and timing of any additional borrowings will depend on our specific cash requirements.

### Long-Term Debt

We currently have outstanding \$325.0 million of 5.10% senior notes due in 2015 and \$350.0 million of 4.50% senior notes due in 2020, or the senior notes. The senior notes are senior unsecured obligations and rank equally with all of our other senior unsecured indebtedness from time to time outstanding. The senior notes are effectively subordinated to any of our existing or future secured indebtedness and to the existing and future indebtedness of our subsidiaries. We may redeem the senior notes before their maturity, in whole at any time or in part from time to time, at a redemption price equal to the greater of (i) 100% of the principal amount of the senior notes to be redeemed, or (ii) 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 using the Treasury Rate (as defined in the indentures governing the senior notes) plus 15 basis points for the senior notes maturing in 2015 and 25 basis points for the senior notes maturing in 2020, plus, in each case, accrued interest thereon to the date of redemption. However, the 2020 senior notes are redeemable in whole or in part, at our option, at any time on or after three months prior to the maturity date, at a redemption price equal to 100% of the principal amount of the senior notes to be redeemed plus accrued and unpaid interest on the senior notes to be redeemed to the date of redemption. Holders of the 2020 senior notes may require us to purchase such notes at 101% upon a Change of Control Triggering Event, as defined in the related indenture.

The principal amounts of the senior notes become immediately due and payable upon the occurrence of certain bankruptcy or insolvency events involving us or certain of our subsidiaries and may be declared immediately due and payable by the trustee or the holders of not less than 25% of the senior notes upon the occurrence of an event of default. Events of default include, among other things: failure to pay principal or interest at required times; failure to perform or remedy a breach of covenants within prescribed periods; an event of default on any of our other indebtedness or certain indebtedness of our subsidiaries of \$40.0 million or more that is caused by a failure to make a payment when due or that results in the acceleration of that indebtedness before its maturity; and certain bankruptcy or insolvency events involving us or certain of our subsidiaries.

For additional funding and liquidity purposes, we currently maintain a \$750.0 million five-year, revolving, unsecured credit facility, which we refer to as the September 2011 credit agreement. The September 2011 credit agreement matures on September 22, 2016, provides for an additional \$250.0 million in credit, if needed, subject to the terms of the agreement and provides for the ability to extend the maturity date under certain conditions. Borrowings bear interest at variable rates based on the London Inter-Bank Offered Rate (LIBOR) for deposits in the relevant currency plus an applicable margin which ranges from 0.900% to 1.400%, depending on the Company’s credit rating applicable from time to time. The applicable margin on the facility was 0.975% as of September 30, 2013. There were no borrowings outstanding under the September 2011 credit agreement as of September 30, 2013.

Borrowings under the September 2011 credit agreement are conditioned upon compliance with the following covenants: (i) consolidated funded debt, as defined in the agreement, must be less than or equal to 3.50 times consolidated EBITDA, as defined in the agreement, (which reflects adjustments for certain non-recurring or unusual items such as restructuring charges, facility divestiture charges and other significant non-recurring items), or herein

“consolidated adjusted EBITDA,” as of the end of any fiscal quarter; (ii) with the exception of liens specified in the September 2011 credit agreement, liens may not attach to assets when the aggregate amount of all indebtedness secured by such liens plus unsecured subsidiary indebtedness, other than indebtedness incurred by our subsidiaries under the September 2011 credit agreement, would exceed 20% of consolidated net worth, as defined in the agreement; and (iii) with the exception of indebtedness specified in the September 2011 credit agreement, subsidiary indebtedness may not exceed the difference between 20% of consolidated net worth, as defined in the agreement, and indebtedness secured by liens permitted under the agreement.

## Table of Contents

On May 29, 2013, we entered into agreements to initiate a commercial paper program on a private placement basis under which we may issue unsecured commercial paper notes (the “Notes”) from time-to-time up to a maximum aggregate principal amount outstanding at any time of \$750 million. The proceeds from the issuance of the Notes are expected to be

used for general corporate purposes, including the repayment of other debt of the Company. Our September 2011 credit agreement is available to repay the Notes, if necessary. Aggregate borrowings outstanding under the September 2011 credit agreement and the commercial paper program will not exceed the \$750 million current maximum amount available under the September 2011 credit agreement. The Notes will be sold at a discount from par, or alternatively, will be sold at par and bear interest at rates that will vary based upon market conditions at the time of the issuance of the Notes. The maturities of the Notes will vary but may not exceed 397 days from the date of issue. The definitive documents relating to the Program contain customary representations, warranties, default and indemnification provisions.

At September 30, 2013, we had \$363.0 million of Notes outstanding bearing a weighted-average interest rate of approximately 0.32% and a weighted-average maturity of 41 days. While the outstanding Notes generally have short-term maturities, we classify the Notes as long-term based on our ability and intent to refinance the Notes on a long-term basis through the issuance of additional Notes or borrowings under the September 2011 credit agreement. The non-current portion of our long-term debt amounted to \$1.1 billion at September 30, 2013, compared to \$686.6 million at December 31, 2012. The increase is mainly attributable to the issuance of the commercial paper notes noted above. In addition, at September 30, 2013, we had the ability to borrow \$387.0 million under our commercial paper program and the September 2011 credit agreement, and \$253.0 million under other existing lines of credit, subject to various financial covenants under our September 2011 credit agreement. We have the ability to refinance our borrowings under our other existing credit lines with borrowings under the September 2011 credit agreement, as applicable. Therefore, the amounts outstanding under those credit lines, if any, are classified as long-term debt. We believe that as of September 30, 2013, we were, and currently are, in compliance with all of our debt covenants.

### Off-Balance Sheet Arrangements

In the normal course of business with customers, vendors and others, we have entered into off-balance sheet arrangements, including bank guarantees and letters of credit, which totaled approximately \$36.1 million at September 30, 2013. None of these off-balance sheet arrangements has, or is likely to have, a material effect on our current or future financial condition, results of operations, liquidity or capital resources.

### Other Obligations

Total expected 2013 contributions to our domestic and foreign qualified and nonqualified pension plans, including our SERP, should approximate \$9 million. We may choose to make additional pension contributions in excess of this amount. We have made contributions of \$6.8 million to our domestic and foreign pension plans (both qualified and nonqualified) during the nine-month period ended September 30, 2013.

The liability related to uncertain tax positions, including interest and penalties, recorded in Other noncurrent liabilities totaled \$27.7 million at September 30, 2013 and \$29.2 million at December 31, 2012. Related assets for corresponding offsetting benefits recorded in Other assets totaled \$24.2 million at September 30, 2013 and \$25.8 million at December 31, 2012. We cannot estimate the amounts of any cash payments associated with these liabilities for the remainder of 2013 or the next twelve months, and we are unable to estimate the timing of any such cash payments in the future at this time.

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 laws, regulations, statutes and ordinances. Compliance with existing federal, state, local and foreign environmental protection laws is not expected to have a material effect on capital expenditures, earnings or our competitive position, but the costs associated with 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 (PRP) and may be liable for a share of the costs

associated with cleaning up various hazardous waste sites. Management believes that in cases in which we may have liability as a PRP, our liability for our share of cleanup 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 PRP, except for remote contingencies. In other than de minimis PRP matters, our records indicate that unresolved PRP exposures should be immaterial. We accrue and expense our proportionate share of PRP costs. Because management has been

## Table of Contents

actively involved in evaluating environmental matters, we are able to conclude that the outstanding environmental liabilities for unresolved PRP sites should not have a material adverse effect upon our results of operations or financial condition.

### Liquidity Outlook

We anticipate that cash on hand, cash provided by operating activities and long-term borrowings will be sufficient to pay our operating expenses, satisfy debt service obligations, fund any capital expenditures and share repurchases, make pension contributions and pay dividends for the foreseeable future. In addition, as we have historically done, we will continue to evaluate the merits of any opportunities that may arise for acquisitions of businesses or assets, which may require additional liquidity.

While we maintain business relationships with a diverse group of financial institutions, an adverse change in their credit standing could lead them to not honor their contractual credit commitments, decline funding under existing but uncommitted lines of credit, not renew their extensions of credit or not provide new financing. While the corporate bond and debt markets remain strong, volatility has increased in all capital markets over the past few years during times of uncertainty, such as European sovereign debt and U.S. budget concerns. If these concerns heighten, we may incur increased borrowing costs and reduced credit capacity as our various credit facilities mature. In addition, our cash flows from operations may be negatively affected by adverse consequences to our customers and the markets in which we compete as a result of moderating global economic conditions and reduced capital availability. When the U.S. Federal Reserve or similar national reserve banks in other countries decide to tighten the monetary supply in response, for example, to improving economic conditions, we may incur increased borrowing costs as interest rates increase on our variable rate credit facilities, as our various credit facilities mature or as we refinance any maturing fixed rate debt obligations.

At September 30, 2013, we had the ability to borrow approximately \$640 million under our commercial paper program, September 2011 credit agreement and other existing lines of credit, subject to various financial covenants under our September 2011 credit agreement. With generally strong cash-generative businesses and no significant debt maturities before 2015, we believe we have and will maintain a solid liquidity position.

We had cash and cash equivalents totaling \$401.4 million as of September 30, 2013, which represent an important source of our liquidity. Our cash is invested in short-term investments including time deposits and readily marketable securities with relatively short maturities.

### Recent Accounting Pronouncements

For a description of recent accounting pronouncements, see Item 1 Financial Statements – Note 15.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no significant changes in our interest rate risk, foreign currency exchange rate exposure, marketable securities price risk or raw material price risk from the information we provided in our Annual Report on Form 10-K for the year ended December 31, 2012.

We had variable interest rate borrowings of \$396.2 million outstanding at September 30, 2013, bearing a weighted average interest rate of 0.38% and representing approximately 37% of our total outstanding debt. A hypothetical 10% change (approximately 4 basis points) in the interest rate applicable to these borrowings would change our annualized interest expense by less than \$0.2 million as of September 30, 2013. We may enter into interest rate swaps, collars or similar instruments with the objective of reducing interest rate volatility relating to our borrowing costs.

Our financial instruments, which are subject to foreign currency exchange risk, consist of foreign currency forward contracts with an aggregate notional value of \$255.9 million and with a fair value representing a net liability position of less than \$0.1 million at September 30, 2013. Fluctuations in the value of these contracts are generally offset by the value of the underlying exposures being hedged. We conducted a sensitivity analysis on the fair value of our foreign currency hedge portfolio assuming an instantaneous 10% change in select foreign currency exchange rates from their levels as of September 30, 2013, with all other variables held constant. A 10% appreciation of the U.S. Dollar against foreign currencies that we hedge would result in a decrease of approximately \$8.2 million in the fair value of our

foreign currency forward contracts. A 10% depreciation of the U.S. Dollar against these foreign currencies would result in an increase of approximately \$2.6 million in the fair value of our foreign currency forward contracts. The sensitivity of the fair value of our foreign currency hedge portfolio represents changes in fair values estimated based on market conditions as of September 30, 2013, 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 our earnings and cash flows in future periods.

Table of Contents

Item 4. Controls and Procedures.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act), as of the end of the period covered by this report. Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

No change in our internal control over financial reporting (as such term is defined in Exchange Act Rule 13a-15(f)) occurred during the fiscal quarter ended September 30, 2013 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

We are involved from time to time in legal proceedings of types regarded as common in our business, including administrative or judicial proceedings seeking remediation under environmental laws, such as Superfund, products liability, breach of contract liability and premises liability litigation. Where appropriate, we may establish financial reserves as estimated by our general counsel for such proceedings. We also maintain insurance to mitigate certain of such risks. Additional information with respect to this Item 1 is contained in Note 8 to the Notes to the Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors.

While we attempt to identify, manage and mitigate risks and uncertainties associated with our business to the extent practical under the circumstances, some level of risk and uncertainty will always be present. Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2012 describes some of the risks and uncertainties associated with our business. These risks and uncertainties have the potential to materially affect our results of operations and our financial condition. We do not believe that there have been any material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

NONE

Item 5. Other Information.

Amendment to Bylaws

On October 16, 2013, our Board of Directors amended and restated our Bylaws to add a provision designating the United States District Court for the Eastern District of Virginia, Alexandria Division (or in the event that court lacks jurisdiction, the Circuit Court of the County of Fairfax, Virginia) as the sole and exclusive forum for derivative lawsuits brought on our behalf, actions for breach of legal duty, actions pursuant to the Virginia Stock Corporation Act or our Amended and Restated Articles of Incorporation or Amended and Restated Bylaws (as either may be amended from time to time) and actions asserting claims governed by the internal affairs doctrine, unless we consent to the selection of an alternative forum. The Amended and Restated Bylaws are filed as Exhibit 3.2 to this report and

this summary is qualified in its entirety by reference to the Amended and Restated Bylaws.

Table of Contents

Item 6.

Exhibits.

(a) Exhibits

3.2 Albemarle Corporation Amended and Restated Bylaws effective as of October 16, 2013.

31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a).

31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a).

32.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350.

32.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350.

101 Interactive Data File (Quarterly Report on Form 10-Q, for the quarterly period ended September 30, 2013, furnished in XBRL (eXtensible Business Reporting Language)).

Attached as Exhibit 101 to this report are the following documents formatted in XBRL: (i) the Consolidated Statements of Income for the three months and nine months ended September 30, 2013 and 2012, (ii) the Consolidated Statements of Comprehensive Income for the three months and nine months ended September 30, 2013 and 2012, (iii) the Condensed Consolidated Balance Sheets at September 30, 2013 and December 31, 2012, (iv) the Consolidated Statements of Changes in Equity for the nine months ended September 30, 2013 and 2012, (v) the Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2013 and 2012 and (vi) the Notes to the Condensed Consolidated Financial Statements.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ALBEMARLE CORPORATION  
(Registrant)

Date: October 18, 2013

By: /S/ SCOTT A. TOZIER  
Scott A. Tozier  
Senior Vice President, Chief Financial  
Officer and  
Chief Accounting Officer  
(principal financial and accounting officer)