

NEWMARKET CORP  
Form 10-Q  
August 04, 2011  
[Table of Contents](#)

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

**FORM 10-Q**

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

For the quarterly period ended June 30, 2011

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-32190

**NEWMARKET CORPORATION**

(Exact name of registrant as specified in its charter)

Edgar Filing: NEWMARKET CORP - Form 10-Q

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

**20-0812170**  
(I.R.S. Employer  
Identification No.)

**330 SOUTH FOURTH STREET**

**RICHMOND, VIRGINIA**  
(Address of principal executive offices)

**23218-2189**  
(Zip Code)

**Registrant's telephone number, including area code - (804) 788-5000**

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.

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, without par value, outstanding as of July 27, 2011: 13,834,513.

**Table of Contents**

NEWMARKET CORPORATION

I N D E X

	Page Number
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<b><u>ITEM 1. Financial Statements (unaudited)</u></b>	
<u>Consolidated Statements of Income – Second Quarter and Six Months Ended June 30, 2011 and June 30, 2010</u>	3
<u>Consolidated Balance Sheets – June 30, 2011 and December 31, 2010</u>	4
<u>Consolidated Statements of Shareholders' Equity – Six Months Ended June 30, 2011 and Year Ended December 31, 2010</u>	5
<u>Consolidated Statements of Cash Flows – Six Months Ended June 30, 2011 and June 30, 2010</u>	6
<u>Notes to Consolidated Financial Statements</u>	7 33
<b><u>ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	34 42
<b><u>ITEM 3. Quantitative and Qualitative Disclosures About Market Risk</u></b>	43
<b><u>ITEM 4. Controls and Procedures</u></b>	43
<b><u>PART II. OTHER INFORMATION</u></b>	
<b><u>ITEM 1. Legal Proceedings</u></b>	44
<b><u>ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	44
<b><u>ITEM 6. Exhibits</u></b>	45
<b><u>SIGNATURES</u></b>	46

**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. Financial Statements****NEWMARKET CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME**

(In thousands, except per-share amounts)

(Unaudited)

	Second Quarter Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
<b>Revenue:</b>				
Net sales - product	\$ 575,665	\$ 466,986	\$ 1,080,890	\$ 859,251
Rental revenue	2,858	2,855	5,716	5,716
	578,523	469,841	1,086,606	864,967
<b>Costs:</b>				
Cost of goods sold - product	429,659	336,574	795,710	610,202
Cost of rental	1,068	1,066	2,136	2,156
	430,727	337,640	797,846	612,358
Gross profit	147,796	132,201	288,760	252,609
Selling, general, and administrative expenses	37,319	36,193	75,743	66,767
Research, development, and testing expenses	25,379	22,064	49,840	43,147
Operating profit	85,098	73,944	163,177	142,695
Interest and financing expenses	4,693	4,314	9,338	8,263
Other expense, net	3,987	9,210	4,054	11,521
Income before income tax expense	76,418	60,420	149,785	122,911
Income tax expense	24,159	20,564	47,937	40,917
Net income	\$ 52,259	\$ 39,856	\$ 101,848	\$ 81,994
Basic earnings per share	\$ 3.77	\$ 2.69	\$ 7.34	\$ 5.48
Diluted earnings per share	\$ 3.77	\$ 2.69	\$ 7.34	\$ 5.47
Shares used to compute basic earnings per share	13,852	14,796	13,871	14,957

## Edgar Filing: NEWMARKET CORP - Form 10-Q

Shares used to compute diluted earnings per share	13,856	14,828	13,881	14,991
Cash dividends declared per common share	\$ 0.600	\$ 0.375	\$ 1.040	\$ 0.750

See accompanying Notes to the Consolidated Financial Statements.

**Table of Contents****NEWMARKET CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(In thousands, except share amounts)

(Unaudited)

	June 30 2011	December 31 2010
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 60,888	\$ 49,192
Short-term investments	0	300
Trade and other accounts receivable, less allowance for doubtful accounts (\$824 in 2011 and \$733 in 2010)	313,818	257,748
Inventories:		
Finished goods	260,352	215,764
Raw materials	61,102	50,853
Stores, supplies and other	6,390	6,598
	327,844	273,215
Deferred income taxes	5,679	6,876
Prepaid expenses and other current assets	21,069	15,444
<b>Total current assets</b>	<b>729,298</b>	<b>602,775</b>
Property, plant and equipment, at cost	1,031,536	988,180
Less accumulated depreciation and amortization	676,834	654,204
Net property, plant and equipment	354,702	333,976
Prepaid pension cost	12,578	8,597
Deferred income taxes	17,188	21,974
Other assets and deferred charges	52,237	48,893
Intangibles (net of amortization) and goodwill	42,623	46,526
<b>Total assets</b>	<b>\$ 1,208,626</b>	<b>\$ 1,062,741</b>

**LIABILITIES AND SHAREHOLDERS EQUITY**

Current liabilities:		
Accounts payable	\$ 127,163	\$ 109,250
Accrued expenses	64,675	71,558
Dividends payable	7,108	5,304
Book overdraft	9,821	1,063
Long-term debt, current portion	5,109	4,369
Income taxes payable	29,446	14,843
<b>Total current liabilities</b>	<b>243,322</b>	<b>206,387</b>

Edgar Filing: NEWMARKET CORP - Form 10-Q

Long-term debt	260,100	217,544
Other noncurrent liabilities	142,516	147,170
Commitments and contingencies (Note 8)		
Shareholders' equity:		
Common stock (without par value) and paid-in capital; authorized shares - 80,000,000; Outstanding shares - 13,833,811 in 2011 and 14,034,884 in 2010	0	0
Accumulated other comprehensive loss	(63,144)	(73,820)
Retained earnings	625,832	565,460
	562,688	491,640
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,208,626</b>	<b>\$ 1,062,741</b>

See accompanying Notes to the Consolidated Financial Statements.

**Table of Contents****NewMarket Corporation and Subsidiaries****Consolidated Statements of Shareholders' Equity**

(in thousands, except share amounts)

(unaudited)

	Common Stock and Paid in Capital		Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Total Shareholders' Equity
	Shares	Amount			
Balance at December 31, 2009	15,209,989	\$ 275	\$ (74,784)	\$ 532,694	\$ 458,185
Comprehensive income:					
Net income				177,125	177,125
Changes in (net of tax):					
Foreign currency translation adjustments			(6,042)		(6,042)
Pension plans and other postretirement benefit adjustments:					
Prior service cost			(523)		(523)
Unrecognized gain			9,006		9,006
Transition obligation			10		10
Derivative net loss			(1,487)		(1,487)
Total comprehensive income					178,089
Cash dividends (\$1.565 per share)				(22,608)	(22,608)
Repurchases of common stock	(1,213,158)	(3,104)		(121,751)	(124,855)
Stock options exercised	21,000	91			91
Stock options tax benefit		711			711
Issuance of stock	17,053	2,027			2,027
Balance at December 31, 2010	14,034,884	0	(73,820)	565,460	491,640
Comprehensive income:					
Net income				101,848	101,848
Changes in (net of tax):					
Foreign currency translation adjustments			9,428		9,428
Pension plans and other postretirement benefit adjustments:					
Prior service cost			130		130
Unrecognized gain			1,304		1,304
Transition obligation			20		20
Derivative net loss			(206)		(206)
Total comprehensive income					112,524
Cash dividends (\$1.04 per share)				(14,408)	(14,408)
Repurchases of common stock	(217,073)	(1,106)		(27,068)	(28,174)
Stock options exercised	16,000	70			70
Stock options tax benefit		1,036			1,036
Balance at June 30, 2011	13,833,811	\$ 0	\$ (63,144)	\$ 625,832	\$ 562,688



Edgar Filing: NEWMARKET CORP - Form 10-Q

See accompanying Notes to the Consolidated Financial Statements.

**Table of Contents****NEWMARKET CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

(Unaudited)

	Six Months Ended June 30	
	2011	2010
<b>Cash and cash equivalents at beginning of year</b>	\$ 49,192	\$ 151,831
<b>Cash flows from operating activities:</b>		
Net income	101,848	81,994
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation and amortization	20,771	17,718
Amortization of deferred financing costs	788	741
Noncash environmental remediation and dismantling	687	2,162
Noncash pension benefits expense	6,383	6,696
Noncash postretirement benefits expense	1,600	1,538
Noncash foreign exchange (gain) loss	(123)	2,003
Deferred income taxes	3,628	(4,177)
Unrealized loss on derivative instruments, net	747	12,062
Working capital changes	(84,660)	(38,863)
Cash pension benefits contributions	(14,623)	(9,242)
Cash postretirement benefits contributions	(990)	(860)
Excess tax benefits from stock-based payment arrangements	(1,036)	0
Other, net	3,395	1,391
Cash provided from operating activities	38,415	73,163
<b>Cash flows from investing activities:</b>		
Capital expenditures	(34,790)	(18,036)
Deposits for interest rate swap	(20,274)	(18,890)
Return of deposits for interest rate swap	17,890	7,420
Payments on settlement of interest rate swap	(2,574)	0
Receipts from settlement of interest rate swap	145	0
Proceeds from sale of short-term investment	300	0
Acquisition of business (net of cash acquired of \$1.8 million in 2010)	0	(41,970)
Cash used in investing activities	(39,303)	(71,476)
<b>Cash flows from financing activities:</b>		
Net borrowings under revolving credit agreement	44,000	18,000
Repayment on Foundry Park I mortgage loan	(1,340)	(834)
Borrowing under (repayment of) line of credit	780	0
Repayment of Foundry Park I construction loan	0	(99,102)
Borrowing under Foundry Park I mortgage loan	0	68,400
Repurchases of common stock	(31,512)	(79,220)
Dividends paid	(7,301)	(11,037)
Change in book overdraft, net	8,758	1,565

Edgar Filing: NEWMARKET CORP - Form 10-Q

Debt issuance costs	(3,233)	(1,524)
Payment for financed intangible asset	0	(500)
Proceeds from exercise of stock options	70	21
Excess tax benefits from stock-based payment arrangements	1,036	0
Payments on capital lease	(144)	(411)
Cash provided from (used in) financing activities	11,114	(104,642)
Effect of foreign exchange on cash and cash equivalents	1,470	(2,270)
<b>Increase (decrease) in cash and cash equivalents</b>	11,696	(105,225)
<b>Cash and cash equivalents at end of period</b>	<b>\$ 60,888</b>	<b>\$ 46,606</b>

See accompanying Notes to the Consolidated Financial Statements.

**Table of Contents****NEWMARKET CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**1. Financial Statement Presentation**

In the opinion of management, the accompanying consolidated financial statements of NewMarket Corporation and its subsidiaries contain all necessary adjustments for the fair statement of, in all material respects, our consolidated financial position as of June 30, 2011 and December 31, 2010, and the change in our shareholders' equity for the six months ended June 30, 2011 and the year ended December 31, 2010, as well as our consolidated results of operations for the second quarter and six months ended June 30, 2011 and June 30, 2010 and our cash flows for the six months ended June 30, 2011 and June 30, 2010. All adjustments are of a normal, recurring nature, unless otherwise disclosed. These financial statements should be read in conjunction with the consolidated financial statements and related notes included in the NewMarket Corporation Annual Report on Form 10-K for the year ended December 31, 2010 (2010 Annual Report), as filed with the Securities and Exchange Commission (SEC). The results of operations for the six month period ended June 30, 2011 are not necessarily indicative of the results to be expected for the full year ending December 31, 2011. The December 31, 2010 consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

Unless the context otherwise requires, all references to we, us, our, the Company and NewMarket are to NewMarket Corporation and its consolidated subsidiaries.

At both June 30, 2011 and December 31, 2010, we had a book overdraft for some of our disbursement cash accounts. A book overdraft represents transactions that have not cleared the bank accounts at the end of the reporting period. There are no agreements with the same banks to offset the presented balance. We transfer cash on an as-needed basis to fund these items as they clear the bank in subsequent periods.

Cash dividends for the six months ended June 30, 2011 and June 30, 2010 were declared and paid as shown in the table below.

<b>Year</b>	<b>Date Declared</b>	<b>Date Paid</b>	<b>Per Share Amount</b>
2011	February 17, 2011	April 1, 2011	44.0 cents
	April 20, 2011	July 1, 2011	60.0 cents
2010	February 18, 2010	April 1, 2010	37.5 cents
	April 22, 2010	July 1, 2010	37.5 cents

**Table of Contents****2. Asset Retirement Obligations**

Our asset retirement obligations are related primarily to our tetraethyl lead (TEL) operations. The following table illustrates the activity associated with our asset retirement obligations for the six months ended June 30, 2011 and June 30, 2010.

	<b>2011</b>	<b>2010</b>
	<i>(in thousands)</i>	
Asset retirement obligations, January 1	\$ 2,975	\$ 3,031
Accretion expense	74	72
Changes in expected cash flows and timing	0	(110)
Asset retirement obligations, June 30	\$ 3,049	\$ 2,993

**3. Segment Information**

The tables below show our consolidated segment results. The All other category includes the operations of the TEL business, as well as certain contract manufacturing performed by Ethyl Corporation (Ethyl).

**Consolidated Revenue by Segment**

*(in millions)*

	<b>Second Quarter Ended</b>		<b>Six Months Ended</b>	
	<b>June 30</b>		<b>June 30</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Petroleum additives	\$ 572.8	\$ 464.9	\$ 1,075.5	\$ 854.3
Real estate development	2.8	2.9	5.7	5.7
All other	2.9	2.0	5.4	5.0
Consolidated revenue	\$ 578.5	\$ 469.8	\$ 1,086.6	\$ 865.0

**Table of Contents****Segment Operating Profit***(in millions)*

	Second Quarter Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Petroleum additives	\$ 85.6	\$ 76.6	\$ 166.2	\$ 147.0
Real estate development	1.8	1.8	3.6	3.5
All other	1.0	1.0	1.3	2.0
Segment operating profit	88.4	79.4	171.1	152.5
Corporate, general, and administrative expenses	(3.6)	(4.7)	(7.7)	(8.9)
Interest and financing expenses	(4.7)	(4.3)	(9.3)	(8.3)
Gain (loss) on interest rate swap agreement (a)	(4.1)	(9.7)	(3.2)	(12.1)
Other income (expense), net	0.4	(0.3)	(1.1)	(0.3)
Income before income taxes	\$ 76.4	\$ 60.4	\$ 149.8	\$ 122.9

- (a) *The loss on the interest rate swap agreement represents the change, since the beginning of the reporting period, in the fair value of an interest rate swap which we entered into on June 25, 2009. We are not using hedge accounting to record the interest rate swap, and accordingly, any change in the fair value is immediately recognized in earnings.*

**Segment Depreciation and Amortization***(in millions)*

	Second Quarter Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Petroleum additives	\$ 9.3	\$ 7.6	\$ 18.2	\$ 15.1
Real estate development	0.9	1.0	1.9	1.9
All other and corporate	0.8	0.7	1.5	1.5
Total depreciation and amortization	\$ 11.0	\$ 9.3	\$ 21.6	\$ 18.5

**Table of Contents**4. **Pension and Postretirement Benefit Plans**

The table below shows cash contributions made during the six months ended June 30, 2011, as well as expected contributions for the year ended December 31, 2011, for both our domestic and foreign pension plans and postretirement benefit plans.

	<b>Actual Cash Contributions for Six Months Ended June 30, 2011</b>	<b>Expected Cash Contributions for Year Ending December 31, 2011</b>
	<i>(in millions)</i>	
<b>Domestic Plans</b>		
Pension benefits	\$ 11.3	\$ 22.6
Postretirement benefits	\$ 0.9	\$ 1.8
<b>Foreign Plans</b>		
Pension benefits	\$ 3.3	\$ 6.6
Postretirement benefits	\$ 0.1	\$ 0.2

**Table of Contents**

The tables below present information on periodic benefit cost for our pension and postretirement benefit plans.

	Domestic			
	Pension Benefits		Postretirement Benefits	
	Second Quarter Ended June 30			
	2011	2010	2011	2010
	<i>(in thousands)</i>			
Service cost	\$ 1,691	\$ 1,644	\$ 354	\$ 317
Interest cost	2,246	2,117	842	848
Expected return on plan assets	(2,836)	(2,372)	(399)	(408)
Amortization of prior service cost	77	32	3	3
Amortization of net loss (gain)	797	829	(75)	(60)
Net periodic benefit cost	\$ 1,975	\$ 2,250	\$ 725	\$ 700

	Domestic			
	Pension Benefits		Postretirement Benefits	
	Six Months Ended June 30			
	2011	2010	2011	2010
	<i>(in thousands)</i>			
Service cost	\$ 3,382	\$ 3,289	\$ 707	\$ 635
Interest cost	4,493	4,235	1,685	1,696
Expected return on plan assets	(5,673)	(4,746)	(798)	(815)
Amortization of prior service cost	153	63	5	5
Amortization of net loss (gain)	1,595	1,659	(149)	(121)
Net periodic benefit cost	\$ 3,950	\$ 4,500	\$ 1,450	\$ 1,400



**Table of Contents**

	Foreign			
	Pension Benefits		Postretirement Benefits	
	Second Quarter Ended June 30			
	2011	2010	2011	2010
	<i>(in thousands)</i>			
Service cost	\$ 1,071	\$ 744	\$ 7	\$ 7
Interest cost	1,501	1,316	39	37
Expected return on plan assets	(1,629)	(1,313)	0	0
Amortization of prior service cost	22	22	0	0
Amortization of transition (asset) obligation	0	(10)	14	12
Amortization of net loss	276	308	16	14
<b>Net periodic benefit cost</b>	<b>\$ 1,241</b>	<b>\$ 1,067</b>	<b>\$ 76</b>	<b>\$ 70</b>

	Foreign			
	Pension Benefits		Postretirement Benefits	
	Six Months Ended June 30			
	2011	2010	2011	2010
	<i>(in thousands)</i>			
Service cost	\$ 2,104	\$ 1,526	\$ 15	\$ 13
Interest cost	2,950	2,703	77	73
Expected return on plan assets	(3,205)	(2,690)	0	0
Amortization of prior service cost	43	43	0	0
Amortization of transition (asset) obligation	0	(19)	27	25
Amortization of net loss	541	633	31	27
<b>Net periodic benefit cost</b>	<b>\$ 2,433</b>	<b>\$ 2,196</b>	<b>\$ 150</b>	<b>\$ 138</b>

**Table of Contents**5. **Earnings Per Share**

Basic and diluted earnings per share are calculated as shown in the table below. Options are not included in the computation of diluted earnings per share when the option exercise price exceeds the average market price of the underlying common share, as the impact on earnings per share would be anti-dilutive. We had no anti-dilutive options that were excluded from the calculation of earnings per share for any period presented.

	Second Quarter Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
<i>(in thousands, except per-share amounts)</i>				
<b>Basic earnings per share</b>				
Numerator:				
Net income	\$ 52,259	\$ 39,856	\$ 101,848	\$ 81,994
Denominator:				
Weighted-average number of shares of common stock outstanding	13,852	14,796	13,871	14,957
Basic earnings per share	\$ 3.77	\$ 2.69	\$ 7.34	\$ 5.48
<b>Diluted earnings per share</b>				
Numerator:				
Net income	\$ 52,259	\$ 39,856	\$ 101,848	\$ 81,994
Denominator:				
Weighted-average number of shares of common stock outstanding	13,852	14,796	13,871	14,957
Shares issuable upon exercise of stock options	4	32	10	34
Total shares	13,856	14,828	13,881	14,991
Diluted earnings per share	\$ 3.77	\$ 2.69	\$ 7.34	\$ 5.47

**Table of Contents**6. Intangibles (net of amortization) and goodwill

The following table provides certain information related to our intangible assets. All of the intangibles relate to the petroleum additives segment.

	Identifiable Intangibles			
	June 30 2011		December 31 2010	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	<i>(in thousands)</i>			
Amortizing intangible assets				
Formulas and technology	\$ 91,648	\$ 66,623	\$ 91,487	\$ 64,013
Contracts	16,380	10,930	16,380	9,650
Customer base	7,064	1,550	7,040	1,276
Trademarks and trade name	1,624	202	1,600	133
Goodwill	5,212		5,091	
	\$ 121,928	\$ 79,305	\$ 121,598	\$ 75,072

Amortization expense was (in millions):

Second quarter ended June 30, 2011	\$ 2.1
Six months ended June 30, 2011	\$ 4.2
Second quarter ended June 30, 2010	\$ 2.2
Six months ended June 30, 2010	\$ 4.4

Currently, estimated amortization expense for the remainder of 2011, as well as annual amortization expense related to our intangible assets for the next five years is expected to be (in millions):

2011	\$ 4.4
2012	\$ 7.4
2013	\$ 7.1
2014	\$ 6.2
2015	\$ 5.8
2016	\$ 1.9

Generally, we amortize the cost of the customer base intangible by an accelerated method and the cost of the remaining intangible assets by the straight-line method over their estimated economic lives. We generally amortize contracts over 1.5 to 10 years and formulas and technology over 5 to 20 years. Trademarks and the trade name are amortized over 10 years.

**Table of Contents****7. Long-term Debt**

Long-term debt consisted of:

	<b>June 30 2011</b>	<b>December 31 2010</b>
	<i>(in thousands)</i>	
Senior notes - 7.125% due 2016	\$ 150,000	\$ 150,000
Foundry Park I mortgage loan - due 2015	64,935	66,275
Revolving credit facility	48,000	4,000
Line of credit	2,274	1,494
Capital lease obligations	0	144
	265,209	221,913
Current maturities of long-term debt	(5,109)	(4,369)
	\$ 260,100	\$ 217,544

We had outstanding borrowings under our revolving credit facility of \$48.0 million at June 30, 2011 at an average interest rate of 3.04%. We had outstanding letters of credit of \$6.4 million at June 30, 2011, resulting in the unused portion of the revolving credit facility amounting to \$245.6 million. At December 31, 2010, we had outstanding letters of credit of \$5.1 million and borrowings of \$4.0 million, resulting in the unused portion of the revolving credit facility amounting to \$290.9 million. The combined average interest rate for borrowings in 2010 under our existing revolving credit facilities during 2010 was 4.53%.

We were in compliance with all covenants under our debt agreements at June 30, 2011 and December 31, 2010.

**8. Contractual Commitments and Contingencies**

There have been no significant changes in our contractual commitments and contingencies from those reported in our 2010 Annual Report on Form 10-K in Note 18. The information below provides information on certain contractual commitments and contingencies.

Litigation

We are involved in legal proceedings that are incidental to our business and include administrative or judicial actions seeking remediation under environmental laws, such as Superfund. Some of these legal proceedings relate to environmental matters and involve governmental authorities. For further information, see Environmental below.

While it is not possible to predict or determine with certainty the outcome of any legal proceeding, we believe the outcome of any of these proceedings, or all of them combined, will not result in a material adverse effect on our consolidated financial condition, results of operations, or cash flows.

Environmental

During 2000, the U.S. Environmental Protection Agency (EPA) named us as a potentially responsible party (PRP) under Superfund law for the clean-up of soil and groundwater contamination at the Sauget Area 2 Site in Sauget, Illinois. Without admitting any fact, responsibility, fault, or liability in connection with this site, we are participating with other PRPs in site investigations and feasibility studies. The Sauget Area 2 Site PRPs received notice of

## Table of Contents

approval from the EPA of their October 2009 Human Health Risk Assessment. Additionally, the PRPs have submitted their Feasibility Study (FS) to the EPA Remedy Review Board. We have accrued our estimated proportional share of the expenses for the FS, as well as our best estimate of our proportional share of the remediation liability proposed in our ongoing discussions and submissions with the agencies involved. The amount currently accrued for this site is not material.

At a former TEL plant site located in Louisiana, we have completed significant environmental remediation, although we will be monitoring and treating the site for an extended period. The accrual for this site was \$6.5 million at June 30, 2011 and \$6.8 million at December 31, 2010. We based these amounts on the best estimate of future costs discounted at approximately 3% in both 2011 and 2010. An inflation factor is included in the estimate. The undiscounted liability was \$8.3 million at June 30, 2011 and \$8.7 million at December 31, 2010. The expected payments over the next five years amount to approximately \$400 thousand in 2011, \$700 thousand in 2012, and \$600 thousand for each of the years 2013 through 2015. Expected payments thereafter amount to approximately \$5.4 million.

At a plant site in Houston, Texas, we have accruals of \$7.4 million at June 30, 2011 and \$7.6 million at December 31, 2010 for environmental remediation, dismantling, and decontamination. Included in these amounts are \$7.1 million at June 30, 2011 and \$7.3 million at December 31, 2010 for remediation. Of the total remediation, \$6.7 million at June 30, 2011 and \$6.9 million at December 31, 2010 relates to remediation of groundwater and soil. The accruals for this site are discounted at approximately 3% at both June 30, 2011 and December 31, 2010 and include an inflation factor. The undiscounted accrual for this site was \$10.7 million at June 30, 2011 and \$10.8 million at December 31, 2010. The expected payments over the next five years are approximately \$200 thousand in 2011, \$500 thousand in 2012, \$700 thousand in 2013, \$1.6

million in 2014, and \$200 thousand in 2015. Expected payments thereafter amount to approximately \$7.5 million.

At a Superfund site in Louisiana, we have an accrual of \$3.3 million at both June 30, 2011 and December 31, 2010 for environmental remediation. The accrual for this site was discounted at approximately 3% at both June 30, 2011 and December 31, 2010 and included an inflation factor. The undiscounted accrual for this site was \$4.2 million at both June 30, 2011 and December 31, 2010. The expected payments over the next five years amount to approximately \$300 thousand in 2012, \$400 thousand in 2013, and \$300 thousand each for years 2014 and 2015. Expected payments thereafter amount to approximately \$2.9 million.

The remaining environmental liabilities are not discounted.

We accrue for environmental remediation and monitoring activities for which costs can be reasonably estimated and are probable. These estimates are based on an assessment of the site, available clean-up methods, and prior experience in handling remediation. While we believe we are currently fully accrued for known environmental issues, it is possible that unexpected future costs could have a significant impact on our financial position, results of operations, and cash flows.

Our total accruals for environmental remediation were approximately \$22.2 million at June 30, 2011 and \$22.5 million at December 31, 2010. In addition to the accruals for environmental remediation, we also have accruals for dismantling and decommissioning costs of \$500 thousand at both June 30, 2011 and December 31, 2010.

---

**Table of Contents**

*Letters of Credit and Guarantees*

We have outstanding guarantees with several financial institutions in the amount of \$46.8 million at June 30, 2011. The guarantees are secured by letters of credit, as well as cash collateral. A portion of the guarantees is unsecured. The outstanding letters of credit amounted to \$6.4 million at June 30, 2011, all of which were issued under the letter of credit sub-facility of our revolving credit facility. The letters of credit primarily relate to insurance and performance guarantees. The remaining amounts represent additional performance, lease, custom and excise tax guarantees, as well as a cash deposit of \$25.6 million related to the Goldman Sachs Bank USA (Goldman Sachs) interest rate swap. The cash deposit is recorded in Other assets and deferred charges on the Consolidated Balance Sheets. Expiration dates of the letters of credit and certain guarantees range from 2011 to 2014. Some of the guarantees have no expiration date. We renew letters of credit as necessary.

We cannot estimate the maximum amount of potential liability under the guarantees. However, we accrue for potential liabilities when a future payment is probable and the range of loss can be reasonably estimated.

9. Derivatives and Hedging Activities

*Accounting Policy for Derivative Instruments and Hedging Activities*

We record all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether we have elected to designate a derivative in a hedging relationship and apply hedge accounting, and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Derivatives may also be designated as hedges of the foreign currency exposure of a net investment in a foreign operation. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. We may enter into derivative contracts that are intended to economically hedge certain of our risks, even though hedge accounting does not apply or we elect not to apply hedge accounting. We do not enter into derivative instruments for speculative purposes.

*Risk Management Objective of Using Derivatives*

We are exposed to certain risks arising from both our business operations and economic conditions. We primarily manage our exposures to a wide variety of business and operational risks through management of our core business activities.

We manage certain economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of our debt funding, as well as through the use of derivative financial instruments. Specifically, we have entered into interest rate swaps to manage our exposure to interest rate movements.

Our foreign operations expose us to fluctuations of foreign exchange rates. These fluctuations may impact the value of our cash receipts and payments as compared to our reporting currency, the U.S. Dollar. To manage this exposure, we sometimes enter into foreign currency forward contracts to minimize currency exposure due to cash flows from foreign operations.

---

**Table of Contents****Cash Flow Hedge of Interest Rate Risk**

In January 2010, we entered into an interest rate swap to manage our exposure to interest rate movements on the Foundry Park I mortgage loan and to reduce variability in interest expense. Further information on the mortgage loan is in Note 12 in our 2010 Annual Report. We also had an interest rate swap to manage our exposure to interest rate movements on the Foundry Park I construction loan and add stability to capitalized interest expense. The Foundry Park I construction loan interest rate swap matured on January 1, 2010. Both interest rate swaps are designated and qualify as a cash flow hedge. As such, the effective portion of changes in the fair value of the swaps is recorded in accumulated other comprehensive loss and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. Any ineffective portion of changes in the fair value of the swap is recognized immediately in earnings. We assess the effectiveness of the mortgage loan interest rate swap quarterly by comparing the changes in the fair value of the derivative hedging instrument with the change in present value of the expected future cash flows of the hedged transaction.

The mortgage loan interest rate swap involves the receipt of variable-rate amounts based on LIBOR in exchange for fixed-rate payments over the life of the agreement without exchange of the underlying notional amount. The fixed-rate payments are at a rate of 2.642% for the mortgage loan interest rate swap. The notional amount of the mortgage loan interest rate swap was \$68.4 million at origination and approximately \$64.9 million at June 30, 2011. The notional amount of the mortgage loan interest rate swap amortizes to approximately \$53.7 million over the term of the swap. The amortizing notional amount is necessary to maintain the swap notional at an amount that matches the declining mortgage loan principal balance over the loan term. The mortgage loan interest rate swap matures on January 29, 2015.

The unrealized loss, net of tax, related to the fair value of the mortgage loan interest rate swap is recorded in accumulated other comprehensive loss in shareholders' equity on the Consolidated Balance Sheets, and amounted to approximately \$1.8 million at June 30, 2011 and \$1.5 million at December 31, 2010. Also recorded as a component of accumulated other comprehensive loss in shareholders' equity on the Consolidated Balance Sheets is the accumulated losses related to the construction loan interest rate swap of approximately \$2.6 million, net of tax, at both June 30, 2011 and December 31, 2010. The amount remaining in accumulated other comprehensive loss related to the construction loan interest rate swap is being recognized in the Consolidated Statements of Income over the depreciable life of the office building. Approximately \$1 million, net of tax, currently recognized in accumulated other comprehensive loss related to both the construction loan interest rate swap and the mortgage loan interest rate swap is expected to be reclassified into earnings over the next twelve months.

**Non-designated Hedges**

On June 25, 2009, we entered into an interest rate swap with Goldman Sachs in the notional amount of \$97 million and with a maturity date of January 19, 2022 (Goldman Sachs interest rate swap). NewMarket entered into the Goldman Sachs interest rate swap in connection with the termination of a loan application and related rate lock agreement between Foundry Park I and Principal Commercial Funding II, LLC (Principal). When the rate lock agreement was originally executed in 2007, Principal simultaneously entered into an interest rate swap with a third party to hedge Principal's exposure to fluctuation in the ten-year Treasuries rate. Upon the termination on June 25, 2009 of the rate lock agreement, Goldman Sachs both assumed Principal's position with the third party and entered into an offsetting interest rate swap with NewMarket. Under the terms of this interest rate swap, NewMarket will make fixed rate payments at 5.3075% and Goldman Sachs will make variable rate payments based on three-month LIBOR. We have collateralized this

**Table of Contents**

exposure through cash deposits posted with Goldman Sachs amounting to \$25.6 million at June 30, 2011. This transaction effectively preserves the impact of the original rate lock agreement for the possible application to a future loan of a similar structure.

We do not use hedge accounting for the Goldman Sachs interest rate swap, and therefore, immediately recognize any change in the fair value of this derivative financial instrument in earnings.

\*\*\*\*\*

The table below presents the fair value of our derivative financial instruments, as well as their classification on the Consolidated Balance Sheets as of June 30, 2011 and December 31, 2010.

**Fair Value of Derivative Instruments**

(in thousands)

	Asset Derivatives				Liability Derivatives			
	June 30, 2011		December 31, 2010		June 30, 2011		December 31, 2010	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
<b><u>Derivatives Designated as Hedging Instruments</u></b>								
Mortgage loan interest rate swap		\$ 0		\$ 0	Accrued expenses and Other noncurrent liabilities	\$ 3,032	Accrued expenses and Other noncurrent liabilities	\$ 2,656
<b><u>Derivatives Not Designated as Hedging Instruments</u></b>								
Goldman Sachs interest rate swap		\$ 0		\$ 0	Accrued expenses and Other noncurrent liabilities	\$ 20,202	Accrued expenses and Other noncurrent liabilities	\$ 19,456

The total fair value reflected in the table above includes amounts recorded in accrued expenses of approximately \$133 thousand at June 30, 2011 and \$136 thousand at December 31, 2010 for the mortgage loan interest rate swap and approximately \$2.3 million at June 30, 2011 and \$2.2 million at December 31, 2010 for the Goldman Sachs interest rate swap.



**Table of Contents**

The tables below present the effect of our derivative financial instruments on the Consolidated Statements of Income.

**Effect of Derivative Instruments on the Consolidated Statements of Income****Designated Cash Flow Hedges***(in thousands)*

Derivatives in Cash Flow Hedging Relationship	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain (Loss) Recognized in Income from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)		Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	Second Quarter Ended June 30 2011	Second Quarter Ended June 30 2010		Second Quarter Ended June 30 2011	Second Quarter Ended June 30 2010		Second Quarter Ended June 30 2011	Second Quarter Ended June 30 2010
Mortgage loan interest rate swap	\$ (1,350)	\$ (2,324)	Interest and financing expenses	\$ (400)	\$ (402)		\$ 0	\$ 0
Construction loan interest rate swap	\$ 0	\$ 0	Cost of rental	\$ (21)	\$ (21)		\$ 0	\$ 0
	Six Months Ended June 30 2011	Six Months Ended June 30 2010		Six Months Ended June 30 2011	Six Months Ended June 30 2010		Six Months Ended June 30 2011	Six Months Ended June 30 2010
Mortgage loan interest rate swap	\$ (1,172)	\$ (3,237)	Interest and financing expenses	\$ (792)	\$ (686)		\$ 0	\$ 0
Construction loan interest rate swap	\$ 0	\$ 0	Cost of rental	\$ (42)	\$ (42)		\$ 0	\$ 0

**Effect of Derivative Instruments on the Consolidated Statements of Income****Not Designated Derivatives***(in thousands)*

Edgar Filing: NEWMARKET CORP - Form 10-Q

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss)	Amount of Gain (Loss) Recognized in Income			
	Recognized in Income on	Second Quarter Ended		Six Months Ended	
	Derivative	June 30		June 30	
		2011	2010	2011	2010
Goldman Sachs interest rate swap	Other expense, net	\$ (4,042)	\$ (9,705)	\$ (3,176)	\$ (12,062)

**Table of Contents**Credit-risk-related Contingent Features

We have agreements with both of our current derivative counterparties that contain a provision where we could be declared in default on our derivative obligations if repayment of indebtedness is accelerated by our lender(s) due to our default on the indebtedness.

As of June 30, 2011, the fair value of derivatives in a net liability position related to these agreements, which includes accrued interest but excludes any adjustment for nonperformance risk, was \$22.7 million. We have minimum collateral posting thresholds with one of our derivative counterparties and have posted cash collateral of \$25.6 million as of June 30, 2011. If required, we could have settled our obligations under the agreements at their termination value of \$22.7 million at June 30, 2011.

10. Comprehensive Income and Accumulated Other Comprehensive Loss

The components of comprehensive income consist of the following:

	Second Quarter Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
	<i>(in thousands)</i>			
Net income	\$ 52,259	\$ 39,856	\$ 101,848	\$ 81,994
Other comprehensive income, net of tax				
Pension plans and other postretirement benefits adjustments	1,128	1,138	2,250	2,295
Tax (expense)	(399)	(394)	(796)	(793)
	729	744	1,454	1,502
Unrealized gain (loss) on derivative instruments	(929)	(1,900)	(337)	(2,508)
Tax benefit	361	739	131	976
	(568)	(1,161)	(206)	(1,532)
Foreign currency translation adjustments	1,337	(6,402)	11,096	(14,320)
Tax (expense) benefit	(571)	1,577	(1,668)	2,415
	766	(4,825)	9,428	(11,905)
Other comprehensive income (loss)	927	(5,242)	10,676	(11,935)
Comprehensive income	\$ 53,186	\$ 34,614	\$ 112,524	\$ 70,059

**Table of Contents**

The components of accumulated other comprehensive loss consist of the following:

	<b>June 30 2011</b>	<b>December 31 2010</b>
	<i>(in thousands)</i>	
Pension plans and other postretirement benefit adjustments	\$ (50,108)	\$ (51,562)
Accumulated loss on derivative instruments	(4,357)	(4,151)
Foreign currency translation adjustments	(8,679)	(18,107)
Accumulated other comprehensive loss	\$ (63,144)	\$ (73,820)

**11. Fair Value Measurements**

The following table provides information on assets and liabilities measured at fair value on a recurring basis. No events occurred during the six months ended June 30, 2011, requiring adjustment to the recognized balances of assets or liabilities, which are recorded at fair value on a nonrecurring basis.

	<b>Carrying Amount in Consolidated Balance Sheets</b>	<b>Fair Value</b>	<b>Fair Value Measurements Using</b>		
			<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
			<b>June 30, 2011</b>		
			<i>(in thousands)</i>		
Cash and cash equivalents	\$ 60,888	\$ 60,888	\$ 60,888	\$ 0	\$ 0
Interest rate swaps liability	\$ 23,234	\$ 23,234	\$ 0	\$ 23,234	\$ 0
			<b>December 31, 2010</b>		
			<i>(in thousands)</i>		
Cash and cash equivalents	\$ 49,192	\$ 49,192	\$ 49,192	\$ 0	\$ 0
Short-term investments	\$ 300	\$ 300	\$ 300	\$ 0	\$ 0
Interest rate swaps liability	\$ 22,112	\$ 22,112	\$ 0	\$ 22,112	\$ 0

We determine the fair value of the derivative instruments shown in the table above by using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each instrument. The analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs.

The fair value of the interest rate swaps is determined using the market standard methodology of netting the discounted future fixed cash receipts and the discounted expected variable cash payments. The variable cash payments are based on an expectation of future interest rates derived from observable market interest rate curves. In determining the fair value measurements, we incorporate credit valuation adjustments to appropriately reflect both our nonperformance risk and the counterparties' nonperformance risk.

**Table of Contents**

Although we have determined that the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustment associated with the derivatives utilizes Level 3 inputs. These Level 3 inputs include estimates of current credit spreads to evaluate the likelihood of default by both us and the counterparties to the derivatives. As of June 30, 2011, we have assessed the significance of the impact of the credit valuation adjustment on the overall valuation of our derivatives and have determined that the credit valuation adjustment is not significant to the overall valuation of the derivatives. Accordingly, we have determined that our derivative valuations should be classified in Level 2 of the fair value hierarchy.

We record the value of our long-term debt at historical cost. The estimated fair value of our long-term debt is shown in the table below and is based primarily on estimated current rates available to us for debt of the same remaining duration and adjusted for nonperformance risk and credit risk. The fair value is categorized as Level 2.

	June 30, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt, including current maturities	\$ (265,209)	\$ (276,121)	\$ (221,913)	\$ (230,393)

#### 12. Consolidating Financial Information

The 7.125% senior notes due 2016 are fully and unconditionally guaranteed by certain of our subsidiaries (Guarantor Subsidiaries) on a joint and several unsecured senior basis. The Guarantor Subsidiaries include all of our existing and future 100% owned domestic restricted subsidiaries. The Guarantor Subsidiaries and the subsidiaries that do not guarantee the senior notes (the Non-Guarantor Subsidiaries) are 100% owned by NewMarket Corporation (the Parent Company). The Guarantor Subsidiaries consist of the following:

Ethyl Corporation	Afton Chemical Corporation
Ethyl Asia Pacific LLC	Afton Chemical Asia Pacific LLC
Ethyl Canada Holdings, Inc.	Afton Chemical Canada Holdings, Inc.
Ethyl Export Corporation	Afton Chemical Japan Holdings, Inc.
Ethyl Interamerica Corporation	Afton Chemical Additives Corporation
Ethyl Ventures, Inc.	Afton Chemical Intangibles LLC
Interamerica Terminals Corporation	The Edwin Cooper Corporation
NewMarket Development Corporation	NewMarket Investment Company
NewMarket Services Corporation	Old Town LLC
Foundry Park I, LLC	Foundry Park II, LLC
Gamble s Hill, LLC	Gamble s Hill Lab, LLC
Gamble s Hill Landing, LLC	Gamble s Hill Third Street, LLC
Gamble s Hill Tredegar, LLC	

We conduct all of our business and derive essentially all of our income from our subsidiaries. Therefore, our ability to make payments on the senior notes or other obligations is dependent on the earnings and the distribution of funds from our subsidiaries. There are no restrictions on the ability of any of our domestic subsidiaries to transfer funds to the Parent Company.

**Table of Contents**

The following sets forth the Consolidating Statements of Income for the second quarter and six months ended June 30, 2011 and June 30, 2010; Consolidating Balance Sheets as of June 30, 2011 and December 31, 2010; and Condensed Consolidating Statements of Cash Flows for the six months ended June 30, 2011 and June 30, 2010 for the Parent Company, the Guarantor Subsidiaries, and Non-Guarantor Subsidiaries. The financial information is based on our understanding of the SEC's interpretation and application of Rule 3-10 of the SEC Regulation S-X.

The financial information may not necessarily be indicative of their results of operations or financial positions had the Guarantor Subsidiaries or Non-Guarantor Subsidiaries operated as independent entities. The Parent Company accounts for investments in these subsidiaries using the equity method.

**Table of Contents****NewMarket Corporation and Subsidiaries****Consolidating Statements of Income****Second Quarter Ended June 30, 2011**

(in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
<b>Revenue:</b>					
Net sales - product	\$ 0	\$ 224,969	\$ 350,696	\$ 0	\$ 575,665
Rental revenue	0	2,858	0	0	2,858
	0	227,827	350,696	0	578,523
<b>Costs:</b>					
Cost of goods sold - product	0	120,299	309,360	0	429,659
Cost of rental	0	1,068	0	0	1,068
	0	121,367	309,360	0	430,727
Gross profit	0	106,460	41,336	0	147,796
Selling, general, and administrative expenses	1,145	27,946	8,228	0	37,319
Research, development, and testing expenses	0	18,939	6,440	0	25,379
Operating (loss) profit	(1,145)	59,575	26,668	0	85,098
Interest and financing expenses	3,640	308	745	0	4,693
Other (expense) income, net	(4,031)	(2)	46	0	(3,987)
(Loss) income before income tax (benefit) expense and equity income of subsidiaries	(8,816)	59,265	25,969	0	76,418
Income tax (benefit) expense	(3,573)	22,459	5,273	0	24,159
Equity income of subsidiaries	57,502	0	0	(57,502)	0
Net income	\$ 52,259	\$ 36,806	\$ 20,696	\$ (57,502)	\$ 52,259

**Table of Contents****NewMarket Corporation and Subsidiaries****Consolidating Statements of Income****Second Quarter Ended June 30, 2010**

(in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
<b>Revenue:</b>					
Net sales - product	\$ 0	\$ 184,866	\$ 282,120	\$ 0	\$ 466,986
Rental revenue	0	2,855	0	0	2,855
	0	187,721	282,120	0	469,841
<b>Costs:</b>					
Cost of goods sold - product	0	83,756	252,818	0	336,574
Cost of rental	0	1,066	0	0	1,066
	0	84,822	252,818	0	337,640
Gross profit	0	102,899	29,302	0	132,201
Selling, general, and administrative expenses	1,827	25,085	9,281	0	36,193
Research, development, and testing expenses	0	16,972	5,092	0	22,064
Operating (loss) profit	(1,827)	60,842	14,929	0	73,944
Interest and financing expenses	3,183	1,022	109	0	4,314
Other (expense) income, net	(9,687)	(152)	629	0	(9,210)
(Loss) income before income tax (benefit) expense and equity income of subsidiaries	(14,697)	59,668	15,449	0	60,420
Income tax (benefit) expense	(3,671)	19,679	4,556	0	20,564
Equity income of subsidiaries	50,882	0	0	(50,882)	0
Net income	\$ 39,856	\$ 39,989	\$ 10,893	\$ (50,882)	\$ 39,856



**Table of Contents****NewMarket Corporation and Subsidiaries****Consolidating Statements of Income****Six Months Ended June 30, 2011**

(in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
<b>Revenue:</b>					
Net sales - product	\$ 0	\$ 417,920	\$ 662,970	\$ 0	\$ 1,080,890
Rental revenue	0	5,716	0	0	5,716
	0	423,636	662,970	0	1,086,606
<b>Costs:</b>					
Cost of goods sold - product	0	249,472	546,238	0	795,710
Cost of rental	0	2,136	0	0	2,136
	0	251,608	546,238	0	797,846
Gross profit	0	172,028	116,732	0	288,760
Selling, general, and administrative expenses	2,316	54,768	18,659	0	75,743
Research, development, and testing expenses	0	37,867	11,973	0	49,840
Operating (loss) profit	(2,316)	79,393	86,100	0	163,177
Interest and financing expenses	7,187	594	1,557	0	9,338
Other (expense) income, net	(4,140)	(29)	115	0	(4,054)
(Loss) income before income tax (benefit) expense and equity income of subsidiaries	(13,643)	78,770	84,658	0	149,785
Income tax (benefit) expense	(5,685)	32,616	21,006	0	47,937
Equity income of subsidiaries	109,806	0	0	(109,806)	0
Net income	\$ 101,848	\$ 46,154	\$ 63,652	\$ (109,806)	\$ 101,848

**Table of Contents****NewMarket Corporation and Subsidiaries****Consolidating Statements of Income****Six Months Ended June 30, 2010**

(in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
<b>Revenue:</b>					
Net sales - product	\$ 0	\$ 364,951	\$ 494,300	\$ 0	\$ 859,251
Rental revenue	0	5,716	0	0	5,716
	0	370,667	494,300	0	864,967
<b>Costs:</b>					
Cost of goods sold - product	0	163,046	447,156	0	610,202
Cost of rental	0	2,156	0	0	2,156
	0	165,202	447,156	0	612,358
Gross profit	0	205,465	47,144	0	252,609
Selling, general, and administrative expenses	2,798	49,395	14,574	0	66,767
Research, development, and testing expenses	0	32,695	10,452	0	43,147
Operating (loss) profit	(2,798)	123,375	22,118	0	142,695
Interest and financing expenses	6,262	1,747	254	0	8,263
Other (expense) income, net	(12,024)	(152)	655	0	(11,521)
(Loss) income before income tax (benefit) expense and equity income of subsidiaries	(21,084)	121,476	22,519	0	122,911
Income tax (benefit) expense	(8,799)	41,290	8,426	0	40,917
Equity income of subsidiaries	94,279	0	0	(94,279)	0
Net income	\$ 81,994	\$ 80,186	\$ 14,093	\$ (94,279)	\$ 81,994

**Table of Contents****NewMarket Corporation and Subsidiaries****Consolidating Balance Sheets****June 30, 2011**

(in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
<b>ASSETS</b>					
Cash and cash equivalents	\$ 17	\$ 12,288	\$ 48,583	\$ 0	\$ 60,888
Trade and other accounts receivable, net	0	109,657	211,790	(7,629)	313,818
Amounts due from affiliated companies	391,070	601,158	16,819	(1,009,047)	0
Inventories	0	114,036	213,808	0	327,844
Deferred income taxes	2,806	2,100	773	0	5,679
Prepaid expenses and other current assets	327	4,208	16,534	0	21,069
<b>Total current assets</b>	<b>394,220</b>	<b>843,447</b>	<b>508,307</b>	<b>(1,016,676)</b>	<b>729,298</b>
Amounts due from affiliated companies	0	64,492	0	(64,492)	0
Property, plant and equipment, at cost	0	798,734	232,802	0	1,031,536
Less accumulated depreciation and amortization	0	546,191	130,643	0	676,834
Net property, plant and equipment	0	252,543	102,159	0	354,702
Investment in consolidated subsidiaries	884,217	0	0	(884,217)	0
Prepaid pension cost	0	2,694	9,884	0	12,578
Deferred income taxes	31,009	0	0	(13,821)	17,188
Other assets and deferred charges	32,096	17,490	2,651	0	52,237
Intangibles (net of amortization) and goodwill	0	32,758	9,865	0	42,623
<b>Total assets</b>	<b>\$ 1,341,542</b>	<b>\$ 1,213,424</b>	<b>\$ 632,866</b>	<b>\$ (1,979,206)</b>	<b>\$ 1,208,626</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
Accounts payable	\$ 5,774	\$ 78,380	\$ 48,777	\$ (5,768)	\$ 127,163
Accrued expenses	8,497	35,489	20,689	0	64,675
Dividends payable	7,108	0	0	0	7,108
Book overdraft	0	9,821	0	0	9,821
Amounts due to affiliated companies	476,303	436,742	96,002	(1,009,047)	0
Long-term debt, current portion	0	2,835	2,274	0	5,109
Income taxes payable	0	0	31,307	(1,861)	29,446
<b>Total current liabilities</b>	<b>497,682</b>	<b>563,267</b>	<b>199,049</b>	<b>(1,016,676)</b>	<b>243,322</b>
Long-term debt	198,000	62,100	0	0	260,100
Amounts due to affiliated companies	0	0	64,492	(64,492)	0
Other noncurrent liabilities	83,172	39,062	20,282	0	142,516

Edgar Filing: NEWMARKET CORP - Form 10-Q

Deferred income taxes payable	0	9,563	4,258	(13,821)	0
Total liabilities	778,854	673,992	288,081	(1,094,989)	645,938
<b>Shareholders' equity:</b>					
Common stock and paid-in capital	0	385,870	73,734	(459,604)	0
Accumulated other comprehensive loss	(63,144)	(12,549)	(27,417)	39,966	(63,144)
Retained earnings	625,832	166,111	298,468	(464,579)	625,832
Total shareholders' equity	562,688	539,432	344,785	(884,217)	562,688
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,341,542</b>	<b>\$ 1,213,424</b>	<b>\$ 632,866</b>	<b>\$ (1,979,206)</b>	<b>\$ 1,208,626</b>

**Table of Contents****NewMarket Corporation and Subsidiaries****Consolidating Balance Sheets****December 31, 2010**

(in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
<b>ASSETS</b>					
Cash and cash equivalents	\$ 17	\$ 7,717	\$ 41,458	\$ 0	\$ 49,192
Short-term investments	300	0	0	0	300
Trade and other accounts receivable, net	4,264	102,158	152,269	(943)	257,748
Amounts due from affiliated companies	0	135,736	35,974	(171,710)	0
Inventories	0	95,383	177,832	0	273,215
Deferred income taxes	2,805	3,332	739	0	6,876
Prepaid expenses and other current assets	5,455	7,746	2,243	0	15,444
<b>Total current assets</b>	<b>12,841</b>	<b>352,072</b>	<b>410,515</b>	<b>(172,653)</b>	<b>602,775</b>
Amounts due from affiliated companies	0	57,470	0	(57,470)	0
Property, plant and equipment, at cost	0	787,721	200,459	0	988,180
Less accumulated depreciation and amortization	0	535,241	118,963	0	654,204
<b>Net property, plant and equipment</b>	<b>0</b>	<b>252,480</b>	<b>81,496</b>	<b>0</b>	<b>333,976</b>
Investment in consolidated subsidiaries	765,787	0	0	(765,787)	0
Prepaid pension cost	0	660	7,937	0	8,597
Deferred income taxes	33,142	0	0	(11,168)	21,974
Other assets and deferred charges	28,157	19,052	1,684	0	48,893
Intangibles (net of amortization) and goodwill	0	36,795	9,731	0	46,526
<b>Total assets</b>	<b>\$ 839,927</b>	<b>\$ 718,529</b>	<b>\$ 511,363</b>	<b>\$ (1,007,078)</b>	<b>\$ 1,062,741</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>					
Accounts payable	\$ 219	\$ 68,042	\$ 40,989	\$ 0	\$ 109,250
Accrued expenses	11,253	41,535	18,770	0	71,558
Dividends payable	5,304	0	0	0	5,304
Book overdraft	0	1,063	0	0	1,063
Amounts due to affiliated companies	88,850	0	82,860	(171,710)	0
Long-term debt, current portion	0	2,875	1,494	0	4,369
Income taxes payable	0	0	15,786	(943)	14,843
<b>Total current liabilities</b>	<b>105,626</b>	<b>113,515</b>	<b>159,899</b>	<b>(172,653)</b>	<b>206,387</b>
Long-term debt	154,000	63,544	0	0	217,544
Amounts due to affiliated companies	0	0	57,470	(57,470)	0

Edgar Filing: NEWMARKET CORP - Form 10-Q

Other noncurrent liabilities	88,661	48,331	21,346	(11,168)	147,170
Total liabilities	348,287	225,390	238,715	(241,291)	571,101
<b>Shareholders' equity:</b>					
Common stock and paid-in capital	0	385,870	73,734	(459,604)	0
Accumulated other comprehensive loss	(73,820)	(14,159)	(35,900)	50,059	(73,820)
Retained earnings	565,460	121,428	234,814	(356,242)	565,460
Total shareholders' equity	491,640	493,139	272,648	(765,787)	491,640
<b>Total liabilities and shareholders' equity</b>	<b>\$ 839,927</b>	<b>\$ 718,529</b>	<b>\$ 511,363</b>	<b>\$ (1,007,078)</b>	<b>\$ 1,062,741</b>

**Table of Contents****NewMarket Corporation and Subsidiaries****Condensed Consolidating Statements of Cash Flows****Six Months Ended June 30, 2011**

(in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
<b>Cash provided from (used in) operating activities</b>	\$ 5,069	\$ (19,009)	\$ 52,355	\$ 0	\$ 38,415
<b>Cash flows from investing activities:</b>					
Capital expenditures	0	(11,916)	(22,874)	0	(34,790)
Deposits for interest rate swap	(20,274)	0	0	0	(20,274)
Return of deposits for interest rate swap	17,890	0	0	0	17,890
Payments on settlement of interest rate swap	(2,574)	0	0	0	(2,574)
Receipts from settlement of interest rate swap	145	0	0	0	145
Proceeds from sale of short-term investment	300	0	0	0	300
Increase in intercompany loans	(3,616)	(5,005)	0	8,621	0
Cash dividends from subsidiaries	0	28,277	0	(28,277)	0
Cash provided from (used in) investing activities	(8,129)	11,356	(22,874)	(19,656)	(39,303)
<b>Cash flows from financing activities:</b>					
Net borrowings under revolving credit agreement	44,000	0	0	0	44,000
Repayment of Foundry Park I mortgage loan	0	(1,340)	0	0	(1,340)
Borrowing under (repayment of) line of credit	0	0	780	0	780
Repurchases of common stock	(31,512)	0	0	0	(31,512)
Dividends paid	(7,301)	0	(28,277)	28,277	(7,301)
Change in book overdraft, net	0	8,758	0	0	8,758
Debt issuance costs	(3,233)	0	0	0	(3,233)
Proceeds from exercise of stock options	70	0	0	0	70
Excess tax benefits from stock-based payment arrangements	1,036	0	0	0	1,036
Payments on capital lease	0	(144)	0	0	(144)
Financing from affiliated companies	0	3,616	5,005	(8,621)	0
Cash provided from (used in) financing activities	3,060	10,890	(22,492)	19,656	11,114
Effect of foreign exchange on cash and cash equivalents	0	1,334	136	0	1,470
<b>Increase (decrease) in cash and cash equivalents</b>	<b>0</b>	<b>4,571</b>	<b>7,125</b>	<b>0</b>	<b>11,696</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>17</b>	<b>7,717</b>	<b>41,458</b>	<b>0</b>	<b>49,192</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 17</b>	<b>\$ 12,288</b>	<b>\$ 48,583</b>	<b>\$ 0</b>	<b>\$ 60,888</b>

**Table of Contents****NewMarket Corporation and Subsidiaries****Condensed Consolidating Statements of Cash Flows****Six Months Ended June 30, 2010**

(in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
<b>Cash (used in) provided from operating activities</b>	\$ (90,718)	\$ 170,444	\$ (6,563)	\$ 0	\$ 73,163
<b>Cash flows from investing activities:</b>					
Capital expenditures	0	(10,972)	(7,064)	0	(18,036)
Deposits for interest rate swap	(18,890)	0	0	0	(18,890)
Return of deposits for interest rate swap	7,420	0	0	0	7,420
Acquisition of business (net of cash acquired of \$1.8 million in 2010)	0	0	(41,970)	0	(41,970)
Increase in intercompany loans	0	(45,454)	0	45,454	0
Cash dividends from subsidiaries	134,433	0	0	(134,433)	0
Cash provided from (used in) investing activities	122,963	(56,426)	(49,034)	(88,979)	(71,476)
<b>Cash flows from financing activities:</b>					
Net borrowings under revolving credit agreement	18,000	0	0	0	18,000
Repayment of Foundry Park I mortgage loan	0	(834)	0	0	(834)
Repayment of Foundry Park I construction loan	0	(99,102)	0	0	(99,102)
Borrowing under Foundry Park mortgage loan	0	68,400	0	0	68,400
Repurchase of common stock	(79,220)	0	0	0	(79,220)
Dividends paid	(11,037)	(134,433)	0	134,433	(11,037)
Change in book overdraft, net	0	1,565	0	0	1,565
Debt issuance costs	0	(1,524)	0	0	(1,524)
Payment for financed intangible asset	0	(500)	0	0	(500)
Proceeds from exercise of stock options	21	0	0	0	21
Payments on capital lease	0	(411)	0	0	(411)
Financing from affiliated companies	0	0	43,800	(43,800)	0
Repayment of intercompany note payable	0	0	1,654	(1,654)	0
Cash (used in) provided from financing activities	(72,236)	(166,839)	45,454	88,979	(104,642)
Effect of foreign exchange on cash and cash equivalents	0	(1,396)	(874)	0	(2,270)
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(39,991)</b>	<b>(54,217)</b>	<b>(11,017)</b>	<b>0</b>	<b>(105,225)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>40,008</b>	<b>62,203</b>	<b>49,620</b>	<b>0</b>	<b>151,831</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 17</b>	<b>\$ 7,986</b>	<b>\$ 38,603</b>	<b>\$ 0</b>	<b>\$ 46,606</b>





**Table of Contents**

13. Recently Issued Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2011-04, Fair Value Measurement (Topic 820) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04). ASU 2011-04 results in common fair value measurement, as well as disclosure requirements, in U.S. GAAP and IFRS. The amendments clarify guidance on measuring fair value, but do not require any additional fair value measurements. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011. Early application is not permitted. We do not expect ASU 2011-04 will have a significant impact on our financial statements.

In June 2011, FASB issued Accounting Standards Update 2011-05, Comprehensive Income (Topic 220) Presentation of Comprehensive Income (ASU 2011-05). ASU 2011-05 requires that all nonowner changes in stockholders' equity be presented either in a single continuous consolidated statement of comprehensive income or in two separate but consecutive consolidated statement of income and consolidated statement of comprehensive income. The option to present comprehensive income as part of the consolidated statement of stockholders' equity has been eliminated. ASU 2011-05 is effective for interim and annual periods beginning after December 15, 2011 and will be applied retrospectively. We are currently evaluating ASU 2011-05 and will modify our financial statements beginning with our March 31, 2012 Quarterly Report on Form 10-Q to adopt the requirements.

14. Subsequent Events

On July 18, 2011, our Board of Directors declared a quarterly dividend in the amount of 60 cents per share on our common stock. The dividend is payable October 1, 2011 to shareholders of record at the close of business on September 15, 2011.

**Table of Contents**

**ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**Forward-Looking Statements**

The following discussion contains forward-looking statements about future events and expectations within the meaning of the Private Securities Litigation Reform Act of 1995. We have based these forward-looking statements on our current expectations and projections about future results. When we use words in this document, such as anticipates, intends, plans, believes, estimates, expects, should, could, may, similar expressions, we do so to identify forward-looking statements. Examples of forward-looking statements include, but are not limited to, statements we make regarding future prospects of growth in the petroleum additives market, other trends in the petroleum additives market, our ability to maintain or increase our market share, and our future capital expenditure levels.

We believe our forward-looking statements are based on reasonable expectations and assumptions, within the bounds of what we know about our business and operations. However, we offer no assurance that actual results will not differ materially from our expectations due to uncertainties and factors that are difficult to predict and beyond our control.

Factors that could cause actual results to differ materially from expectations include, but are not limited to: availability of raw materials and transportation systems; supply disruptions at single-sourced facilities; ability to respond effectively to technological changes in our industry; failure to protect our intellectual property rights; hazards common to chemical businesses; occurrence or threat of extraordinary events, including natural disasters and terrorist attacks; competition from other manufacturers; sudden or sharp raw materials price increases; gain or loss of significant customers; risks related to operating outside of the United States; the impact of fluctuations in foreign exchange rates; political, economic, and regulatory factors concerning our products; future governmental regulation; resolution of environmental liabilities or legal proceedings; inability to complete recent or future acquisitions or successfully integrate recent or future acquisitions into our business and other factors detailed from time to time in the reports that NewMarket files with the Securities and Exchange Commission, including the risk factors in Item 1A, Risk Factors of our 2010 Annual Report, which is available to shareholders upon request.

You should keep in mind that any forward-looking statement made by us in this discussion or elsewhere speaks only as of the date on which we make it. New risks and uncertainties arise from time to time, and it is impossible for us to predict these events or how they may affect us. We have no duty to, and do not intend to, update or revise the forward-looking statements in this discussion after the date hereof, except as may be required by law. In light of these risks and uncertainties, you should keep in mind that the events described in any forward-looking statement, made in this discussion or elsewhere, might not occur.

**Overview**

Operations during the first six months 2011 continued to generate strong results with increased net sales, operating profit, and product shipments in our petroleum additives segment over six months 2010. During six months 2011, we repurchased 217,073 shares of our common stock for \$28.2 million. Also, our working capital position improved during six months 2011 and we ended June 2011 with \$48 million drawn on the \$300 million revolving credit facility.

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

Our consolidated revenue for the second quarter 2011 amounted to \$578.5 million, representing an increase of approximately 23% from the 2010 second quarter level of \$469.8 million. Similarly, six months consolidated revenue increased 26% from \$865.0 million for 2010 to \$1.1 billion for 2011. The table below shows our revenue by segment.

**Consolidated Revenue by Segment**

(in millions)

	Second Quarter Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Petroleum additives	\$ 572.8	\$ 464.9	\$ 1,075.5	\$ 854.3
Real estate development	2.8	2.9	5.7	5.7
All other	2.9	2.0	5.4	5.0
Consolidated revenue	\$ 578.5	\$ 469.8	\$ 1,086.6	\$ 865.0

**Petroleum Additives Segment**

Petroleum additives net sales for the second quarter 2011 of \$572.8 million increased \$107.9 million, or approximately 23%, from \$464.9 million for the second quarter 2010. The increase in sales reflects higher total product shipments of 11%. The increase in shipments was across all product lines, but primarily in the lubricant additives product line. Selling prices, as well as the impact from foreign currency, were also favorable when comparing the two second quarter periods. When comparing the two periods, the U.S. Dollar weakened against the major currencies in which we conduct business, including the Euro and Pound Sterling, resulting in a favorable foreign currency impact on revenue from sales.

Six months 2011 petroleum additive net sales of \$1.1 billion were approximately 26% higher than six months 2010. The increase between the two six months periods reflects a 14% increase in product shipments. The increase in shipments included the benefit of Polartech shipments for the full six months 2011 and was predominantly in the lubricant additives product line. Increased selling prices and a favorable foreign currency impact also contributed to the higher petroleum additives net sales when comparing the six months periods between the two years.

**Table of Contents**

The table below details the approximate components, in millions, of the increase between the second quarter and six months of the 2011 and 2010 periods.

	<b>Second Quarter</b>	<b>Six Months</b>
	(in millions)	
Period ended June 30, 2010	\$ 464.9	\$ 854.3
Increase in shipments, including changes in product mix	47.3	132.8
Increase in selling prices, including changes in customer mix	47.5	75.2
Increase due to foreign currency	13.1	13.2
Period ended June 30, 2011	\$ 572.8	\$ 1,075.5

**Real Estate Development Segment**

The revenue reflected in the table above for both second quarter and six months 2011 and 2010 for the real estate development segment represents the rental of an office building, which was constructed by Foundry Park I.

**All Other**

The All other category includes the operations of the TEL business and certain contract manufacturing performed by Ethyl.

**Segment Operating Profit**

NewMarket evaluates the performance of the petroleum additives business and the real estate development business based on segment operating profit. NewMarket Services Corporation (NewMarket Services) departments and other expenses are charged to NewMarket and each subsidiary pursuant to service agreements between the companies. Depreciation on segment property, plant, and equipment, as well as amortization of segment intangible assets is included in segment operating profit.

The table below reports segment operating profit for the second quarter and six months ended June 30, 2011 and June 30, 2010.

**Segment Operating Profit**

(in millions)

	<b>Second Quarter Ended June 30</b>		<b>Six Months Ended June 30</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Petroleum additives	\$ 85.6	\$ 76.6	\$ 166.2	\$ 147.0
Real estate development	\$ 1.8	\$ 1.8	\$ 3.6	\$ 3.5
All other	\$ 1.0	\$ 1.0	\$ 1.3	\$ 2.0

---

**Table of Contents**

**Petroleum Additives Segment**

The petroleum additives operating profit increased \$9.0 million when comparing second quarter 2011 to second quarter 2010 and \$19.2 million when comparing six months 2011 to six months 2010. When compared to 2010 operating profit levels, both the second quarter 2011 and the six months 2011 results are higher across the lubricant additives product line, but lower across the fuel additives product line.

Substantially increased product shipments, as well as higher selling prices and the benefit of a favorable foreign currency impact, as discussed in the Revenue section above, were significant favorable factors in operating profit for both the second quarter and six months 2011 as compared to the same 2010 periods. The inclusion of the Polartech acquisition for the full six months in 2011 also contributed to the improved operating results. Partially offsetting these favorable factors on operating profit, were unfavorable effects from increased raw material costs, as well as planned additional spending in selling, general, and administrative expenses (SG&A) and research, development, and testing expenses (R&D). In response to the rising raw material costs, we have been implementing selling price increases.

Our SG&A, together with R&D, were approximately \$6.5 million, or 12.5%, higher for the second quarter 2011 as compared to second quarter 2010 and approximately \$17.3 million, or 17.6%, higher for six months 2011 as compared to six months 2010. In 2011, SG&A increased approximately \$3.2 million, or 10.6%, for the second quarter and \$10.6 million, or 19.2%, for six months over 2010 levels. The increase for both the second quarter and six months 2011 over the same 2010 periods primarily reflects higher personnel-related costs and professional fees. The increase for six months 2011 over six months 2010 also included the result of certain growth-related costs, largely reflecting the inclusion of the Polartech operations for the full six months in 2011. R&D increased approximately \$3.3 million, or 15.0%, for second quarter 2011 and \$6.7 million, or 15.5%, for six months 2011 when compared to the same 2010 periods. We continue to invest in SG&A and R&D to support our customers' programs and to develop the technology required to remain a leader in this industry.

*The following discussion references the Consolidated Financial Statements beginning on page 3 of this Quarterly Report on Form 10-Q.*

**Interest and Financing Expenses**

Interest and financing expenses were \$4.7 million for second quarter 2011 and \$4.3 million for second quarter 2010. Six months 2011 amounted to \$9.3 million, while six months 2010 was \$8.3 million.

The increase in interest and financing expenses between both the second quarter 2011 and six months 2011 as compared to the same periods for 2010 was primarily related to higher average outstanding debt on the revolving credit facility during 2011, partially offset by a lower average interest rate as compared to the 2010 periods.

**Other Expense, Net**

Other expense, net for second quarter 2011 was \$4.0 million, while second quarter 2010 was \$9.2 million. The amount for six months 2011 was \$4.1 million, while six months 2010 was \$11.5 million. The six months 2011 includes \$1.0 million expense related to the consent we obtained in January 2011 from the holders of the senior notes to modify the formula for calculating the capacity under the senior notes to make certain restricted payments. The remaining amounts for all periods in both 2011 and 2010 primarily reflect the loss on a derivative instrument representing an interest rate swap recorded at fair value through profit and loss. See Note 9 for additional information on the interest rate swap.

## **Table of Contents**

### **Income Tax Expense**

Income tax expense was \$24.2 million for second quarter 2011 and \$20.6 million for second quarter 2010. The effective tax rate was 31.6% for second quarter 2011, while second quarter 2010 was 34.0%. The increase in income before income tax expense resulted in an increase of \$5.4 million in income taxes, while the lower effective tax rate in 2011 as compared to 2010 resulted in a decrease of \$1.8 million in income tax expense when comparing the two second quarter periods.

Income tax expense was \$47.9 million for six months 2011 and \$40.9 million for six months 2010. The effective tax rate was 32.0% for six months 2011 and 33.3% for six months 2010. The increase in income before income tax expense resulted in an increase of \$8.9 million in income taxes, while the lower effective tax rate in 2011 as compared to 2010 resulted in a decrease of approximately \$1.9 million in income taxes when comparing the six months 2011 and 2010 periods.

The primary reason for the lower effective tax rate in the second quarter and six months 2011 periods is due to the inclusion of the R&D credit in the current year, which was not available for the 2010 periods. Also, both current year periods include tax benefits due to foreign exchange fluctuations on previously taxed income, while both periods in 2010 included non-deductible expenses related to the Polartech acquisition.

### **Cash Flows, Financial Condition, and Liquidity**

Cash and cash equivalents at June 30, 2011 were \$60.9 million, which was an increase of \$11.7 million since December 31, 2010 and included a \$1.5 million favorable impact from foreign currency translation.

We expect that cash from operations, together with borrowings available under our revolving credit facility, will continue to be sufficient to cover our operating expenses for the foreseeable future.

#### **Cash Flows – Operating Activities**

Cash flows provided from operating activities for the six months 2011 were \$38.4 million and included a decrease of \$84.7 million due to higher working capital levels, including higher accounts receivable and inventories, as well as lower accrued expenses partially offset by higher accounts payable and income taxes payable. The increase in accounts receivable is primarily due to higher sales levels when comparing the 2011 period with the fourth quarter 2010. The increase in inventories reflects increased quantities at certain locations to respond to demand for our products, as well as higher priced inventory at certain locations. The reduction in accrued expenses primarily reflects payments made during 2011 related to stock repurchased at the end of 2010 and customer rebates. The fluctuation in accounts payable is from normal differences in timing of payments and higher raw material costs, while the increase in income taxes payable reflects taxes due on earnings, which will be paid during 2011.

Including cash and the current portion of long-term debt, we had working capital of \$486.0 million at June 30, 2011 and \$396.4 million at December 31, 2010. The current ratio was 3.00 to 1 at June 30, 2011 and 2.92 to 1 at December 31, 2010.

---

**Table of Contents**

**Cash Flows Investing Activities**

Cash used in investing activities was \$39.3 million during six months 2011 and included \$34.8 million for capital expenditures. Also included in investing activities was a net deposit of \$2.4 million and a net settlement payment of \$2.4 million related to the Goldman Sachs interest rate swap. Further information on the interest rate swap is discussed in Note 9. We estimate our total capital spending during 2011 will be approximately \$55 million to \$60 million. We expect to continue to finance capital spending through cash on hand and cash provided from operations, together with borrowing available under our \$300 million revolving credit facility.

**Cash Flows Financing Activities**

Cash provided from financing activities during six months 2011 amounted to \$11.1 million. We borrowed an additional \$44.0 million under our revolving credit facility during the six months 2011 and incurred \$3.2 million of debt issuance costs related to the consents we obtained from the senior note holders related to the change in the formula for calculating the capacity to make restricted payments under the senior notes. In addition, we paid \$31.5 million for the repurchase of common stock. We also paid \$7.3 million to fund dividends during six months 2011, with the remaining amount for the July 1 dividend being funded on July 1, 2011.

We had total long-term debt, including the current portion, of \$265.2 million at June 30, 2011, representing an increase of approximately \$43.3 million in our total debt since December 31, 2010. The increase resulted from borrowing an additional \$44.0 million under the revolving credit facility, as well as \$800 thousand under a foreign short-term line of credit. These borrowings were partially offset by principal payments of approximately \$1.4 million on the mortgage loan, as well as \$100 thousand on capital leases.

At June 30, 2011, in addition to the revolving credit facility and the Foundry Park I mortgage loan, which are discussed below, we had outstanding senior notes in the aggregate principal amount of \$150 million that bear interest at a fixed rate of 7.125% and are due in 2016. One of our subsidiaries in India also has a short-term line of credit of 110 million Rupees for working capital purposes with an outstanding balance of \$2.3 million at June 30, 2011.

At June 30, 2011, we also had a \$300 million multicurrency revolving credit facility, with a \$100 million sublimit for multicurrency borrowings and a \$100 million sublimit for letters of credit. The agreement includes an expansion feature, which allows us, subject to certain conditions, to request to increase the aggregate amount of the revolving credit facility or obtain incremental term loans in an amount up to \$150 million. Borrowings bear interest at variable rates. The facility matures on November 12, 2015. At June 30, 2011, we had \$48.0 million of outstanding borrowings under the revolving credit facility. We had outstanding letters of credit of \$6.4 million at June 30, 2011, resulting in the unused portion of the revolver amounting to \$245.6 million.

Both the senior notes and the revolving credit facility contain covenants, representations, and events of default that management considers typical of credit agreements of this nature. We were in compliance with all covenants under both the senior notes and the revolving credit facility as of both June 30, 2011 and December 31, 2010.

The more restrictive and significant of the covenants under the senior notes include a minimum fixed charge ratio of 2.00, as well as a limitation on restricted payments, as defined in the agreement. Our fixed charge coverage ratio was 20.06 at June 30, 2011 and 19.46 at December 31, 2010 under the senior notes. In addition, we would have been permitted to make additional restricted payments in the amount of approximately \$159 million at June 30, 2011 and \$50 million at December 31, 2010 under the senior notes. The increase in the capacity for restricted payments



---

**Table of Contents**

between December 31, 2010 and June 30, 2011 resulted from the January 2011 consents obtained from the holders of the senior notes allowing for a modification in the formula for calculating permitted restricted payments.

The more restrictive and significant financial covenants under the revolving credit facility include:

An interest coverage ratio of no less than 3.00; and

A leverage ratio of no more than 3.00.

At June 30, 2011, the interest coverage ratio was 16.55 and the leverage ratio was 0.83, while at December 31, 2010 the interest coverage ratio was 16.50 and the leverage ratio was 0.74.

As a percentage of total capitalization (total debt and shareholders' equity), our total debt percentage increased from 31.1% at the end of 2010 to 32.0% at June 30, 2011. The change in the percentage was primarily the result of the increase in debt, partially offset by an increase in shareholders' equity. The increase in shareholders' equity reflects our earnings, partially offset by the impact of dividend payments and the repurchase of our common stock. Normally, we repay any outstanding long-term debt with cash from operations or refinancing activities.

**Foundry Park I Mortgage Loan Agreement and Interest Rate Swap**

On January 28, 2010, Foundry Park I entered into a mortgage loan agreement in the amount of \$68.4 million. The loan, which is collateralized by the Foundry Park I office building, is for a period of five years, with two thirteen-month extension options. NewMarket Corporation is fully guaranteeing the loan. The mortgage loan bears interest at a variable rate of LIBOR plus a margin of 400 basis points, with a minimum LIBOR of 200 basis points. Concurrently with the closing of the mortgage loan, Foundry Park I obtained an interest rate swap to effectively convert the variable interest rate of the loan to a fixed interest rate by setting LIBOR at 2.642% for five years. The interest rate swap is discussed in Note 9. Principal payments on the loan are being made monthly based on a 15-year amortization schedule, with all remaining amounts due in January 2015, unless we exercise the extension option.

**Critical Accounting Policies and Estimates**

This report, as well as the 2010 Annual Report, includes a discussion of our accounting principles, as well as methods and estimates used in the preparation of our financial statements. We believe these discussions and financial statements fairly represent the financial position and operating results of our company in all material respects. The purpose of this portion of our discussion is to further emphasize some of the more critical areas where a significant change in facts and circumstances in our operating and financial environment might cause a change in reported financial results.

**Intangibles (Net of Amortization) and Goodwill**

We have certain identifiable intangibles, as well as goodwill, amounting to \$42.6 million at June 30, 2011. These intangibles relate to our petroleum additives business and, except for the goodwill, are being amortized over periods with up to approximately twenty years of remaining life. We continue to assess the market related to these intangibles, as well as their specific values, and have concluded the values and amortization periods are appropriate. We also evaluate these intangibles for any potential impairment when significant events or circumstances occur that might impair the value of these assets. These evaluations continue to support the value at which these identifiable intangibles are carried on our financial statements. However, if conditions were to substantially deteriorate in this market, it could possibly cause a reduction in the periods of the amortization charge or result in a noncash write-off of a portion of the intangibles' carrying value. A reduction in the amortization period would have no effect on cash flows. We do not anticipate such a change in the market conditions.

## **Table of Contents**

### **Environmental and Legal Proceedings**

We believe our environmental accruals are appropriate for the exposures and regulatory guidelines under which we currently operate. While we currently do not anticipate significant changes to the many factors that could impact our environmental requirements, we continue to keep our accruals consistent with these requirements as they change.

While it is not possible to predict or determine with certainty the outcome of any legal proceeding, it is our opinion, based on our current knowledge, that we will not experience materially adverse effects on our results of operations, financial condition, or cash flows as a result of any pending or threatened proceeding.

### **Pension Plans and Other Postretirement Benefits**

We use assumptions to record the impact of the pension and postretirement plans in the financial statements. These assumptions include the discount rate, expected long-term rate of return on plan assets, rate of compensation increase, and health care cost trend rate. A change in any one of these assumptions could result in different results for the plans. We develop these assumptions after considering available information that we deem relevant. Information is provided on the pension and postretirement plans in Note 19 of the 2010 Annual Report. In addition, further disclosure on the effect of changes in these assumptions is provided in the Financial Position and Liquidity section of Part II, Item 7 of the 2010 Annual Report.

### **Income Taxes**

We file consolidated U.S. federal income and both consolidated and individual state income tax returns, as well as individual foreign income tax returns, under which assumptions may be made to determine the deductibility of certain costs. We make estimates related to the impact of tax positions taken on our financial statements when we believe the tax position is more likely than not to be upheld on audit. In addition, we make certain assumptions in the determination of the estimated future recovery of deferred tax assets.

### **Recently Issued Accounting Pronouncements**

For a full discussion of the more significant pronouncements which may impact our financial statements, see Note 13.

### **Outlook**

We are very pleased with the performance of our business during the first half of 2011. Our businesses are running well, demand was strong and our employees continue to focus on providing the goods and services our customers expect from NewMarket. The normal business challenges continue to keep our teams busy, but we are confident those challenges will be met and handled successfully. The industry dynamics remained unchanged during the first half of the year, and we see no change in the near term. We have begun to see some signs of a softening of demand. It is too early to know the cause of this, but it is not unusual given such a strong first half of the year and rising costs. We look forward to a successful and profitable 2011.

Our business continues to generate significant amounts of cash beyond what is necessary for the expansion and growth of our current product lines. We regularly review the many internal opportunities which we have to utilize this cash, both from a geographical and product line point of view. We have increased our efforts in investigating potential acquisitions as both a use for this cash and to generate shareholder value. Our primary focus in the acquisition area remains on the

**Table of Contents**

petroleum additives industry. It is our view that this industry will provide the greatest opportunity for a good return on our investment while minimizing risk. We remain focused on this strategy and will evaluate any future opportunities. Nonetheless, we are patient in this pursuit and intend to make the right acquisition when the opportunity arises. Until an acquisition materializes, we will build cash on our balance sheet and will continue to evaluate all alternative uses of that cash to enhance shareholder value, including stock repurchases and dividends.

## **Table of Contents**

### **ITEM 3. Quantitative and Qualitative Disclosures About Market Risk**

There have been no significant changes in our market risk from the information provided in the 2010 Annual Report.

### **ITEM 4. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

We maintain a system of internal control over financial reporting to provide reasonable, but not absolute, assurance of the reliability of the financial records and the protection of assets. Our controls and procedures include written policies and procedures, careful selection and training of qualified personnel, and an internal audit program. We use a third-party firm, separate from our independent registered public accounting firm, to assist with internal audit services.

We work closely with the business groups, operations personnel, and information technology to ensure transactions are recorded properly. Environmental and legal staff are consulted to determine the appropriateness of our environmental and legal liabilities for each reporting period. We regularly review the regulations and rule changes that affect our financial disclosures.

Our disclosure control procedures include signed representation letters from our regional officers, as well as senior management.

We have formed a Financial Disclosure Committee (the committee), which is made up of the president of Afton Chemical Corporation, the general counsel of NewMarket, and the controller of NewMarket. The committee, as well as regional management, makes representations with regard to the financial statements that, to the best of their knowledge, the report does not contain any misstatement of a material fact or omit a material fact that is necessary to make the statements not misleading with respect to the periods covered by the report.

The committee and the regional management also represent, to the best of their knowledge, that the financial statements and other financial information included in the report fairly present, in all material respects, the financial condition, results of operations and cash flows of the company as of and for the periods presented in the report.

Pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 (the Exchange Act), we carried out an evaluation, with the participation of our management, including our principal executive officer and our principal financial officer, of the effectiveness of our disclosure controls and procedures (as defined under Rule 13a-15(e)) under the Exchange Act as of the end of the period covered by this report. Based upon that evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures are effective.

#### **Changes in Internal Controls Over Financial Reporting**

There has been no change in our internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act, during the quarter ended June 30, 2011, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents****PART II OTHER INFORMATION****ITEM 1. Legal Proceedings**

We are involved in legal proceedings that are incidental to our business and include administrative or judicial actions seeking remediation under environmental laws, such as Superfund. Some of these legal proceedings relate to environmental matters and involve governmental authorities. For further information, see Environmental in Part I, Item 1 of our 2010 Annual Report and Note 8 in this Form 10-Q.

While it is not possible to predict or determine with certainty the outcome of any legal proceeding, we believe the outcome of any of these proceedings, or all of them combined, will not result in a material adverse effect on our consolidated financial condition, results of operations, or cash flows.

**ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds**

On July 21, 2010, our Board of Directors approved a share repurchase program authorizing management to repurchase up to \$200 million of NewMarket Corporation's outstanding common stock until December 31, 2012, as market conditions warrant and covenants under our existing agreements permit. We may conduct the share repurchases in the open market and in privately negotiated transactions. The repurchase program does not require NewMarket to acquire any specific number of shares and may be terminated or suspended at any time. Approximately \$126 million remained available under the 2010 authorization at June 30, 2011. The following table outlines the purchases during the second quarter 2011 under this authorization.

**ISSUER PURCHASES OF EQUITY SECURITIES**

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
April 1 to April 30	0	\$ 0	0	\$ 130,275,036
May 1 to May 31	0	\$ 0	0	\$ 130,275,036
June 1 to June 30	26,500	\$ 154.13	26,500	\$ 126,190,549
Total	26,500	\$ 154.13	26,500	\$ 126,190,549

**Table of Contents**

**ITEM 6. Exhibits**

Exhibit 3.1	Articles of Incorporation (incorporated by reference to Exhibit 3.1 to Form 10-K (File No. 1-32190) filed March 14, 2005)
Exhibit 3.2	NewMarket Corporation Bylaws Amended and Restated effective April 23, 2009 (incorporated by reference to Exhibit 3.1 to Form 8-K (File No. 1-32190) filed February 23, 2009)
Exhibit 10.1	Summary of Directors Compensation
Exhibit 31(a)	Certification pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Thomas E. Gottwald
Exhibit 31(b)	Certification pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by David A. Fiorenza
Exhibit 32(a)	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Thomas E. Gottwald
Exhibit 32(b)	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by David A. Fiorenza
Exhibit 101	XBRL Instance Document and Related Items

**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.

NEWMARKET CORPORATION

(Registrant)

Date: August 4, 2011

By: /s/ D. A. Fiorenza  
David A. Fiorenza  
Vice President and

Treasurer  
(Principal Financial Officer)

Date: August 4, 2011

By: /s/ Wayne C. Drinkwater  
Wayne C. Drinkwater  
Controller  
(Principal Accounting Officer)

**Table of Contents**

EXHIBIT INDEX

Exhibit 10.1	Summary of Directors Compensation
Exhibit 31(a)	Certification pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Thomas E. Gottwald
Exhibit 31(b)	Certification pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by David A. Fiorenza
Exhibit 32(a)	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Thomas E. Gottwald
Exhibit 32(b)	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by David A. Fiorenza
Exhibit 101	XBRL Instance Document and Related Items