LUBRIZOL CORP
Form 10-K
February 26, 2010
Table of Contents

United States Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-K

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2009

¨ 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 1-5263

THE LUBRIZOL CORPORATION

(Exact name of registrant as specified in its charter)

OHIO	**34-0367600**
(State of incorporation)	(I.R.S. Employer Identification No.)

29400 Lakeland Boulevard

Wickliffe, Ohio 44092-2298

(Address of principal executive offices, including zip code)

Registrant s telephone number, including area code: (440) 943-4200

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Shares without par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Exchange Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act of 1933. Yes þ No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes ¨ No þ

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 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 þ 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 (§ 232.405 of this chapter) 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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: þ		Accelerated filer: ¨
Non-accelerated filer: ¨	(Do not check if a smaller reporting company)	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 þ

Aggregate market value (on basis of closing sale price) of voting stock held by nonaffiliates as of June 30, 2009: $3,187,115,218.

Number of the registrant s Common Shares, without par value, outstanding as of February 12, 2010: 68,388,775.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the 2010 Annual Meeting of Shareholders (Incorporated into Part III of this Form 10-K)

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I

ITEM 1. BUSINESS

References to Lubrizol, the company, we, us or our refer to The Lubrizol Corporation and its subsidiaries, except where the context makes clear that the referen only is to The Lubrizol Corporation itself and not to its subsidiaries.

OVERVIEW

The Lubrizol Corporation was founded in 1928. We are an innovative specialty chemical company with consolidated revenue for the year ended December 31, 2009, of $4,586.3 million. We supply technologies and produce additives, ingredients, resins and compounds that improve the quality, value and performance of our customers products in the global transportation, industrial and consumer markets, while minimizing their environmental impact. Our business is founded on technological leadership. Innovation provides opportunities for us in growth markets as well as advantages over our competitors. From a base of approximately 1,600 patents, we use our product development and formulation expertise to sustain our leading market positions and fuel our future growth. Our products are used in a broad range of applications and are sold into relatively stable markets such as those for engine oils, specialty driveline lubricants and metalworking fluids, as well as higher-growth markets such as personal care and over-the-counter pharmaceutical products, performance coatings, medical products and compressor lubricants. Our specialty chemical products also are used in a variety of industries, including the construction, sporting goods, medical products and automotive industries.

We are organized into two operating and reportable segments called Lubrizol Additives and Lubrizol Advanced Materials, and we are an industry leader in many of the markets in which our product lines compete. We produce products with well-recognized brand names, such as Anglamol® (gear oil additives), Carbopol® (acrylic thickeners for personal care products), Estane® (thermoplastic polyurethane) and TempRite® (resins and compounds used in plumbing, industrial and fire sprinkler systems).

We are diverse geographically, with an extensive global manufacturing, supply chain, technical and commercial infrastructure. At December 31, 2009, we operated facilities in 27 countries, including production facilities in 17 countries and laboratories in 14 countries, in key regions around the world through the efforts of approximately 6,700 employees. We derived approximately 37% of our consolidated total revenues from North America, 29% from Europe, 27% from Asia/Pacific and the Middle East and 7% from Latin America. We sell our products in more than 100 countries and believe that our customers recognize and value our ability to provide customized, high quality, cost-effective performance formulations and solutions worldwide. We also believe our customers highly value our global supply chain capabilities.

Our principal executive offices are located at 29400 Lakeland Boulevard, Wickliffe, Ohio 44092-2298 and our telephone number is 440-943-4200. Our website is located at *www.lubrizol.com*. Information contained on our website does not constitute part of this annual report on Form 10-K. We make available free of charge on our website the annual reports on Form 10-K, the quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file or furnish the material to the Securities and Exchange Commission (SEC).

ACQUISITIONS

On December 31, 2008, we completed the acquisition of the commercial, production and research and development assets of the thermoplastic polyurethane business of The Dow Chemical Company for approximately $59.9 million. The acquisition included technology, trade names, customer lists and manufacturing know-how. We also acquired a manufacturing facility, including equipment and inventory, in La Porte, Texas as part of the transaction.

On October 10, 2008, we completed the acquisition of the thermoplastic polyurethane business from SK Chemicals Co., Ltd. for approximately $5.0 million, of which $2.5 million will be paid in 2010. The acquisition included equipment, technology, customer lists and manufacturing know-how.

On November 1, 2007, we completed the acquisition of the refrigeration lubricants business of Croda International Plc for approximately $123.7 million. The acquisition primarily included lubricant technology, trade names, customer lists, manufacturing know-how and inventory. No manufacturing facilities were included in the transaction.

On February 7, 2007, we completed the acquisition of the metalworking additives business from Lockhart Chemical Company for approximately $15.7 million. We purchased Lockhart s entire metalworking product business, which included natural, synthetic and gelled sulfonates; emulsifier packages; corrosion inhibitors and lubricity agents; grease additives; oxidates; esters; soap; semi-finished coatings; and rust preventatives.

Table of Contents

BUSINESS SEGMENTS

The Lubrizol Additives segment represented approximately 72% of our 2009 consolidated revenues and is comprised of two primary product lines: (i) engine additives and (ii) driveline and industrial additives. The Lubrizol Advanced Materials segment represented approximately 28% of our 2009 consolidated revenues and is comprised of three primary product lines: (i) engineered polymers, (ii) Noveon consumer specialties and (iii) performance coatings. Additional financial information about our segments is contained in Note 3 to our consolidated financial statements.

The following tables depict the composition of our business segments and the product lines and products within each segment.

Lubrizol Additives Segment

Engine Additives

Passenger Car Motor Oils
Heavy-duty Diesel Engine Oils
Marine Diesel Engine Oils
Viscosity Modifiers

Fuel, Refinery and Oilfield Products
Stationary Natural Gas Engine Oils
Motorcycle, Power Tool and Recreational Equipment Engine Oils

Driveline and Industrial Additives

Automatic Transmission Fluids
Gear Oils
Farm Tractor Fluids
Hydraulic Fluids
Grease Additives
Metalworking Fluids
Compressor Lubricants
Industrial Gear Oils
Viscosity Modifiers
Services
AMPS® Monomers
ADEX Emulsifiers for Explosives

Lubrizol Advanced Materials Segment

Engineered Polymers

Estane Engineered Polymers
TempRite Engineered Polymers

Noveon Consumer Specialties

Personal and Home Care
Pharmaceuticals
Food Additives

Performance Coatings

Graphic Arts
Paints, Coatings and Adhesives
Engineered Substrates

Lubrizol Additives Segment

The Lubrizol Additives segment pioneered the development of lubricant additives over 80 years ago and is the leading global supplier of additives for transportation and industrial lubricants. Our customers rely on our products to improve the performance and lifespan of critical components, such as engines, transmissions and gear drives for cars, trucks, buses, off-highway equipment, marine engines and industrial applications.

For the year ended December 31, 2009, the Lubrizol Additives segment generated revenues of $3,283.9 million and segment operating income of $787.8 million.

Our products provide value to our customers and serve to increase cost-effectiveness by reducing friction and heat, resisting oxidation, minimizing deposit formation, and preventing corrosion and wear. Through our internal research, development and testing programs, we have the capability to invent and develop a broad range of proprietary chemical components. We formulate proprietary additive packages by combining these different components to create unique products targeting specific customer problems. We are recognized by our customers for innovative technology, broad product offerings and high-quality products. Key components of our additive packages include:

- antioxidants that retard oil thickening;
- anti-wear agents that prevent metal-to-metal contact of surfaces;

corrosion inhibitors that prevent rust;

detergents that prevent deposit build-up;

- dispersants that protect equipment by suspending contaminant particles;
- friction modifiers that control friction at surfaces;
- polymer-based viscosity modifiers that allow lubricants to operate over broad temperature ranges; and
- pour point depressants that control low temperature fluid thickening.

Our products are essential to the performance of the finished lubricant, yet represent a relatively small portion of its volume. The majority of our products are designed to meet an industry standard or customer specification. For example, we work with customers to develop additive packages that perform in combination with their proprietary base oil or that meet their marketing objectives to differentiate their lubricant. Extensive testing is conducted in our world-class laboratories, global mechanical testing facilities and in the field to determine additive performance under actual operating conditions. With this testing, we provide proof of performance, which enables our customers to label and certify the lubricant as meeting the exact performance specifications required for these products by the industry.

Engine Additives Our engine additives products hold a leading global position for a wide range of additives for lubricating engine oils, such as for gasoline, diesel, marine and stationary gas engines. They provide performance properties to lubricants that enhance fuel economy, extend equipment life and lower vehicle emissions. We also produce additives for fuels, refinery and oilfield chemicals and other components to eliminate deposits and provide fuel system cleanliness, prevent wear and corrosion, enhance fuel economy, improve combustion properties of fuel and improve flow characteristics for crudes and refined products. In addition, this product line sells additive components and viscosity modifiers and provides outsourcing services for supply chain and knowledge center management. Our customers, which include major global and regional oil companies, refineries and specialized lubricant producers and marketers, blend our additive products with their base oil and distribute the finished lubricant to end-users via retail, commercial or vehicle original equipment manufacturer (OEM) channels. In 2009, our engine additives products generated total revenues of $2,221.7 million.

Driveline and Industrial Additives We are a global supplier of driveline and industrial additive products for use in driveline and industrial applications. This product line also sells viscosity modifiers and provides outsourcing services for supply chain and knowledge center management. In 2009, our driveline and industrial additives products generated total revenues of $1,062.2 million.

Driveline Additives Our driveline additives products include additives for driveline oils, such as automatic transmission fluids, gear oils and farm tractor lubricants. They provide multiple and complex performance properties to reduce friction in order to prevent wear of gears, transmissions and farm tractor components. Relative to engine oils, specialty driveline additives are more complex formulations that carry higher average pricing and value and have longer product life cycles. We sell our products to major global and regional oil companies, specialized lubricant producers and marketers. Our customers use our products to blend with their lubricant fluids and distribute the finished lubricant to end-users via retail, commercial or vehicle OEM channels. The specialty driveline additives industry is characterized by well-established product lines that meet OEM specifications and carry OEM approvals.

Industrial Additives Our industrial additives products include additives for hydraulic lubricants, metalworking fluids, industrial gear oils and grease, as well as compressor lubricants that meet the lubricant performance requirements of industrial equipment. We sell our products to major global and regional oil companies, compressor manufacturers and specialized lubricant producers and marketers. Our customers use our products to blend with their fluid products and distribute the finished lubricant to end-users via retail, commercial or OEM channels. Included in this product line are ADEX emulsifiers that are designed to combine water and oil for use in producing civil explosives, and AMPS monomers, which are designed to manufacture high performance water soluble polymers. The primary applications of these high performance polymers are flocculants in water treatment applications and lubricity aids in oil well drilling. Because our products are sold to industrial end-markets, our industrial additives products are exposed to economic cycles more than other products within the Lubrizol Additives segment.

Lubrizol Advanced Materials Segment

The Lubrizol Advanced Materials segment represents a diverse portfolio of performance chemicals used in specialty plastics and materials, consumer and industrial applications, such as ingredients for personal care and pharmaceutical products, and emulsions and additives for coatings and inks.

For the year ended December 31, 2009, the Lubrizol Advanced Materials segment generated revenues of $1,302.4 million and segment operating income of $168.7 million.

Engineered Polymers We are a leading global supplier of engineered polymer resins and compounds sold under several trademarks, including Estane and TempRite engineered polymers. In 2009, the engineered polymers product line generated total revenues of $498.1 million.

Table of Contents

Estane Engineered Polymers The Estane engineered polymers business develops and markets thermoplastic elastomer resins, engineered polymer compounds, sheet and tubing for attractive end-uses that require high performance functionality such as abrasion resistance, clarity, breathability, barrier capability, low-temperature flexibility, biocompatibility, elasticity, electrical conductivity and weather resistance. The Estane business has developed and markets the broadest range of high performance thermoplastic polyurethane (TPU) products and offers alternatives to competitive materials from flexible rubber to metal. The Estane brands include Pellethane®, Tecoflex® and Carbothane® specifically used in the health care industry for implantables, medical devices, surgical instruments and drug delivery. The unique characteristics of these materials offer performance for the designer/manufacturer, precision for the surgeon and comfort for the patient. Estane polymer is a highly versatile thermoplastic that is attractive for a broad range of end-uses, including film and sheet for various coating processes, wire and cable jacketing, sports and recreation, pneumatic tubing, molded parts and adhesives. The Estane business has developed highly versatile materials that can be processed into non-wovens and fibers that offer very distinct and appealing feel to performance apparel. Reinforced products marketed under Isoplast® and Estaloc® offer functional properties of traditional TPU, yet are reinforced for higher stiffness to provide the strength, dimensional stability and impact resistance required to withstand a variety of tough applications and harsh environments at seven times lighter weight than steel. Applications include automotive trim, sporting goods, agricultural equipment, medical and dental products along with general industrial and mechanical applications. We also market Stat-Rite® conductive polymers that are static dissipative materials, which are used in a variety of applications such as packaging for sensitive electronic components and various clean room applications.

TempRite Engineered Polymers TempRite is a technologically advanced heat, fire and chemical resistant polymer that we developed to serve technically demanding applications not well served by traditional polyvinyl chloride (PVC) and other commodity plastics. TempRite polymer is sold to customers who produce plastic piping for residential and commercial plumbing, fire sprinkler systems and industrial piping applications. TempRite piping has inherent advantages over copper and other metals due to its heat and corrosion resistance, increased insulation properties, mold resistance, ease of installation and lower installed cost. We market our branded TempRite polymer products for specific applications, including: FlowGuard® and FlowGuard Gold® for residential and commercial plumbing, FlowGuard Gold® Bendable and FlowGuard® Flex flexible piping systems for use in residential and commercial plumbing, BlazeMaster® for fire sprinkler systems, and Corzan® for industrial and commercial piping. We market these products directly to builders, contractors, plumbers, architects, engineers and building owners.

Noveon Consumer Specialties Noveon consumer specialties is the leading supplier of synthetic rheology modifiers used in personal care, home care and pharmaceutical applications, each under the well-known brand name of Carbopol. The consumer specialties portfolio includes a variety of innovative technologies designed to improve product functionality as well as the physical and tactile appeal of products in the personal care, home care and pharmaceutical industries. These specialty ingredients are used in fast moving consumer goods such as shampoos, body washes, liquid hand soaps and hand sanitizers, skin care creams and lotions, hair conditioners and styling treatments and in-home care products for surface and fabric care. In the pharmaceutical segment, these technologies are used in dental care and topical applications and in prescription and over-the-counter medications in liquid suspension and solid dose forms. In 2009, products in Noveon consumer specialties generated total revenues of $417.7 million.

The consumer specialties product line is comprised of Carbopol polymers, which improve product flow, appearance, tactile appeal and shelf stability in a wide variety of consumer applications; Fixate® polymers, which provide humidity-resistant holding power in styling products; Schercemol emollient esters, which enhance the elegance and sensory appeal of skin color cosmetic products; and naturally-derived Glucamate® thickeners and emulsifiers, which enhance the mildness and appeal of skin cleansing and baby care products. The portfolio also contains other naturally-derived technologies such as cassia gum, a natural hydrocolloid, which improves product texture and yield in food applications, and cationic cassia derivatives, which are designed to improve the condition and appearance of hair.

Performance Coatings The performance coatings product line is a leading supplier of specialty resins, polymers and additives for coatings and related industries worldwide. We offer a wide range of products including high-performance polymers and additives for specialty paper, inks and graphic arts, and paint and textile coating applications, and we are able to formulate and compound polymer emulsions to create customized solutions to meet the specific needs of our customers. In 2009, our performance coatings products generated total revenues of $386.6 million.

Specialty Resins and Polymers Our water-based polymer emulsions and dispersions, including resins and auxiliaries, are used in the production of high-end paint and coatings for wood, paper, metal, concrete, plastic, textiles and other surfaces. These are environmentally attractive substitutes for solvent-based and hydrocarbon products and are valued for the superior gloss and durability properties they provide. These products are sold under the Hycar®, Sancure®, Algan®, Performax®, Vycar®, Stycar®, and Myflam® trade names. In addition, our polymers are used as ink vehicles, overprint varnishes and functional coatings for specialty paper, printing and packaging

Table of Contents

applications. We supply technology used to improve the appearance, texture, durability and flame retardance of high-end specialty textiles sold to the home furnishings and technical fabrics industries. In addition to water-based polymers, we specialize in unique, non-aqueous acrylic and other proprietary polymer resins for the paint and coatings, printing ink, laminating, adhesives and sealants markets. These value-added Doresco® specialty resins not only function as carriers for pigment, but also provide surface protection and adhesion properties. We work closely with our customers to develop solutions that address their specific needs.

Coating Additives Our additives for coatings and inks are used to enhance the appearance and durability of coatings in architectural and industrial uses, as well as to improve their processing and application characteristics. Additives such as pigment dispersants enhance the processing and performance of printing ink, while also maximizing color strength and stability in coatings and plastics. We are a leading global supplier of surface modifiers that improve the abrasion resistance properties, gloss, leveling and film characteristics of printing ink and coatings. Our products include:

High-performance hyperdispersants for coatings, inks, thermoplastics and thermoset composites. We are a world leader in polymeric hyperdispersant technology, sold under the Solsperse® and Solplus® trade names. Hyperdispersants improve the dispersion of almost any solid particulate (including pigments, fillers, flame retardants and fibers) into almost any liquid medium (water, solvents and resins). They primarily are used to achieve even color saturation. They enrich and strengthen color, while reducing production costs and solvent emissions. We also produce Ircosperse® pigment dispersants for coatings and COLORBURST   pigment dispersants for printing inks.

Surface modifiers improve the performance of industrial, architectural, can, coil, wood and powder coatings by enhancing and protecting surfaces. Lanco®, Lanco® Glidd, Lanco® Matt and Aquaslip   surface modifiers impart a variety of properties to a coating, including enhanced slip, abrasion and scratch resistance, matting, texturing and a silky, soft feel.

Rheology control additives improve the performance of coatings by providing thickening, sag and flow control, pigment anti-settling and improved surface appearance. Rheology control additives are sold under the brand names Ircothix®, Lancoflow®, Ircogel® and Solthix®.

Specialized additives for inks improve processing, performance and rub resistance properties and film characteristics that are sold under the brand names Duotron®, Liquitron®, Pinnacle® and Fluotron®.

Highly specialized additives for coating applications that promote adhesion and inhibit corrosion that are sold under the brand name Lubrizol® Specialty Additives.

COMPETITION

Our Lubrizol Additives segment is highly competitive in terms of price, technology development, product performance and customer service. Our principal competitors, both in the United States and overseas, are: Infineum, a joint venture involving Shell Oil Company and Exxon Mobil Corporation; Chevron Oronite Company, a subsidiary of Chevron Corporation; and Afton Chemical Corporation, a subsidiary of NewMarket Corporation. Petroleum companies also produce, either directly or indirectly, lubricants and fuel additives for their own use and also sell additives to others. These petroleum companies also are our customers, and some of them sell raw materials to us. We believe based on volume sold, that we are a leading supplier of performance additives for lubricants to the petroleum industry.

Our Lubrizol Advanced Materials segment faces a variety of competitors in each of our product lines. The advanced materials industry is highly fragmented. Individual products or service offerings compete on a global, regional and local level due to the nature of the businesses and products, as well as the applications and customers served. The following table sets forth the principal competitors of the Lubrizol Advanced Materials segment by product line:

Product Line	Principal Competitors
Engineered polymers	Arkema, BASF, Bayer, COIM, Georgia Gulf, Huntsman, Kaneka, Merquinsa, Padanaplast USA, Sekisui Chemical, Vanguard, Wirsbo, Yantai Wanhua
Noveon consumer specialties	BASF, Cognis, Croda, Dow Chemical, Evonik (Degussa Goldschmidt), ISP, NK Chemicals, Rhodia, SNF, Stepan, Sumitomo Seika, 3V Sigma, Vinati

Performance coatings	BASF, Bayer, Byk, Clariant, Cytec, Dow Chemical, DSM, Eastman, Hexion, Michelman, Micro Powders, OMNOVA, Parachem, Reichhold, Tego

Table of Contents

SALES AND MARKETING

We primarily market lubricant and fuel additives products worldwide through our direct sales organization. In addition, we use sales agents and distributors where necessary. Our additives customers primarily consist of oil refiners and independent oil blenders and are located in more than 100 countries. Our 10 largest customers, most of which are multinational oil companies, accounted for approximately 39% of our consolidated net sales in 2009. In 2009, no single customer accounted for more than 10% of consolidated net sales.

In order to maximize our understanding of customer needs as well as emerging trends, our sales and marketing activities for our advanced materials products are organized by end-use applications. Each sales team includes representatives from sales, marketing and research and development.

Our sales and marketing staff are oriented technically and work closely with customers to develop products and formulations that deliver the desired product attributes. Some of our laboratories are equipped with small-scale equipment that replicates our customers processing capabilities, ensuring that our solutions are implemented easily and efficiently at our customers facilities.

BACKLOG

We had no material backlog of orders in either business segment at December 31, 2009, and December 31, 2008. All unfilled orders that were placed by December 31, 2009, are expected to be filled during 2010.

RESEARCH, DEVELOPMENT AND TECHNOLOGY

Technology leadership in design and formulation of additives and specialty chemicals drives our business. Historically, we have emphasized consistent investment in research. We have developed internally a large percentage of the products we manufacture and sell. Our internal technical resources encompass chemical synthesis, world-class physical and analytical science, statistical and computer modeling expertise and extensive applications technology and testing laboratories. We balance centralized research facilities with applications technology capabilities that are tied closely to their counterparts in the commercial organizations. Our technical facilities are located all over the world. We provide tools and processes for knowledge sharing and for leveraging our technology globally and across product lines.

Lubrizol Additives In our Lubrizol Additives segment, the majority of the additives we manufacture and sell are developed by our internal research group. Technological advances in materials and in the design of engines and other automotive equipment, combined with rising demands for environmental protection and fuel economy, require increasingly sophisticated research capabilities to meet industry performance standards.

Our principal technical facilities for lubricant additives research are located in Hazelwood, United Kingdom; Kinuura, Japan; and Wickliffe, Ohio. We also conduct a limited program of corporate research designed to leverage technology across our product lines. We maintain mechanical testing laboratories at those three locations, equipped with a variety of gasoline and diesel engines, driveline and other mechanical equipment to evaluate the performance of additives for lubricants and fuels. In addition, we make extensive use of independent research firms. Global field testing is conducted through various arrangements with fleet operators and others.

We maintain offices in Hamburg, Germany; Hazelwood, United Kingdom; Mumbai, India; Paris, France; Seoul, Korea; Shanghai, China; Tokyo, Japan; and Wickliffe, Ohio to maintain close contact with the principal automotive OEMs of the world and to keep abreast of the performance requirements for our products. These liaison activities also serve as contacts for cooperative development and evaluation of products for future applications.

Lubrizol Advanced Materials Our Lubrizol Advanced Materials segment has a long history as an industry innovator, creating proprietary, high-performance materials for our customers, including ingredients for personal care products, the invention of Carbopol acrylic thickener, additives for coatings and the commercial development of Estane and TempRite engineered polymers. We have leveraged our core surface activity chemistry into new specialty chemicals and materials markets through acquisitions and application technology expertise. Our specialty chemical and materials products are derived from a broad range of technology platforms developed either internally or externally through licensing, acquisition or joint technological alliances with global suppliers and customers.

Our primary research facility for the Lubrizol Advanced Materials segment is located in Brecksville, Ohio, where we develop new technologies and products and conduct applications development and technical service for our customers. We have other technical facilities in various locations around the world with our key facilities located in Blackley, United Kingdom; Cuautitlan Izcalli, Mexico; Hong Kong, China; Louvain-la-Neuve, Belgium; Piscataway, New Jersey; Ritterhude, Germany; Sao Paulo, Brazil; and Shanghai, China.

Table of Contents

Patents We own approximately 1,600 patents worldwide relating to our products and manufacturing processes. Although these domestic and foreign patents expire from time to time, we continue to apply for and obtain patent protection for new products on an ongoing basis. We believe that our patents are important assets for both of our business segments. However, we do not regard our business as being dependent materially upon any single patent or any group of related patents.

Research, Testing and Development Expenditures Our consolidated research and development expenditures were $147.7 million in 2009, $149.6 million in 2008 and $148.2 million in 2007. These amounts were equivalent to 3.2%, 3.0% and 3.3% of the respective consolidated total revenues for those years. These amounts include expenditures for the performance evaluation of additive developments in engines and other types of mechanical equipment as well as expenditures for the development of specialty chemicals for industrial applications. In addition, we spent $64.4 million, $71.3 million and $70.7 million in 2009, 2008 and 2007, respectively, for technical service (testing) activities, principally for evaluation in mechanical equipment of specific lubricant formulations designed for the needs of petroleum industry customers throughout the world.

Our research and development staff works with both our sales force and customers to use our wide spectrum of technology platforms and processing capabilities to enhance our product offerings in the specialty chemicals industry. We have developed many of our products in cooperation with our customers, often as a result of their specific needs, resulting in long-standing customer relationships.

RAW MATERIALS

We use a broad variety of specialty and commodity chemical raw materials in our manufacturing processes and use oil in processing and blending additives. These raw materials are obtainable from several sources. The materials that we choose to purchase from a single source generally are subject to long-term supply contracts as a basis to guarantee supply reliability. For the most part, our raw materials are feedstocks derived from petroleum and petrochemicals.

For the Lubrizol Additives segment, raw materials derived from petrochemicals are approximately 85% of our purchases. Lubricant base oil is our single largest purchased raw material, representing approximately 30% of our purchases, by weight. Other major categories of raw materials for the Lubrizol Additives segment include olefins and esters (approximately 20% of purchases) and inorganic acids, bases and oxides (approximately 10% of purchases). For our Lubrizol Advanced Materials segment, no single raw material represents more than 10% of purchases. The top 10 raw materials total approximately 45% of our purchases for the Lubrizol Advanced Materials segment. Principal raw materials for the Lubrizol Advanced Materials segment include three different acrylates for personal care and coatings, PVC, PTMEG, MDI and Butanediol for engineered polymers, and styrene for coatings.

REGULATORY

Our business and our customers are subject to significant new regulations under the European Commission s Registration, Evaluation and Authorization of Chemicals (REACH) regulation. REACH became effective on June 1, 2007, with the new regulatory program being phased in over the next 11 years. The new regulatory program imposes obligations on European Union (EU) manufacturers and importers of chemicals and other products into the EU to compile and file comprehensive reports, including testing data, on each chemical substance and perform chemical safety assessments. The regulations impose significant additional burdens on chemical producers, importers, and, to a lesser extent, downstream users of chemical substances and preparations. The registration, evaluation and authorization phase of the program will require significant expenditures and resource commitments in order to develop information technology tools, generate data, prepare and submit dossiers for substance registration, participate in consortia and reformulate products, if necessary. We have developed a cross-functional management team that is working closely with our businesses to manage implementation of REACH. Although the long-term costs for REACH compliance are not estimable at this time, we do not anticipate that REACH compliance costs will have a material adverse effect on our financial condition or results of operations.

ENVIRONMENTAL MATTERS

We are subject to foreign, federal, state and local laws and regulations designed to protect the environment and limit manufacturing wastes and emissions. We believe that, as a general matter, our policies, practices and procedures are designed properly to prevent unreasonable risk of environmental damage and the consequent financial liability to us. Compliance with environmental laws and regulations requires continuing management effort and expenditures. We have incurred, and will continue to incur, costs and capital expenditures to comply with these laws and regulations and to obtain and maintain all necessary permits. We believe that the cost of complying with environmental laws and regulations will not have a material adverse effect on our financial condition or results of operations.

Among other environmental laws, we are subject to the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (commonly known as Superfund), under which we have been designated as a potentially responsible party that may be liable for cleanup costs associated with various waste or operating sites, some of which are on the U.S. Environmental Protection Agency Superfund national priority list. Our experience, consistent with what we believe to be the experience of others in similar cases, is that Superfund site liability tends to be apportioned among parties based upon the contribution of materials to the Superfund site. Accordingly, we

measure our liability and carry out our financial reporting responsibilities with respect to Superfund sites based upon this standard, even though Superfund site liability is technically joint and several in nature. We believe our environmental accrual is adequate to provide for our portion of the expenses associated with environmental remediation obligations when such expenses are probable and reasonably estimable, based upon current law and existing technologies. These accruals are adjusted as further information develops or circumstances change. Based upon consideration of currently available information, we believe liabilities for environmental matters will not have a material adverse effect on our financial condition or results of operations.

Lubrizol Advanced Materials International, Inc. (LZAM International) (formerly known as Noveon International, Inc.) is the beneficiary of agreements with Goodrich Corporation (Goodrich) that require Goodrich to indemnify LZAM International for, among other things, certain environmental liabilities and costs relating to facilities of the former Performance Materials Division of Goodrich. However, there are no assurances that Goodrich or other third-parties will, in the future, honor their indemnification obligations to us.

We believe that our business, operations and facilities are being operated in compliance, in all material respects, with applicable environmental laws and regulations, many of which provide for substantial fines, penalties and criminal sanctions for violations. The operation of manufacturing plants entails environmental risks, and we may incur material costs or liabilities in the future that could affect us adversely. We may be required to comply with evolving environmental laws, regulations or requirements that may be adopted or imposed in the future, such as climate change legislation, or to address newly discovered contamination or other conditions or information that require a response on our part.

EMPLOYEES

At December 31, 2009, we had approximately 6,700 employees of which approximately 52% were in the United States. We believe that our relationship with our employees is good. Three of our U.S. sites, which employ approximately 6% of our domestic employees, are organized by labor unions with collective bargaining agreements that are subject to periodic renegotiation. We have two facilities with agreements expiring in 2010, and one facility with an agreement expiring in 2013. We expect to enter into new agreements with the unions when they expire. In some countries outside of the United States, wages, salaries and general working conditions may be subject to union agreements, industry-wide collective bargaining agreements and works councils. Currently, we are in the process of renegotiating an agreement for one of our facilities in Belgium, which represents approximately 7% of our European workforce.

EXECUTIVE OFFICERS OF THE REGISTRANT

The information contained in Part III, Item 10 regarding executive officers of the company is incorporated herein by reference.

GEOGRAPHIC AREA INFORMATION

Financial information with respect to our domestic and foreign operations is contained in Note 3 to our consolidated financial statements.

We supply our customers abroad through exports from the United States and from overseas manufacturing plants. We believe the political and economic risks related to our foreign operations are mitigated due to the stability of the countries in which our largest foreign operations are located.

MANUFACTURING AND PROPERTIES

We possess global manufacturing, laboratory and sales and technical service facilities enabling us to provide customers with worldwide service and a reliable supply of products. Our corporate headquarters is located in Wickliffe, Ohio. We have manufacturing facilities and laboratories, which we own or lease, at 24 sites in the United States and 35 sites in 18 other countries. In addition, we have entered into manufacturing tolling arrangements for several of our products. We also have entered into long-term contracts for the exclusive use of major marine terminal facilities at various ports and leases for storage facilities. We maintain a capital expenditure program to support our operations and believe our facilities are adequate for our present operations and for the foreseeable future.

On January 19, 2010, we announced our decision to proceed with a 10-year phased investment plan to upgrade operations and increase global capacity in our Lubrizol Additives segment. We plan to make a greenfield investment in China as well as implement a debottlenecking program at our existing facilities in the United States and Europe. As part of the 10-year plan, we signed a letter of intent to reserve land use rights in China for a wholly owned manufacturing plant, which will be developed and phased in as market needs require. By phasing in selective capacity additions in China, we aim to match our manufacturing capability with lubricant growth in Asia. We expect that the China plant will require an investment in excess of $200.0 million over the next three years. In addition, we plan to accelerate reinvestment at existing plants for upgrading infrastructure, as well as ensuring compliance with ever increasing health, safety and environmental requirements.

Table of Contents

ITEM 1A. RISK FACTORS

If any of the events described below were to occur, our business, results of operations and financial condition could be affected adversely.

RISKS RELATING TO OUR BUSINESS

Volatility in raw material prices could reduce our profitability, and reductions in the availability of raw material supplies could disrupt our operations.

Most of the raw materials that we use are feedstocks derived from petroleum and petrochemicals, such as crude oil and natural gas, which have been subject to historical periods of rapid and significant movements in price. These fluctuations in price could be influenced by political instability, terrorist attacks or other hostilities in oil-producing countries or elsewhere in the world, and supply and demand factors, including OPEC production quotas, global demand for petroleum-based products or shutdown of production facilities. In addition, the implementation of climate change legislation could increase the cost of raw materials. We also use natural gas as fuel at our facilities, and increases in the price of natural gas may reduce our profitability. Any significant variations in the cost and availability of our specialty and commodity materials or energy may affect negatively our business, financial condition or results of operations. We typically do not enter into hedging arrangements with respect to raw materials or energy, other than for natural gas. In response to price changes of raw materials, we change prices to our customers from time to time to manage our margins. However, we cannot always raise prices in response to higher raw material costs, and any limitation on our ability to do so could affect adversely our financial performance.

We use significant quantities of a variety of specialty and commodity chemicals in our manufacturing processes, such as lubricant base oils (a derivative of crude oil); C4 feedstreams; acrylates; PVC; inorganic acids, bases and oxides; alcohols, glycols and polyols; olefins and esters; sulfonates; phenates; alkylates; sulfonic acids; and amines. These raw materials generally are available from numerous independent suppliers; however, some of our raw material needs are met by a sole supplier or only a few suppliers. If any supplier that we rely on for raw materials ceases or limits production, we may incur significant additional costs, including capital costs, in order to find alternate, reliable raw material suppliers. We also may experience significant production delays while locating new supply sources.

Some of our businesses are cyclical and demand by our customers for our products weakens during economic downturns.

Approximately 79% of our product sales are attributable to markets, such as transportation, construction and industrial, that historically have been cyclical and sensitive to changes in supply and demand and general economic conditions. The demand for our products depends, in part, on the general economic conditions of the industries or national economies of our customers. It is not possible to predict accurately the factors that will affect demand for our products in the future. In a declining economic environment, we may experience the negative effects of increased competitive pricing pressure and customer turnover as well. Economic weakness in the United States, Europe, China and other regions has resulted and may continue to result in a reduction of sales by our customers and us, which has and may continue to have an adverse effect on our business, financial condition and results of operations.

As a majority of our revenues are concentrated in the transportation and industrial lubricant industries, changes in economic and industry conditions could affect adversely our results of operations.

Approximately 72% of our consolidated revenues are related to the transportation and industrial lubricant business. This concentration of business affects our overall risk as our customers will be affected similarly by changes in economic and industry conditions. A sudden or protracted downturn in these industries could affect adversely our results of operations.

We face competition from other chemical companies, which could affect adversely our business, financial condition and results of operations.

We actively compete with companies producing the same or similar products and, in some instances, with companies producing different products designed for the same uses. We encounter competition in price, delivery, service, performance, product innovation, technical support, product recognition and quality, depending on the product involved. For some of our products, our competitors are larger and have greater financial resources and less debt. As a result, these competitors may be better able to withstand a change in conditions within the industries in which we operate, a change in the prices of raw materials or a change in the economy as a whole.

We expect our competitors to continue to develop and introduce new and enhanced products, and these products could cause a decline in market acceptance of our products. Current and future consolidation among our competitors and customers also may cause a loss of market share as well as put downward pressure on pricing. Our competitors could cause a reduction in the prices for some of our products as a result of intensified price competition. Additionally, a number of our niche product applications are customized or sold for highly specialized uses. Competitive pressures also can result in the loss of major customers. If we cannot compete successfully, our business, financial condition and results of operations could be affected adversely.

Table of Contents

Failure to make continued improvements in our technology and productivity could hurt our competitive position.

We believe that we must continue to enhance our existing products and to develop and manufacture new products with improved capabilities in order to continue to be a market leader. We also believe that we must continue to make improvements in our productivity in order to maintain our competitive position. When we invest in new technologies, processes or production facilities, we face risks related to construction delays, cost over-runs and unanticipated technical difficulties. Our inability to anticipate, respond to or utilize changing technologies could have a material adverse effect on our business or our results of operations.

Our and our suppliers production facilities are subject to operating risks that could affect adversely our business or results of operations.

We are dependent upon the continued safe operation of our and our suppliers production facilities. These production facilities are subject to hazards associated with the manufacture, handling, storage and transportation of a variety of reactive, explosive and flammable materials and products, including leaks and ruptures, explosions, fires, inclement weather and natural disasters, unscheduled downtime and environmental hazards. As some of our operations are located in the U.S. Gulf Coast, major hurricanes in recent years have affected our ability to operate. Incidents at our or our suppliers production facilities could shut down temporarily or otherwise disrupt our manufacturing operations, causing production delays and, with respect to our facilities, resulting in liability for workplace injuries and fatalities. In addition, some of our and our suppliers production facilities are highly specialized, which limits our ability to shift production to other facilities in the event of an incident at a particular facility. If a production facility, or a critical portion of a production facility, were shut down temporarily, we likely would incur higher costs for alternate means of production, sources of supply for our products and production delays, which could have a material adverse effect on our business, financial condition or results of operations.

If we are unable to protect our intellectual property rights or to successfully resolve claims of infringement brought against us, our product sales and financial performance could be affected adversely.

We rely on a combination of patent, trade secret, copyright and trademark law, nondisclosure agreements and technical security measures to protect our intellectual property rights in our various lines of business. Our performance may depend in part on our ability to establish, protect and enforce intellectual property rights with respect to our patented technologies and proprietary rights and to defend against any claims of infringement, which involves complex legal, scientific and factual questions and uncertainties.

In the future, we may have to rely on litigation to enforce our intellectual property rights and contractual rights. In addition, we may face claims of infringement that could interfere with our ability to use technology or other intellectual property rights that are material to our business operations. If litigation that we initiate is unsuccessful, we may not be able to protect the value of some of our intellectual property. In the event a claim of infringement against us is successful, we may be required to pay royalties or license fees to continue to use technology or other intellectual property rights that we have been using or we may be unable to obtain necessary licenses from third parties at a reasonable cost or within a reasonable time. If we are unable to obtain licenses on reasonable terms, we may be forced to cease selling or using the products that incorporate the challenged intellectual property, or to redesign or, in the case of trademark claims, rename our products to avoid infringing the intellectual property rights of third parties, which may not be possible and may be time-consuming if possible. Any litigation of this type, whether successful or unsuccessful, could result in substantial costs to us and diversions of some of our resources. Our intellectual property rights may not have the value we believe them to have, which could result in a competitive disadvantage or affect adversely our business and financial performance.

We may not be able to complete future acquisitions or successfully integrate future acquisitions into our business, which could affect adversely our business or results of operations.

As part of our growth strategy, we intend to pursue acquisitions and joint venture opportunities. Successful accomplishment of this objective may be limited by the availability and suitability of acquisition candidates and by our financial resources, including available cash and borrowing capacity. Acquisitions involve numerous risks, including difficulty determining appropriate valuation, integrating operations, technologies, services and products of the acquired lines or businesses, personnel turnover and the diversion of management s attention from other business matters. In addition, we may be unable to achieve anticipated benefits from these acquisitions in the timeframe that we anticipate, or at all, which could affect adversely our business or results of operations.

We face numerous risks relating to our foreign operations, including exchange rate fluctuations, exchange controls and currency devaluations, which may affect adversely our results of operations or cash flow.

In 2009, approximately 40% of our consolidated revenues, 30% of our consolidated cost of sales and 30% of selling, technical, administrative and research (STAR) expenses were generated in currencies other than the U.S. dollar, which is our reporting currency. We recognize foreign currency gains and losses arising from our operations in the period incurred. As a result, currency fluctuations between the U.S. dollar and the currencies in which we do business have caused and may continue to cause fluctuations in our reported results of operations. We cannot predict the effects of exchange rate fluctuations upon our future operating results because of the number of currencies involved, the variability of currency exposures and the potential volatility of exchange rates.

Table of Contents

We also face risks arising from the imposition of exchange controls and currency devaluations. Exchange controls may limit our ability to convert foreign currencies into U.S. dollars or to remit dividends and other payments by our foreign subsidiaries or businesses located in or conducted within a country imposing controls. Currency devaluations result in a diminished value of funds denominated in the currency of the country instituting the devaluation and, if they occur or continue for significant periods, could affect adversely our results of operations or cash flow.

Failure to implement our common information system platform successfully could impact negatively our ability to conduct business, particularly in our Lubrizol Advanced Materials segment.

We launched a company-wide initiative in 2006 to extend our current information system platform to the entire organization so that our core business processes are integrated globally. We successfully rolled out the system to our North American and European locations of the Lubrizol Advanced Materials segment in 2008 and 2009. However, we still are in the process of implementing the system at other locations within the Lubrizol Advanced Materials segment and to several locations within the Lubrizol Additives segment.

We consider the risk to be low that our information system implementation may disrupt significantly our business processes and impact our ability to serve customers. However, we face the risks that the common information system platform will not be completed on a timely basis, it may cost more than projected or we may not realize its anticipated benefits.

International social, political and economic conditions could affect adversely our operating performance.

Our international operations also are subject to the risk of labor unrest, regional economic uncertainty, political instability, terrorism, expropriation of property, restrictions on the transfer of funds into or out of a country, trade restrictions, export duties, taxes and quotas, domestic and foreign customs and tariffs and current and changing regulatory environments. Any of these events could have an adverse effect on our international operations in the future by reducing the demand for our products, making our products less competitive by increasing the prices at which we can sell our products or otherwise having an adverse effect on our operating performance.

Our production facilities could be targets for terrorism, and any attack could disrupt our operations and cause us to incur significant costs and liabilities.

The potential or actual occurrence of terrorist attacks could affect our operations in unpredictable ways. Our chemical production facilities could become direct targets, or indirect casualties, of terrorist attacks. Although our production facilities are under a heightened level of security, this level of security may not prevent a terrorist attack. The resulting damage could be severe and could include loss of life and property damage. In addition, some of our production and other facilities are located at sites near other chemical plants that could be potential targets of terrorist attacks. The resulting collateral damage could be significant and substantial. Available insurance coverage could be insufficient to cover all of the damage incurred or could be prohibitively expensive.

We could incur costs and liabilities as a result of the numerous environmental laws applicable to our operations that are greater than we anticipate, which could affect adversely our results of operations and cash flows.

We are subject to extensive federal, state, local and foreign environmental, safety and health laws and regulations concerning, among other things, emissions to the air, discharges to land and water and the generation, handling, treatment and disposal of hazardous waste and other materials. We also are required to maintain various environmental permits and licenses, many of which require periodic modification and renewal. Due to the volume and complexity of the laws and regulations that apply to our operations and the challenges of implementing effective compliance programs, we risk violating those laws and regulations and thereby incurring cleanup costs, substantial fines and criminal sanctions.

In addition, these requirements and their enforcement may become more stringent in the future. Although we cannot predict the ultimate cost of compliance with any federal, state and foreign environmental, safety and health laws and regulations, the costs could be significant. Non-compliance could subject us to significant liabilities, such as government fines, third-party lawsuits or the suspension of non-compliant operations. We also may be required to make significant site or operational modifications at substantial cost. Future developments also could restrict or eliminate the use of or require us to make modifications to our products, which could have a significant negative impact on our results of operations and cash flows.

At any given time, we are involved in claims, litigation, administrative proceedings and investigations of various types in a number of jurisdictions involving potential environmental liabilities, including cleanup costs associated with hazardous waste disposal sites, natural resource damages, property damage and personal injury. Liability under environmental laws relating to contaminated sites can be imposed retroactively and on a joint and several basis. Under certain environmental laws, we can be held strictly liable for all costs associated with hazardous substance contamination of any real property we have ever owned, operated or used as a disposal site or for

Table of Contents

natural resource damages associated with such contamination. We also may face liability with respect to acquired businesses for violations of environmental laws that occurred prior to the date of our acquisition, and some or all of these liabilities may not be covered by indemnification from the sellers from whom we acquired the businesses. We could incur significant costs, including cleanup costs, natural resources damages, civil or criminal fines and sanctions and third-party claims, as a result of past or future violations of, or liabilities under, environmental laws.

Some of our employees are covered by collective bargaining agreements or participate in work councils, and the failure to renew these agreements or maintain these relationships could result in labor disruptions and increased labor costs.

Employees at three of our U.S. sites, who constitute approximately 6% of our domestic employees, are organized by labor unions that have collective bargaining agreements with us that are subject to renegotiation. Two facilities have agreements expiring in 2010. In addition, the majority of our European employees are participants in works councils, which are entities that represent employees and are entitled to information and consultation rights on some matters. Our European employees also may participate in unions or industry-wide collective bargaining agreements, and we currently have one facility in Belgium that is renegotiating its union agreement. Although we believe that our present labor relations are good, our failure to renew these agreements on reasonable terms as the current agreements expire or maintain our relationships with work councils could result in labor disruptions and increased labor costs, which could affect adversely our financial performance.

FINANCIAL RISKS

We may not have access to capital in the future due to changes in general economic conditions.

We may need new or additional financing in the future to conduct our operations, expand our business or refinance existing indebtedness. Any sustained weakness in general economic conditions and/or financial markets in the United States or globally could affect adversely our ability to raise capital on favorable terms or at all. From time to time we have relied, and also may rely in the future, on access to financial markets as a source of liquidity for working capital requirements, acquisitions and general corporate purposes. Our access to funds under our revolving credit facilities is dependent on the ability of the financial institutions that are parties to those facilities to meet their funding commitments. Those financial institutions may not be able to meet their funding commitments if they experience shortages of capital and liquidity, or if they experience excessive volumes of borrowing requests within a short period of time. Moreover, the obligations of the financial institutions under our revolving credit facilities are several and not joint and, as a result, a funding default by one or more institutions does not need to be made up by the others. Longer term volatility and continued disruptions in the capital and credit markets as a result of uncertainty, changing or increased regulation of financial institutions, reduced alternatives or failure of significant financial institutions could affect adversely our access to the liquidity needed for our businesses in the longer term. Such disruptions could require us to take measures to conserve cash until the markets stabilize or until alternative credit arrangements or other funding for our business needs can be arranged. The disruptions in the capital and credit markets also have resulted in higher interest rates on publicly issued debt securities and increased costs under credit facilities. Continuation of these disruptions would increase our interest expense and capital costs and could affect adversely our results of operations and financial position, including our ability to grow the business through acquisitions.

We could be affected adversely if our debt is downgraded.

Our ability to complete offerings of debt securities on satisfactory terms in the future will depend on the status of our credit rating. The current rating of our senior unsecured long-term indebtedness is BBB+ by Standard & Poor s Ratings Group (S&P) and Baa2 by Moody s Investors Service, Inc. (Moody s). Either S&P or Moody s or both may downgrade our credit rating at any time, which could increase our interest obligations under some of our borrowings. In addition, downgrades of our credit rating could make it more difficult to complete offerings of debt securities on satisfactory terms and generally would result in increased future borrowing costs under our credit facilities and affect adversely our access to debt and capital markets.

The limits imposed on us by the restrictive covenants contained in our credit facilities could prevent us from making acquisitions or capital improvements or cause us to lose access to these facilities, and if we are unable to obtain necessary waivers and our debt is accelerated, our financial condition could be affected adversely.

Our existing credit facilities contain restrictive covenants that limit our ability to, among other things:

- borrow money or guarantee the debts of others;
- use assets as security in other transactions;
- materially change the nature of our business; and

sell assets or merge with or into other companies.

Table of Contents

In addition, our credit facilities require us to meet financial ratios, including debt to consolidated earnings before interest, income taxes, depreciation and amortization, extraordinary, unusual or non-recurring non-cash gains or losses, including the sale of property and equipment and goodwill impairments, and non-cash gains and losses from less than wholly owned subsidiaries and investments (Consolidated EBITDA) (as defined in the credit agreements) and Consolidated EBITDA to interest expense. These restrictions could limit our ability to plan for or react to market conditions or meet extraordinary capital needs and could otherwise restrict our financing activities.

Our ability to comply with the covenants and other terms of our credit facilities will depend on our future operating performance. If we fail to comply with such covenants and terms, we will be in default, and the maturity of the related debt could be accelerated and become immediately due and payable. We may be required to obtain waivers from our lenders in order to maintain compliance under our credit facilities, including waivers with respect to our compliance with certain financial covenants. If we are unable to obtain any necessary waivers and the debt under our credit facilities is accelerated, our financial condition would be affected adversely.

We may be impacted adversely by increased costs related to our defined benefit pension plans.

We sponsor defined benefit pension plans for employees in the United States and various foreign locations. The major defined benefit pension plans are funded with trust assets invested in a globally diversified portfolio of securities and other investments. Changes in regulatory requirements or the market value of plan assets, investment returns, interest rates and mortality rates may affect the funded status of our defined benefit pension plans and cause volatility in the net periodic benefit cost and future funding requirements of the plans. A significant increase in our obligations or future funding requirements could have an adverse effect on our financial results.

ITEM 1B. UNRESOLVED STAFF COMMENTS

At this time, we have no unresolved SEC staff comments.

ITEM 2. PROPERTIES

Our corporate headquarters and the commercial center for Lubrizol Additives are located in Wickliffe, Ohio, and the commercial center for Lubrizol Advanced Materials is located in Brecksville, Ohio. We operate 46 manufacturing facilities in 17 countries, 31 laboratories in 14 countries and maintain sales offices and distribution centers within the United States and in many foreign countries. Our corporate headquarters and most of our manufacturing facilities are located in buildings that we own, while other operations generally are in buildings that we lease. We have entered into long-term contracts for our exclusive use of major marine terminal facilities at the Port of Houston, Texas. We maintain a capital expenditure program to support our operations and believe our facilities are adequate for our present operations and for the foreseeable future.

Lubrizol Additives has principal manufacturing facilities in Bayport, Texas; Deer Park, Texas; Le Havre, France; Painesville, Ohio; and Rouen, France. Lubrizol Advanced Materials has principal manufacturing facilities in Antwerp, Belgium; Avon Lake, Ohio; Calvert City, Kentucky; Louisville, Kentucky; and Oevel, Belgium. Including these principal manufacturing facilities, we have manufacturing facilities in the following geographic regions:

Geographic Region	**Number of Manufacturing Facilities**
North America	20 facilities in 11 U.S. states
Europe	13 facilities in 7 countries
Asia-Pacific / Middle East	12 facilities in 8 countries
Latin America	1 facility in 1 country

Five manufacturing facilities in the Asia-Pacific / Middle East region are owned and operated by joint venture companies. Our ownership of each of these companies ranges from 28% to 50%.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we are involved in a variety of claims, suits, investigations and proceedings arising from the ordinary course of our business. We are not involved currently in any legal proceedings that we expect, either individually or in the aggregate, will have a material adverse effect on our financial condition or results of operations.

On June 17, 2009, the South Carolina Department of Health and Environmental Control (DHEC) notified us of their intention to seek enforcement for alleged violations of the South Carolina Hazardous Waste Management Regulations. The alleged violations pertain to waste classification, management, recordkeeping and reporting requirements associated with operations at our Spartanburg, South Carolina facility and was resolved in January 2010 with a financial penalty of less than $0.1 million.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the security holders during the three months ended December 31, 2009.

Table of Contents

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common shares are listed on the New York Stock Exchange under the symbol LZ. The number of shareholders of record of common shares was 2,703 as of February 12, 2010.

Information relating to the quarterly price and dividend history of our common shares for 2009 and 2008 follows:

	Common Share Sale Price History				**Dividends Per Common Share**	
	2009		2008			
	High	Low	High	Low	2009	2008
1st quarter	$ 40.00	$ 23.57	$ 60.48	$ 46.69	$ .31	$ .30
2nd quarter	48.21	32.98	61.38	46.21	.31	.31
3rd quarter	72.95	45.73	54.78	40.61	.31	.31
4th quarter	76.52	66.05	43.56	26.72	.31	.31
					$ 1.24	$ 1.23

We have no restrictions on the payment of dividends on Lubrizol common shares.

There were no issuances of unregistered securities during the three months ended December 31, 2009.

There were no purchases of Lubrizol common shares during the three months ended December 31, 2009, under the 5.0 million share repurchase program authorized by our board of directors and announced on April 27, 2007. At December 31, 2009, 3,755,918 common shares were available for purchase under the program.

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data set forth below for the five-year period ended December 31, 2009, was derived from our audited consolidated financial statements. The data should be read in conjunction with Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and Item 8. Financial Statements and Supplementary Data included elsewhere in this report.

(In Millions Except Per Share Data, Ratios and Employees)	2009	2008	2007	2006	2005
OPERATING RESULTS:					
Revenues	$ 4,586.3	$ 5,027.8	$ 4,499.0	$ 4,040.8	$ 3,622.2
Cost of sales	3,071.0	3,906.5	3,378.1	3,045.2	2,700.1
Gross profit	1,515.3	1,121.3	1,120.9	995.6	922.1
Selling, testing, administrative and research expenses	647.3	638.6	641.1	587.2	547.3
Amortization of intangible assets	25.2	27.0	24.3	23.7	23.5
Write-off of acquired in-process research and development		1.6			
Restructuring and impairment charges	30.4	394.0	1.5	51.9	15.9
Net interest expense and other income	86.6	43.1	48.6	66.7	93.5
Income from continuing operations before income taxes	725.8	17.0	405.4	266.1	241.9
Provision for income taxes	211.6	75.9	115.6	82.2	80.8
Income (loss) from continuing operations	514.2	(58.9)	289.8	183.9	161.1
(Loss) income from discontinued operations - net of tax				(76.2)	27.8
Net income (loss)	514.2	(58.9)	289.8	107.7	188.9
Net income attributable to noncontrolling interests	13.4	7.2	6.4	4.1	1.7
Net income (loss) attributable to The Lubrizol Corporation	$ 500.8	$ (66.1)	$ 283.4	$ 103.6	$ 187.2
Diluted earnings (loss) per share attributable to The Lubrizol Corporation from:					
Continuing operations	$ 7.26	$ (0.97)	$ 4.05	$ 2.59	$ 2.32
Discontinued operations				(1.10)	0.40
Net income (loss)	$ 7.26	$ (0.97)	$ 4.05	$ 1.49	$ 2.72
FINANCIAL RATIOS:					
Gross profit percentage	33.0	22.3	24.9	24.6	25.5
Percent of revenues:					
Selling and administrative expenses	9.5	8.3	9.4	9.4	9.6
Research and testing expenses	4.6	4.4	4.9	5.1	5.5
Return on average Lubrizol Corporation shareholders equity (%)	27.9	(3.8)	15.6	6.4	12.2
Debt to capitalization (%)	39.4	46.9	42.2	47.8	51.8
Current ratio	3.7	1.7	2.1	2.9	2.4
OTHER INFORMATION:					
Dividends declared per share	$ 1.24	$ 1.23	$ 1.16	$ 1.04	$ 1.04
Average common shares outstanding:					
Basic	68.1	68.1	69.2	68.7	67.9
Diluted	69.0	68.1	70.0	69.3	68.8
Capital expenditures - continuing operations	$ 139.9	$ 202.6	$ 182.8	$ 125.7	$ 121.9
Depreciation expense - continuing operations	$ 145.1	$ 144.9	$ 137.1	$ 133.3	$ 139.4
At Year End:					
Total assets	$ 4,770.0	$ 4,150.5	$ 4,643.8	$ 4,390.9	$ 4,371.2
Long-term debt	$ 1,390.3	$ 954.6	$ 1,223.9	$ 1,538.0	$ 1,662.9
Total debt	$ 1,390.6	$ 1,345.8	$ 1,428.8	$ 1,541.7	$ 1,670.8

Total of The Lubrizol Corporation shareholders equity	$ 2,060.8	$ 1,523.7	$ 1,951.3	$ 1,683.1	$ 1,551.9
The Lubrizol Corporation shareholders equity per basic share	$ 30.11	$ 22.65	$ 28.53	$ 24.39	$ 22.81
Price per common share	$ 72.95	$ 36.39	$ 54.16	$ 50.13	$ 43.43
Number of employees	6,727	6,967	6,921	6,746	7,515

Table of Contents

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the consolidated financial statements, the notes thereto and the selected financial data appearing elsewhere in this report. Historical results and percentage relationships set forth in the consolidated financial statements, including trends that might appear, should not be taken as indicative of future operations. The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in such forward-looking statements as a result of various factors, including those described under the section Cautionary Statements for Safe Harbor Purposes included elsewhere in this annual report.

OVERVIEW

General

We are an innovative specialty chemical company that produces and supplies technologies that improve the quality, value and performance of our customers products in the global transportation, industrial and consumer markets. Our business is founded on technological leadership. Innovation provides opportunities for us in growth markets as well as advantages over our competitors. From a base of approximately 1,600 patents, we use our product development and formulation expertise to sustain our leading market positions and fuel our future growth. We create additives, ingredients, resins and compounds that enhance the performance, quality and value of our customers products, while minimizing their environmental impact. Our products are used in a broad range of applications and are sold into relatively stable markets such as those for engine oils, specialty driveline lubricants and metalworking fluids, as well as higher-growth markets such as personal care and over-the-counter pharmaceutical products, performance coatings, medical products and compressor lubricants. Our specialty chemical products also are used in a variety of industries, including the construction, sporting goods, medical and automotive industries.

We are diverse geographically, with an extensive global manufacturing, supply chain, technical and commercial infrastructure. We operate facilities in 27 countries, including production facilities in 17 countries and laboratories in 14 countries, in key regions around the world through the efforts of approximately 6,700 employees. We sell our products in more than 100 countries and believe that our customers recognize and value our ability to provide customized, high quality, cost-effective performance formulations and solutions worldwide. We also believe our customers highly value our global supply chain capabilities.

We use a broad range of raw materials in our manufacturing processes. The majority of our raw materials are feedstocks derived from petroleum and petrochemicals, with lubricant base oil being our single largest raw material. The cost of our raw materials can be highly volatile. As a result, our financial performance is influenced significantly by how effectively we manage the margin between our selling prices and the cost of our raw materials.

We are organized into two operating and reportable segments called Lubrizol Additives and Lubrizol Advanced Materials, and we are an industry leader in many of the markets in which our product lines compete. Lubrizol Additives consists of two product lines: (i) engine additives and (ii) driveline and industrial additives. Engine additives is comprised of additives for lubricating engine oils, such as for gasoline, diesel, marine and stationary engines, and additives for fuels, refinery and oil field chemicals. Driveline and industrial additives is comprised of additives for driveline oils, such as automatic transmission fluids, gear oils and tractor lubricants and industrial additives, such as additives for hydraulic, grease and metalworking fluids, as well as compressor lubricants. Both product lines sell viscosity modifiers, as well as provide services for supply chain and knowledge center management.

The Lubrizol Advanced Materials segment consists of three product lines: (i) engineered polymers, (ii) Noveon consumer specialties and (iii) performance coatings. The engineered polymers product line includes products such as Estane® thermoplastic polyurethane and TempRite® engineered polymers used within the construction, automotive, telecommunications, electronics and recreation industries. The Noveon consumer specialties product line includes acrylic thickeners, film formers, fixatives, emollients, silicones, specialty surfactants, methyl glucoside, lanolin derivatives and cassia hydrocolloids used within cosmetics, personal care and household products. The performance coatings product line includes high-performance polymers and additives for specialty paper, graphic arts, paints, textiles and coatings applications that are sold to customers worldwide.

Table of Contents

Lubrizol Additives Segment

We believe we are the market leader in lubricant additives and intend to remain the leader by continuing to invest in this business. Our Lubrizol Additives segment s growth strategy is to continue to optimize our product mix while closely aligning production capacity with product demand. Challenging market forces and conditions continue to influence the Lubrizol Additives segment. A key factor is the low long-term global growth rate for this market, which we believe is in the range of approximately 1% to 2% per year. Additional characteristics of this market are:

- Frequent product specification changes primarily driven by original equipment manufacturers (OEMs) and the impact of environmental and fuel economy regulations on the OEMs. The specification changes require us to incur product development and testing costs, but also enable us to apply our technology know-how to create products and solve problems. We believe our technology, and our expertise in applying it, are key strengths.

- Improved engine design, which can result in longer lubricant drain intervals. Longer drain intervals reduce demand for finished lubricants.

- New vehicle production levels, which affect our driveline fluids in particular because the initial factory fill is an important market factor in that product line.

- Reliance on raw material feedstocks derived from petroleum and petrochemicals, the costs of which can be highly volatile.

Our Lubrizol Additives segment represented approximately 72% of consolidated revenues.

Lubrizol Advanced Materials Segment

Our Lubrizol Advanced Materials segment s growth strategy involves a combination of internal growth and acquisitions. Our internal growth strategy is to use our strengths, including our technology, formulating skills and broad geographic infrastructure, to develop and invest in new performance technologies in higher-growth industrial and consumer markets. In addition to internal growth, we intend to pursue bolt-on acquisitions, such as the acquisition of the thermoplastic polyurethane business from The Dow Chemical Company (Dow) in 2008, which we expect to provide cost synergies, new technology and the opportunity to take existing products into new geographies. Key factors to our success continue to be the introduction of new products, development of new applications for existing products, ability to manage margins, geographic expansion and the integration of future acquisitions. Our Lubrizol Advanced Materials segment represented approximately 28% of consolidated revenues.

Primary Factors Affecting 2009 Results

The following factors most affected our consolidated 2009 results:

- The global recession affected the m