ALBEMARLE CORP
Form 10-Q
October 29, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q

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

For Quarterly Period Ended September 30, 2014

OR

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

For the transition period from to

Commission File Number 1-12658

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

VIRGINIA	54-1692118
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
451 FLORIDA STREET BATON ROUGE, LOUISIANA	70801
(Address of principal executive offices)	(Zip Code)

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

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

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

Large accelerated filer x	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 x

Number of shares of common stock, $.01 par value, outstanding as of October 24, 2014: 78,253,709

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited).
ALBEMARLE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In Thousands, Except Per Share Amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net sales	$642,418	$591,196	$1,846,982	$1,754,635
Cost of goods sold	436,972	381,585	1,238,574	1,157,443
Gross profit	205,446	209,611	608,408	597,192
Selling, general and administrative expenses	66,012	61,368	211,127	186,668
Research and development expenses	22,407	19,441	66,916	60,959
Restructuring and other charges, net (Note 13)	293	—	20,625	—
Acquisition and integration related costs	10,261	—	15,104	—
Operating profit	106,473	128,802	294,636	349,565
Interest and financing expenses	(8,749)	(9,496)	(26,255)	(22,335)
Other expenses, net	(6,618)	(368)	(6,454)	(6,147)
Income from continuing operations before income taxes and equity in net income of unconsolidated investments	91,106	118,938	261,927	321,083
Income tax expense	11,737	26,963	46,700	72,897
Income from continuing operations before equity in net income of unconsolidated investments	79,369	91,975	215,227	248,186
Equity in net income of unconsolidated investments (net of tax)	8,650	5,338	28,200	25,308
Net income from continuing operations	88,019	97,313	243,427	273,494
(Loss) income from discontinued operations (net of tax)	(6,679)	531	(68,473)	4,994
Net income	81,340	97,844	174,954	278,488
Net income attributable to noncontrolling interests	(8,546)	(7,332)	(23,130)	(21,250)
Net income attributable to Albemarle Corporation	$72,794	$90,512	$151,824	$257,238
Basic earnings (loss) per share:				
Continuing operations	$1.02	$1.10	$2.79	$2.98
Discontinued operations	(0.09)	0.01	(0.87)	0.06
	$0.93	$1.11	$1.92	$3.04
Diluted earnings (loss) per share:				
Continuing operations	$1.01	$1.10	$2.78	$2.96
Discontinued operations	(0.08)	0.01	(0.87)	0.06
	$0.93	$1.11	$1.91	$3.02
	78,244	81,385	78,880	84,711

Weighted-average common shares outstanding – basic				
Weighted-average common shares outstanding – diluted	78,659	81,852	79,287	85,192
Cash dividends declared per share of common stock	$0.275	$0.240	$0.825	$0.720

See accompanying Notes to the Condensed Consolidated Financial Statements.

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ALBEMARLE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In Thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	$81,340	$97,844	$174,954	$278,488
Other comprehensive (loss) income, net of tax:				
Foreign currency translation	(100,318)	40,613	(106,380)	11,945
Pension and postretirement benefits	(147)	(201)	(615)	(605)
Unrealized loss on interest rate swap	(988)	—	(11,409)	—
Other	33	38	105	99
Total other comprehensive (loss) income, net of tax	(101,420)	40,450	(118,299)	11,439
Comprehensive (loss) income	(20,080)	138,294	56,655	289,927
Comprehensive income attributable to non-controlling interests	(8,421)	(7,669)	(22,727)	(21,658)
Comprehensive (loss) income attributable to Albemarle Corporation	$(28,501)	$130,625	$33,928	$268,269

See accompanying Notes to the Condensed Consolidated Financial Statements.

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ALBEMARLE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In Thousands)
(Unaudited)

	September 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$653,120	$477,239
Trade accounts receivable, less allowance for doubtful accounts (2014 – $1,578; 2013 – $1,614)	383,325	446,864
Other accounts receivable	41,261	45,094
Inventories	367,911	436,049
Other current assets	62,690	77,669
Total current assets	1,508,307	1,482,915
Property, plant and equipment, at cost	2,623,271	2,972,084
Less accumulated depreciation and amortization	1,392,997	1,615,015
Net property, plant and equipment	1,230,274	1,357,069
Investments	196,512	212,178
Other assets	160,291	160,229
Goodwill	251,964	284,203
Other intangibles, net of amortization	46,118	88,203
Total assets	$3,393,466	$3,584,797
Liabilities And Equity		
Current liabilities:		
Accounts payable	$205,809	$194,064
Accrued expenses	214,243	190,533
Current portion of long-term debt	368,268	24,554
Dividends payable	21,275	19,197
Income taxes payable	3,115	8,015
Total current liabilities	812,710	436,363
Long-term debt	684,107	1,054,310
Postretirement benefits	52,872	53,903
Pension benefits	67,659	57,647
Other noncurrent liabilities	93,732	110,610
Deferred income taxes	95,115	129,188
Commitments and contingencies (Note 8)		
Equity:		
Albemarle Corporation shareholders’ equity:		
Common stock, $.01 par value, issued and outstanding – 78,249 in 2014 and 80,053 in 2013	782	801
Additional paid-in capital	6,992	9,957
Accumulated other comprehensive (loss) income	(1,651)	116,245
Retained earnings	1,450,618	1,500,358
Total Albemarle Corporation shareholders’ equity	1,456,741	1,627,361
Noncontrolling interests	130,530	115,415
Total equity	1,587,271	1,742,776
Total liabilities and equity	$3,393,466	$3,584,797

See accompanying Notes to the Condensed Consolidated Financial Statements.

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

(In Thousands, Except Share Data)	Common Stock Shares	Amounts	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Albemarle Shareholders' Equity	Non-controlling Interests	Total Equity
Balance at January 1, 2014	80,052,842	$801	$9,957	$116,245	$1,500,358	$1,627,361	$115,415	$1,742,776
Net income					151,824	151,824	23,130	174,954
Other comprehensive loss				(117,896)		(117,896)	(403)	(118,299)
Cash dividends declared					(64,905)	(64,905)	(7,612)	(72,517)
Stock-based compensation and other			10,016			10,016		10,016
Exercise of stock options	77,546	1	2,712			2,713		2,713
Shares repurchased	(1,967,069)	(20)	(13,321)		(136,659)	(150,000)		(150,000)
Tax benefit related to stock plans			836			836		836
Issuance of common stock, net	135,578	1	(1)			—		—
Shares withheld for withholding taxes associated with common stock issuances	(50,144)	(1)	(3,207)			(3,208)		(3,208)
Balance at September 30, 2014	78,248,753	$782	$6,992	$(1,651)	$1,450,618	$1,456,741	$130,530	$1,587,271
Balance at January 1, 2013	88,899,209	$889	$2,761	$85,264	$1,744,684	$1,833,598	$98,410	$1,932,008
Net income					257,238	257,238	21,250	278,488
Other comprehensive income				11,031		11,031	408	11,439
Cash dividends declared					(60,288)	(60,288)	(10,014)	(70,302)
Stock-based compensation and			6,324			6,324		6,324

other								
Exercise of stock options	152,739	1	4,509			4,510		4,510
Shares repurchased	(7,814,045)	(78)	(4,556)		(577,664)	(582,298)		(582,298)
Tax benefit related to stock plans			3,078			3,078		3,078
Issuance of common stock, net	254,334	3	(3)			—		—
Shares withheld for withholding taxes associated with common stock issuances	(96,080)	(1)	(6,097)			(6,098)		(6,098)
Balance at September 30, 2013	81,396,157	$ 814	$ 6,016	$ 96,295	$ 1,363,970	$ 1,467,095	$ 110,054	$ 1,577,149

See accompanying Notes to the Condensed Consolidated Financial Statements.

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ALBEMARLE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2014	2013
Cash and cash equivalents at beginning of year	$477,239	$477,696
Cash flows from operating activities:		
Net income	174,954	278,488
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation and amortization	78,344	79,477
Write-offs associated with restructuring and other	6,333	—
Loss on disposal of businesses	85,515	—
Stock-based compensation	10,447	7,036
Excess tax benefits realized from stock-based compensation arrangements	(836)	(3,078)
Equity in net income of unconsolidated investments (net of tax)	(28,200)	(25,308)
Dividends received from unconsolidated investments and nonmarketable securities	37,854	18,889
Pension and postretirement expense	21,946	4,730
Pension and postretirement contributions	(10,718)	(9,892)
Unrealized gain on investments in marketable securities	(525)	(1,924)
Deferred income taxes	(24,412)	7,115
Working capital changes	89,020	(39,353)
Other, net	(9,180)	1,341
Net cash provided by operating activities	430,542	317,521
Cash flows from investing activities:		
Capital expenditures	(76,682)	(135,028)
Cash payments related to acquisitions and other	—	(250)
Cash proceeds from divestitures, net	104,718	—
Sales of marketable securities, net	943	1,214
Long-term advances to joint venture	(7,499)	—
Net cash provided by (used in) investing activities	21,480	(134,064)
Cash flows from financing activities:		
Repayments of long-term debt	(3,023)	(93,913)
Proceeds from borrowings of long-term debt	—	117,000
Other (repayments) borrowings, net	(23,554)	357,379
Dividends paid to shareholders	(62,827)	(58,574)
Dividends paid to noncontrolling interests	(7,612)	(10,014)
Repurchases of common stock	(150,000)	(582,298)
Proceeds from exercise of stock options	2,713	4,510
Excess tax benefits realized from stock-based compensation arrangements	836	3,078
Withholding taxes paid on stock-based compensation award distributions	(3,208)	(6,098)
Debt financing costs	(3,074)	(108)
Net cash used in financing activities	(249,749)	(269,038)
Net effect of foreign exchange on cash and cash equivalents	(26,392)	9,312
Increase (decrease) in cash and cash equivalents	175,881	(76,269)
Cash and cash equivalents at end of period	$653,120	$401,427

See accompanying Notes to the Condensed Consolidated Financial Statements.

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ALBEMARLE CORPORATION AND SUBSIDIARIES
Notes to the Condensed Consolidated Financial Statements
(Unaudited)

NOTE 1—Basis of Presentation:

In the opinion of management, the accompanying unaudited condensed consolidated financial statements of Albemarle Corporation and our wholly-owned, majority-owned and controlled subsidiaries (collectively, "Albemarle," "we," "us," "our" or "the Company") contain all adjustments necessary for a fair statement, in all material respects, of our condensed consolidated balance sheets as of September 30, 2014 and December 31, 2013, our consolidated statements of income and consolidated statements of comprehensive income for the three-month and nine-month periods ended September 30, 2014 and 2013 and our condensed consolidated statements of cash flows and consolidated statements of changes in equity for the nine-month periods ended September 30, 2014 and 2013. All adjustments are of a normal and recurring nature. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2013 (the "2013 Form 10-K"), which was filed with the Securities and Exchange Commission (SEC) on February 25, 2014. On August 8, 2014, we filed a Current Report on Form 8-K to update our 2013 Form 10-K for the segment change described in Note 9 "Operating Segments" included herein, and to reflect the antioxidant, ibuprofen and propofol businesses as discontinued operations as described below and in Note 15 "Discontinued Operations" included herein. The December 31, 2013 consolidated balance sheet data herein was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles (GAAP) in the United States (U.S.). The results of operations for the three-month and nine-month period ended September 30, 2014 are not necessarily indicative of the results to be expected for the full year. Certain reclassifications have been made to the accompanying consolidated financial statements and the notes thereto to conform to the current presentation.

On September 1, 2014, the Company closed the sale of its antioxidant, ibuprofen and propofol businesses and assets to SI Group, Inc. and, as such, the financial results of the disposed group have been presented as discontinued operations in the consolidated statements of income and excluded from segment results for all periods presented. See Note 15, "Discontinued Operations" for additional information.

NOTE 2—Foreign Exchange:

Foreign exchange transaction losses were $0.8 million and $2.1 million for the three-month and nine-month periods ended September 30, 2014, respectively, and $2.0 million and $9.1 million for the three-month and nine-month periods ended September 30, 2013, respectively, and are included in Other expenses, net, in our consolidated statements of income.

NOTE 3—Income Taxes:

The effective income tax rate for the three-month and nine-month periods ended September 30, 2014 was 12.9% and 17.8%, respectively, compared to 22.7% for the three-month and nine-month periods ended September 30, 2013. The Company's effective income tax rate fluctuates based on, among other factors, our level and location of income. The difference between the U.S. federal statutory income tax rate and our effective income tax rate for the 2014 and 2013 periods is mainly due to the impact of earnings from outside the U.S and the domestic manufacturing tax deduction. Our effective income tax rate for the three-month and nine-month periods ended September 30, 2014 was also impacted by discrete net tax benefit items of $2.1 million, related principally to the expiration of the U.S. federal statute of limitations.

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ALBEMARLE CORPORATION AND SUBSIDIARIES
Notes to the Condensed Consolidated Financial Statements - (Continued)
(Unaudited)

NOTE 4—Earnings Per Share:
Basic and diluted earnings per share from continuing operations for the three-month and nine-month periods ended September 30, 2014 and 2013 are calculated as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands, except per share amounts)			
Basic earnings per share from continuing operations				
Numerator:				
Net income from continuing operations	$88,019	$97,313	$243,427	$273,494
Net income from continuing operations attributable to noncontrolling interests	(8,546)	(7,332)	(23,130)	(21,250)
Net income from continuing operations attributable to Albemarle Corporation	$79,473	$89,981	$220,297	$252,244
Denominator:				
Weighted-average common shares for basic earnings per share	78,244	81,385	78,880	84,711
Basic earnings per share from continuing operations	$1.02	$1.10	$2.79	$2.98
Diluted earnings per share from continuing operations				
Numerator:				
Net income from continuing operations	$88,019	$97,313	$243,427	$273,494
Net income from continuing operations attributable to noncontrolling interests	(8,546)	(7,332)	(23,130)	(21,250)
Net income from continuing operations attributable to Albemarle Corporation	$79,473	$89,981	$220,297	$252,244
Denominator:				
Weighted-average common shares for basic earnings per share	78,244	81,385	78,880	84,711
Incremental shares under stock compensation plans	415	467	407	481
Total shares	78,659	81,852	79,287	85,192
Diluted earnings per share from continuing operations	$1.01	$1.10	$2.78	$2.96

On February 25, 2014, the Company increased the regular quarterly dividend by 15% to $0.275 per share. On July 14, 2014, the Company declared a cash dividend of $0.275 per share, which was paid on October 1, 2014 to shareholders of record at the close of business as of September 15, 2014. On October 14, 2014, the Company declared a cash dividend of $0.275 per share, which is payable on January 2, 2015 to shareholders of record at the close of business as of December 15, 2014.
Under its existing Board authorized share repurchase program, on February 3, 2014, the Company entered into an accelerated share repurchase (ASR) agreement with Merrill Lynch International (Merrill Lynch), acting through its agent Merrill Lynch, Pierce, Fenner and Smith Incorporated, relating to a fixed-dollar, uncollared ASR program pursuant to which we purchased $50 million of our common stock from Merrill Lynch in two $25 million tranches. Pursuant to the terms of the agreement, Merrill Lynch immediately borrowed shares of Albemarle common stock that were sold to the Company, thereby decreasing the Company’s issued and outstanding shares (with no change to its authorized shares). On February 3, 2014, the Company paid $50 million to Merrill Lynch and received an initial

delivery of 623,248 shares of our common stock with a fair market value of approximately $40 million. This purchase was funded with cash on hand. The Company determined that the ASR agreement with Merrill Lynch met the criteria to be accounted for as a forward contract indexed to its stock and was therefore treated as an equity instrument. Under the terms of the agreement, on April 30, 2014, the transaction was completed and we received a final settlement of 150,504 shares, calculated based on the daily Rule 10b-18 volume-weighted average prices of the Company’s common stock over the term of the agreement, less a forward price adjustment amount of approximately $0.77. The total number of shares repurchased under this agreement (773,752 shares) reduced the Company’s weighted-average shares outstanding for purposes of calculating basic and diluted earnings per share during the nine-month period ended September 30, 2014.

Under its existing Board authorized share repurchase program, on April 30, 2014, the Company entered into an ASR agreement with JPMorgan Chase Bank, National Association (JPMorgan), acting through its agent J.P. Morgan Securities LLC, relating to a fixed-dollar, uncollared ASR program pursuant to which we will purchase $100 million of our common stock from JPMorgan. The shares will be purchased by JPMorgan in two $50 million tranches that may be settled separately or simultaneously. Pursuant to the terms of the ASR agreement, JPMorgan immediately borrowed shares of Albemarle common stock that were sold to the Company, thereby decreasing the Company's issued and outstanding shares (with no change to its authorized shares). On May 1, 2014, the Company paid $100 million to JPMorgan and received an initial delivery of 1,193,317 shares of our common stock with a fair market value of approximately $80 million. This purchase was funded with cash on hand and commercial paper notes.

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

The initial delivery of 1,193,317 shares reduced the Company's weighted average shares outstanding for purposes of calculating basic and diluted earnings per share for the nine-month period ended September 30, 2014. The total number of shares to ultimately be purchased under the ASR agreement with JPMorgan will be determined at the completion of the trade and will generally be based on the daily Rule 10b-18 volume-weighted average prices of the Company's common stock over the term of the agreement.

As announced on July 15, 2014, the Company and Rockwood Holdings, Inc. ("Rockwood") entered into an Agreement and Plan of Merger (the "Merger Agreement") pursuant to which the Company will acquire Rockwood in a cash and stock transaction. Refer to Note 16, "Proposed Acquisition of Rockwood" for additional information about this transaction. Pursuant to the terms of the ASR agreement with JPMorgan, the period over which the Rule 10b-18 volume-weighted average prices of the Company's common stock is calculated has been suspended, effective as of the date of the Merger Agreement. Final settlement is expected to occur approximately twelve trading days after the later of (a) the completion of the transaction, or (b) the completion of any restricted period (as defined under Regulation M of the Exchange Act) related to the transaction. However, final settlement may be accelerated at the option of JPMorgan, and the number of shares to be delivered may be adjusted upon the announcement or occurrence of certain corporate events, including without limitation, tender offers, delisting, merger events or insolvency. Additionally, the ASR agreement with JPMorgan will be terminated at any time that our share price is at or below $33.50 per share.

The Company evaluated the ASR agreement with JPMorgan for its potential dilution of earnings per share and has determined that, based on the daily Rule 10b-18 volume-weighted average prices of the Company's common stock calculated as of the date of the Merger Agreement, additional shares expected to be received upon final settlement (approximately 223,000 shares) would have an anti-dilutive impact on earnings per share and therefore were not included in the Company's diluted earnings per share calculation for the three-month and nine-month periods ended September 30, 2014. The final settlement amount may increase or decrease depending upon the daily Rule 10b-18 volume-weighted average prices of the Company's common stock during the remaining term of the agreement.

During the nine-month period ended September 30, 2014, the Company repurchased a total of 1,967,069 shares of its common stock pursuant to the terms of its share repurchase program. As of September 30, 2014, there were 3,972,525 remaining shares available for repurchase under the Company's authorized share repurchase program, which has been suspended pending completion of the transactions contemplated by the Merger Agreement.

NOTE 5—Inventories:

The following table provides a breakdown of inventories at September 30, 2014 and December 31, 2013:

	September 30, 2014	December 31, 2013
	(In thousands)	
Finished goods	$268,276	$340,863
Raw materials	58,896	47,784
Stores, supplies and other	40,739	47,402

Total inventories[a]	$367,911	$436,049

(a) Decrease in Total inventories is primarily related to the sale of our antioxidant, ibuprofen and propofol businesses and assets which closed on September 1, 2014.

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ALBEMARLE CORPORATION AND SUBSIDIARIES
Notes to the Condensed Consolidated Financial Statements - (Continued)
(Unaudited)

NOTE 6—Investments:
The carrying value of our unconsolidated investment in Stannica LLC, a variable interest entity for which we are not the primary beneficiary, was $6.3 million and $5.5 million at September 30, 2014 and December 31, 2013, respectively. Our maximum exposure to loss in connection with our continuing involvement with Stannica LLC is limited to our investment carrying value.

NOTE 7—Long-Term Debt:
Long-term debt at September 30, 2014 and December 31, 2013 consisted of the following:

	September 30, 2014	December 31, 2013
	(In thousands)	
5.10% Senior notes, net of unamortized discount of $11 at September 30, 2014 and $36 at December 31, 2013	$324,989	$324,964
4.50% Senior notes, net of unamortized discount of $1,950 at September 30, 2014 and $2,186 at December 31, 2013	348,050	347,814
Commercial paper notes	355,876	363,000
Fixed-rate foreign borrowings	4,948	7,879
Variable-rate foreign bank loans	18,323	34,910
Miscellaneous	189	297
Total long-term debt	1,052,375	1,078,864
Less amounts due within one year	368,268	24,554
Long-term debt, less current portion	$684,107	$1,054,310

On February 7, 2014, we entered into a new $750.0 million credit facility. The five-year, revolving, unsecured credit agreement (hereinafter referred to as the February 2014 Credit Agreement) matures on February 7, 2019 and (i) replaces our previous $750.0 million amended and restated credit agreement dated as of September 22, 2011; (ii) provides for an additional $250.0 million in credit, if needed, subject to the terms of the agreement; and (iii) provides for the ability to extend the maturity date under certain conditions. Borrowings bear interest at variable rates based on the London Inter-Bank Offered Rate (LIBOR) for deposits in the relevant currency plus an applicable margin which ranges from 0.900% to 1.500%, depending on the Company's credit rating from Standard & Poor's Ratings Services (S&P) and Moody's Investors Services (Moody's). The applicable margin on the facility was 1.000% as of September 30, 2014. As of September 30, 2014, there were no borrowings outstanding under the February 2014 Credit Agreement.

At September 30, 2014, we had $355.9 million of commercial paper notes (the "Notes") outstanding bearing a weighted-average interest rate of approximately 0.31% and a weighted-average maturity of 20 days. In order to maintain flexibility with regard to our liquidity strategy, in the second quarter of 2014 the Notes were reclassified from Long-term debt to Current portion of long-term debt in our condensed consolidated balance sheet.

Our $325.0 million aggregate principal amount of senior notes, issued on January 20, 2005, mature on February 1, 2015. At September 30, 2014, we have classified these senior notes as long-term based on our ability and intent to refinance them on a long-term basis through the issuance of new senior notes or borrowings under the February 2014 Credit Agreement.

In connection with the Merger Agreement with Rockwood, on July 15, 2014, we obtained a commitment letter from certain financial institutions to provide for bridge financing, among other things, and on August 15, 2014, we entered into a term loan credit agreement and we amended the February 2014 Credit Agreement. See Note 16 "Proposed Acquisition of Rockwood" for additional information about these agreements.

NOTE 8—Commitments and Contingencies:
We had the following activity in our recorded environmental liabilities for the nine months ended September 30, 2014, as follows (in thousands):

Beginning balance at December 31, 2013	$16,599
Expenditures	(2,456)
Divestitures	(1,954)
Changes in estimates recorded to earnings and other	34
Foreign currency translation	(604)
Ending balance at September 30, 2014	11,619
Less amounts reported in Accrued expenses	6,055
Amounts reported in Other noncurrent liabilities	$5,564

The amounts recorded represent our future remediation and other anticipated environmental liabilities. These liabilities typically arise during the normal course of our operational and environmental management activities or at the time of acquisition of the site, and are based on internal analysis as well as input from outside consultants. As evaluations proceed at each relevant site, changes in risk assessment practices, remediation techniques and regulatory requirements can occur, therefore such liability estimates may be adjusted accordingly. The timing and duration of remediation activities at these sites will be determined when evaluations are completed. Although it is difficult to quantify the potential financial impact of these remediation liabilities, management estimates (based on the latest available information) that there is a reasonable possibility that future environmental remediation costs associated with our past operations, in excess of amounts already recorded, could be up to approximately $12 million before income taxes.

Approximately $5.7 million of our recorded liability is related to the closure and post-closure activities at a former landfill associated with our Bergheim, Germany site, which was recorded at the time of our acquisition of this site in 2001. This closure project has been approved under the authority of the governmental permit for this site and is scheduled for completion in 2017, with post-closure monitoring to occur for 30 years thereafter. The remainder of our recorded liability is associated with sites that are being evaluated under governmental authority but for which final remediation plans have not yet been approved. In connection with the remediation activities at our Bergheim, Germany site as required by the German environmental authorities, we have pledged certain of our land and housing facilities at this site which has an estimated fair value of $5.7 million.

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

On July 3, 2006, we received a Notice of Violation (the 2006 NOV) from the U.S. Environmental Protection Agency Region 4 (EPA) regarding the implementation of the Pharmaceutical Maximum Achievable Control Technology (PharmaMACT) standards at our former plant in Orangeburg, South Carolina. The alleged violations involved (i) the applicability of the specific regulations to certain intermediates manufactured at the plant, (ii) failure to comply with certain reporting requirements, (iii) improper evaluation and testing to properly implement the regulations and (iv) the sufficiency of the leak detection and repair program at the plant. In the second quarter of 2011, the Company was served with a complaint by the EPA in the U.S. District Court for the District of South Carolina, based on the alleged violations set out in the 2006 NOV seeking civil penalties and injunctive relief. The complaint was subsequently amended to add the State of South Carolina as a plaintiff. On June 11, 2014, we entered into a consent decree with the EPA and the South Carolina Department of Health and Environmental Control (DHEC) to settle this matter. Pursuant to the consent decree, in the third quarter of 2014 we paid a civil penalty to the EPA in the amount of approximately $332,000. A civil penalty of approximately $112,000 was waived pursuant to the consent decree and we will not be required to pay this amount to the DHEC.

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

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We have contracts with certain of our customers, which serve as guarantees on product delivery and performance according to customer specifications that can cover both shipments on an individual basis as well as blanket coverage of multiple shipments under certain customer supply contracts. The financial coverage provided by these guarantees is typically based on a percentage of net sales value.
The Merger Agreement with Rockwood contains provisions for the payment of termination fees and out-of-pocket fees and expenses by either party in the event that the Merger Agreement is terminated under certain circumstances. See Note 16 “Proposed Acquisition of Rockwood” for additional information about these provisions of the Merger Agreement and information about pending litigation against Albemarle and Rockwood in connection with the proposed merger.

NOTE 9—Operating Segments:
Effective January 1, 2014, the Company’s assets and businesses were realigned under two operating segments to better align the Company’s resources to support its ongoing business strategy. The Performance Chemicals segment includes the Fire Safety Solutions, Specialty Chemicals and Fine Chemistry Services product categories, consolidating our bromine, mineral and custom manufacturing assets under one business unit. The Catalyst Solutions segment includes the Refinery Catalyst Solutions and Performance Catalyst Solutions product categories. Each segment has a dedicated team of sales, research and development, process engineering, manufacturing and sourcing, and business strategy personnel and has full accountability for improving execution through greater asset and market focus, agility and responsiveness. The new structure also facilitates the continued standardization of business processes across our organization, is consistent with the manner in which information is presently used internally by the Company’s chief operating decision maker to evaluate performance and make resource allocation decisions, and each segment president is responsible for execution of the segment’s business strategy.
Segment income represents segment operating profit and equity in net income of unconsolidated investments and is reduced by net income attributable to noncontrolling interests. Segment data includes intersegment transfers of raw materials at cost and allocations for certain corporate costs.
Summarized financial information concerning our reportable segments is shown in the following table. Results for 2013 have been recast to reflect the change in operating segments noted above, and segment results for all periods presented exclude discontinued operations as further described in Notes 1 and 15. Corporate & other includes corporate-related items not allocated to the reportable segments. Pension and OPEB service cost (which represents the benefits earned by active employees during the period) and amortization of prior service cost or benefit are allocated to each segment whereas the remaining components of pension and OPEB benefits cost or credit are included in Corporate & other.

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Net sales:				
Performance Chemicals	$364,517	$365,154	$1,048,961	$1,059,202
Catalyst Solutions	277,901	226,042	798,021	695,433
Total net sales	$642,418	$591,196	$1,846,982	$1,754,635
Segment operating profit:				
Performance Chemicals	$86,983	$91,506	$244,724	$265,665
Catalyst Solutions	53,039	47,205	162,169	125,615
Total segment operating profit	140,022	138,711	406,893	391,280
Equity in net income of unconsolidated investments:				
Performance Chemicals	1,744	1,735	7,321	6,371
Catalyst Solutions	6,906	3,603	20,879	18,937
Total equity in net income of unconsolidated investments	8,650	5,338	28,200	25,308
Net income attributable to noncontrolling interests:				
Performance Chemicals	(8,546)	(7,332)	(23,130)	(21,250)
Total net income attributable to noncontrolling interests	(8,546)	(7,332)	(23,130)	(21,250)
Segment income:				
Performance Chemicals	80,181	85,909	228,915	250,786
Catalyst Solutions	59,945	50,808	183,048	144,552
Total segment income	140,126	136,717	411,963	395,338
Corporate & other[(a)]	(22,995)	(9,909)	(76,528)	(41,715)
Restructuring and other charges, net	(293)	—	(20,625)	—
Acquisition and integration related costs	(10,261)	—	(15,104)	—
Interest and financing expenses	(8,749)	(9,496)	(26,255)	(22,335)
Other expenses, net	(6,618)	(368)	(6,454)	(6,147)
Income tax expense	(11,737)	(26,963)	(46,700)	(72,897)
(Loss) income from discontinued operations (net of tax)	(6,679)	531	(68,473)	4,994
Net income attributable to Albemarle Corporation	$72,794	$90,512	$151,824	$257,238

(a) For the three months ended September 30, 2014 and 2013, Corporate & other includes $(1.9) million and $1.0 million, respectively, of pension and OPEB plan (costs) credits, and for the nine months ended September 30, 2014 and 2013, Corporate & other includes $(15.7) million and $3.1 million, respectively, of pension and OPEB plan (costs) credits.

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NOTE 10—Pension Plans and Other Postretirement Benefits:
The following information is provided for domestic and foreign pension and postretirement defined benefit plans:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Pension Benefits Cost (Credit):				
Service cost	$2,678	$3,488	$8,245	$10,462
Interest cost	8,006	7,470	24,303	22,403
Expected return on assets	(10,027)	(9,848)	(30,404)	(29,541)
Actuarial loss[(a)]	2,786	—	18,218	—
Amortization of prior service benefit	(119)	(173)	(530)	(517)
Total net pension benefits cost	$3,324	$937	$19,832	$2,807
Postretirement Benefits Cost (Credit):				
Service cost	$54	$78	$162	$232
Interest cost	760	691	2,280	2,073
Expected return on assets	(85)	(104)	(256)	(310)
Amortization of prior service benefit	(24)	(24)	(72)	(72)
Total net postretirement benefits cost	$705	$641	$2,114	$1,923
Total net pension and postretirement benefits cost	$4,029	$1,578	$21,946	$4,730

(a) In connection with the announced realignment of our operating segments effective January 1, 2014, in the fourth quarter of 2013 we initiated a workforce reduction plan which will result in a reduction of approximately 230 employees worldwide. This workforce reduction triggered a net curtailment gain of approximately $0.8 million in the first quarter of 2014 for our U.S. defined benefit plan which covers non-represented employees and our supplemental executive retirement plan (SERP). In connection with the curtailment, we were required to remeasure the related assets and obligations for these two plans. As of the January 31, 2014 remeasurement date, the weighted-average discount rate for all of our domestic pension plans was 4.97% compared to 5.14% at December 31, 2013. Taking into account the discount rate reduction and actual return on plan assets through January 31, 2014, we recorded a mark-to-market actuarial loss (net of the curtailment gain) of $15.4 million in the first quarter of 2014 related to these two plans.

In connection with the sale of our antioxidant, ibuprofen and propofol businesses and assets to SI Group, Inc. which closed on September 1, 2014, in the third quarter of 2014 we were required to remeasure the assets and obligations of one of our U.S. defined benefit plans for represented employees, which was part of the disposed group. As of the September 1, 2014 remeasurement date, the weighted-average discount rate for all of our domestic pension plans was 4.94% compared to 5.14% at December 31, 2013. Taking into account the discount rate reduction and actual return on plan assets through September 1, 2014, as well as changes to mortality assumptions, we recorded a mark-to-market actuarial loss of $2.8 million in the third quarter of 2014 related to this plan.
During the three-month and nine-month periods ended September 30, 2014, we made contributions of $5.2 million and $7.5 million, respectively, to our qualified and nonqualified pension plans. During the three-month and nine-month periods ended September 30, 2013, we made contributions of $4.8 million and $6.8 million, respectively, to our qualified and nonqualified pension plans. The 2014 amounts include a contribution of $4.3 million to one of our U.S. defined benefit plans for represented employees which was included in the sale of businesses and assets to SI Group, Inc. which closed on September 1, 2014. The participation of the Company as the sponsor, plan administrator

and adopting employer of this plan terminated as of September 1, 2014, and the buyer or one of its affiliates adopted and assumed sponsorship and all of the responsibilities and liabilities under the plan pursuant to the terms and provisions of the plan in effect as of the closing date.

We paid $0.8 million and $3.2 million in premiums to the U.S. postretirement benefit plan during the three-month and nine-month periods ended September 30, 2014, respectively. During the three-month and nine-month periods ended September 30, 2013, we paid $0.9 million and $3.1 million, respectively, in premiums to the U.S. postretirement benefit plan.

NOTE 11—Fair Value of Financial Instruments:
In assessing the fair value of financial instruments, we use methods and assumptions that are based on market conditions and other risk factors existing at the time of assessment. Fair value information for our financial instruments is as follows:
Long-Term Debt—the fair values of our senior notes and other fixed rate foreign borrowings are estimated using Level 1 inputs and account for the majority of the difference between the recorded amount and fair value of our long-term debt. The carrying value of our remaining long-term debt reported in the accompanying condensed consolidated balance sheets approximates fair value as substantially all of such debt bears interest based on prevailing variable market rates currently available in the countries in which we have borrowings.

	September 30, 2014		December 31, 2013	
	Recorded Amount	Fair Value	Recorded Amount	Fair Value
	(In thousands)			
Long-term debt	$1,052,375	$1,079,648	$1,078,864	$1,109,878

Foreign Currency Forward Contracts—we enter into foreign currency forward contracts in connection with our risk management strategies in an attempt to minimize the financial impact of changes in foreign currency exchange rates. These derivative financial instruments are used to manage risk and are not used for trading or other speculative purposes. The fair values of our foreign currency forward contracts are estimated based on current settlement values. At September 30, 2014 and December 31, 2013, we had outstanding foreign currency forward contracts with notional values totaling $177.1 million and $321.4 million, respectively. At September 30, 2014 and December 31, 2013, $0.4 million and $0.2 million, respectively, was included in Other accounts receivable associated with the fair value of our foreign currency forward contracts.
Gains and losses on foreign currency forward contracts are recognized currently in Other expenses, net; further, fluctuations in the value of these contracts are generally expected to be offset by changes in the value of the underlying exposures being hedged. For the three-month and nine-month periods ended September 30, 2014, we recognized (losses) of $(5.6) million and $(8.0) million, respectively, in Other expenses, net, in our consolidated statements of income related to the change in the fair value of our foreign currency forward contracts. For the three-month and nine-month periods ended September 30, 2013, we recognized gains (losses) of $0.4 million and $(1.8) million, respectively, in Other expenses, net, in our consolidated statements of income related to the change in the fair value of our foreign currency forward contracts. These amounts are generally expected to be offset by changes in the value of the underlying exposures being hedged which are also reported in Other expenses, net. Also, for the nine-month periods ended September 30, 2014 and 2013, we recorded $8.0 million and $1.8 million, respectively, related to the change in the fair value of our foreign currency forward contracts, and cash settlements of $(8.3) million and $(2.2) million, respectively, in Other, net in our condensed consolidated statements of cash flows.
Interest Rate Swap—In anticipation of refinancing our 2015 senior notes in the fourth quarter of 2014, on January 22, 2014, we entered into a pay fixed, receive variable rate forward starting interest rate swap with J.P. Morgan Chase Bank, N.A., to be effective October 15, 2014. Our risk management objective and strategy for undertaking this hedge is to eliminate the variability in the interest rate and partial credit spread on the 20 future semi-annual coupon payments that we would pay when we refinance our 2015 senior notes with another 10 year note. The notional amount of the swap is $325.0 million and the fixed rate is 3.281%, with the cash settlement determined by reference to the changes in the U.S. dollar 3-month LIBOR and credit spreads from the date we entered into the swap until the date the swap is settled (October 15, 2014). This derivative financial instrument has been designated and is accounted for as a cash flow hedge under Accounting Standards Codification (ASC) 815, Derivatives and Hedging. Effectiveness of the hedge relationship is assessed prospectively and retrospectively on a quarterly basis. At September 30, 2014, the fair value of our pay fixed, receive variable rate forward starting interest rate swap was a liability of $18.0 million and is

included in Accrued expenses. We determined there was no ineffectiveness during the nine-month period ended September 30, 2014, which resulted in the entire change in fair value of this swap being recorded in Accumulated other comprehensive (loss) income. On October 15, 2014, the swap was settled, resulting in a payment to the counterparty of $33.4 million.

The counterparties to our foreign currency forward contracts and our interest rate swap are major financial institutions with which we generally have other financial relationships. We are exposed to credit loss in the event of nonperformance by these counterparties. However, we do not anticipate nonperformance by the counterparties.

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NOTE 12—Fair Value Measurement:
Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The inputs used to measure fair value are classified into the following hierarchy:

Level 1	Unadjusted quoted prices in active markets for identical assets or liabilities
Level 2	Unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability
Level 3	Unobservable inputs for the asset or liability

We endeavor to utilize the best available information in measuring fair value. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Transfers between levels of the fair value hierarchy are deemed to have occurred on the date of the event or change in circumstance that caused the transfer. There were no transfers between Levels 1 and 2 during the nine-month period ended September 30, 2014. The following tables set forth our financial assets and liabilities that were accounted for at fair value on a recurring basis as of September 30, 2014 and December 31, 2013 (in thousands):

	September 30, 2014	Quoted Prices in Active Markets for Identical Items (Level 1)	Quoted Prices in Active Markets for Similar Items (Level 2)	Unobservable Inputs (Level 3)
Assets:				
Investments under executive deferred compensation plan[(a)]	$21,560	$ 21,560	$ —	$—
Private equity securities[(b)]	$1,821	$ 23	$ —	$1,798
Foreign currency forward contracts[(d)]	$415	$ —	$ 415	$—
Liabilities:				
Obligations under executive deferred compensation plan[(a)]	$21,560	$ 21,560	$ —	$—
Interest rate swap contract[(c)]	$17,976	$ —	$ 17,976	$—
Foreign currency forward contracts[(d)]	$11	$ —	$ 11	$—

	December 31, 2013	Quoted Prices in Active Markets for Identical Items (Level 1)	Quoted Prices in Active Markets for Similar Items (Level 2)	Unobservable Inputs (Level 3)
Assets:				
Investments under executive deferred compensation plan[(a)]	$23,030	$ 23,030	$ —	$—
Private equity securities[(b)]	$771	$ 21	$ —	$750
Foreign currency forward contracts[(d)]	$161	$ —	$ 161	$—