

NEWMARKET CORP  
Form 10-Q  
October 30, 2008  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D. C. 20549**  
**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended September 30, 2008

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-32190

**NEWMARKET CORPORATION**

(Exact name of registrant as specified in its charter)

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

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

**330 SOUTH FOURTH STREET**

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

**23218-2189**  
(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days.

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

Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Number of shares of common stock, without par value, outstanding as of September 30, 2008: 15,183,207.

**Table of Contents**

NEWMARKET CORPORATION

INDEX

	<b>Page Number</b>
PART I. FINANCIAL INFORMATION	
ITEM 1. Financial Statements (unaudited)	
<u>Consolidated Statements of Income - Third Quarter and Nine Months Ended September 30, 2008 and September 30, 2007</u>	3
<u>Consolidated Balance Sheets - September 30, 2008 and December 31, 2007</u>	4
<u>Consolidated Statements of Cash Flows - Nine Months Ended September 30, 2008 and September 30, 2007</u>	5
<u>Notes to Consolidated Financial Statements</u>	6 - 28
<u>ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	29 - 40
<u>ITEM 3. Quantitative and Qualitative Disclosures About Market Risk</u>	40
<u>ITEM 4. Controls and Procedures</u>	40 - 41
PART II. OTHER INFORMATION	
<u>ITEM 1. Legal Proceedings</u>	42
<u>ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	42
<u>ITEM 6. Exhibits</u>	43
<u>SIGNATURES</u>	44

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

(In thousands, except per-share amounts)

(Unaudited)

	Third Quarter Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Net sales	\$ 440,604	\$ 356,946	\$ 1,248,836	\$ 1,010,755
Cost of goods sold	367,026	277,877	1,011,462	786,739
Gross profit	73,578	79,069	237,374	224,016
Selling, general, and administrative expenses	28,476	27,659	87,748	81,460
Research, development, and testing expenses	19,471	18,476	61,579	56,387
Operating profit	25,631	32,934	88,047	86,169
Interest and financing expenses	2,966	2,954	8,854	8,743
Other income, net	222	1,235	901	2,382
Income from continuing operations before income taxes	22,887	31,215	80,094	79,808
Income tax expense	6,415	11,125	26,226	28,254
Income from continuing operations	16,472	20,090	53,868	51,554
Discontinued operations:				
Gain on settlement of discontinued business (net of tax)		1,067		14,554
Income from operations of discontinued business (net of tax)				2,217
<b>Net income</b>	<b>\$ 16,472</b>	<b>\$ 21,157</b>	<b>\$ 53,868</b>	<b>\$ 68,325</b>
Basic earnings per share				
Income from continuing operations	\$ 1.08	\$ 1.20	\$ 3.49	\$ 3.01
Discontinued operations		0.06		0.98
	<b>\$ 1.08</b>	<b>\$ 1.26</b>	<b>\$ 3.49</b>	<b>\$ 3.99</b>
Diluted earnings per share				
Income from continuing operations	\$ 1.07	\$ 1.19	\$ 3.48	\$ 2.99
Discontinued operations		0.06		0.97
	<b>\$ 1.07</b>	<b>\$ 1.25</b>	<b>\$ 3.48</b>	<b>\$ 3.96</b>
Shares used to compute basic earnings per share	15,306	16,772	15,418	17,121
Shares used to compute diluted earnings per share	15,365	16,887	15,493	17,236

Edgar Filing: NEWMARKET CORP - Form 10-Q

Cash dividends declared per common share	\$	0.20	\$	0.125	\$	0.60	\$	0.375
--	----	------	----	-------	----	------	----	-------

See accompanying notes to the consolidated financial statements.

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

(In thousands, except share amounts)

(Unaudited)

	September 30 2008	December 31 2007
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 33,491	\$ 71,872
Trade and other accounts receivable, less allowance for doubtful accounts (\$958 - 2008; \$1,059 - 2007)	248,180	207,190
Inventories:		
Finished goods	176,279	158,286
Raw materials	43,463	27,749
Stores, supplies and other	8,310	7,659
	228,052	193,694
Deferred income taxes	12,066	18,727
Prepaid expenses and other current assets	7,465	3,558
Total current assets	529,254	495,041
Property, plant and equipment, at cost	838,237	789,634
Less accumulated depreciation and amortization	611,252	606,072
Net property, plant and equipment	226,985	183,562
Prepaid pension cost	6,276	2,616
Deferred income taxes	23,632	21,396
Other assets and deferred charges	20,937	22,764
Intangibles, net of amortization	55,941	45,555
<b>Total assets</b>	<b>\$ 863,025</b>	<b>\$ 770,934</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 127,429	\$ 104,636
Accrued expenses	62,989	57,043
Dividends payable	2,667	3,154
Book overdraft	4,612	6,249
Long-term debt, current portion	771	736
Income taxes payable	5,168	5,843
Total current liabilities	203,636	177,661
Long-term debt	213,361	157,061
Other noncurrent liabilities	114,759	119,205
Commitments and contingencies (Note 9)		
Shareholders' equity:		

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

Common stock and paid-in capital (without par value) Issued - 15,183,207 in 2008 and 15,566,225 in 2007		5,235
Accumulated other comprehensive loss	(39,170)	(34,360)
Retained earnings	370,439	346,132
	331,269	317,007
<b>Total liabilities and shareholders equity</b>	\$ 863,025	\$ 770,934

See accompanying notes to the consolidated financial statements.

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

(In thousands)

(Unaudited)

	<b>Nine Months Ended September 30</b>	
	<b>2008</b>	<b>2007</b>
<b>Cash and cash equivalents at beginning of year</b>	\$ 71,872	\$ 60,300
<b>Cash flows from operating activities:</b>		
Net income	53,868	68,325
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation and other amortization	20,449	21,115
Amortization of deferred financing costs	749	749
Noncash environmental remediation and dismantling	811	3,208
Noncash pension benefits expense	8,797	8,030
Noncash postretirement benefits expense	2,014	2,874
Noncash foreign exchange impact	3,560	(484)
Deferred income tax expense	3,857	2,601
Gain on settlement and termination of TEL marketing agreements		(22,848)
Gain on legal settlement	(3,227)	
Working capital changes	(71,576)	4,190
Excess tax benefits from stock-based payment arrangements	(900)	
Cash pension benefits contributions	(10,996)	(14,170)
Cash postretirement benefits contributions	(1,423)	(1,371)
Proceeds from legal settlement	3,227	
Long-term receivable - TEL marketing agreements		11,983
Other, net	2,353	(3,532)
<b>Cash provided from operating activities</b>	<b>11,563</b>	<b>80,670</b>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(21,831)	(24,630)
Foundry Park I capital expenditures	(29,046)	(4,334)
Foundry Park I deferred leasing costs		(3,599)
Acquisition of business	(14,721)	
Proceeds from settlement and termination of TEL marketing agreements		28,000
Proceeds from (payment for) interest rate lock agreement	1,050	(1,110)
Payment for acquisition of intangible asset		(2,650)
Other, net		(566)
<b>Cash used in investing activities</b>	<b>(64,548)</b>	<b>(8,889)</b>
<b>Cash flows from financing activities:</b>		
Draws on Foundry Park I construction loan	25,083	4,944
Net borrowings under revolving credit agreement	31,800	
Draws on Foundry Park I bridge loan		6,571
Repayment of Foundry Park I bridge loan		(6,571)
Repayment of 8.875% senior notes		(250)
Repurchases of common stock	(26,810)	(50,000)



Edgar Filing: NEWMARKET CORP - Form 10-Q

Dividends	(12,090)	(4,695)
Change in book overdraft, net	(1,637)	976
Payment for financed intangible asset	(750)	
Debt issuance costs		(146)
Debt issuance costs - Foundry Park I		(1,696)
Proceeds from exercise of stock options	246	26
Excess tax benefits from stock-based payment arrangements	900	
Payments on the capital lease	(548)	(523)
<b>Cash provided from (used in) financing activities</b>	<b>16,194</b>	<b>(51,364)</b>
Effect of foreign exchange on cash and cash equivalents	(1,590)	2,230
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(38,381)</b>	<b>22,647</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 33,491</b>	<b>\$ 82,947</b>

See accompanying notes to the consolidated financial statements.

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

(Unaudited)

**1. Financial Statement Presentation**

In the opinion of management, the accompanying consolidated financial statements of NewMarket Corporation and its subsidiaries contain all necessary adjustments for the fair presentation of, in all material respects, our consolidated financial position as of September 30, 2008, as well as our consolidated results of operations for the third quarter and nine months ended September 30, 2008 and September 30, 2007 and our consolidated cash flows for the nine months ended September 30, 2008 and September 30, 2007. The financial statements are subject to normal year-end adjustments and do not include comprehensive footnotes. All adjustments are of a normal, recurring nature, unless otherwise disclosed. These financial statements should be read in conjunction with the consolidated financial statements and related notes included in the NewMarket Corporation Annual Report on Form 10-K for the fiscal year ended December 31, 2007 (2007 Annual Report), as filed with the Securities and Exchange Commission (SEC). The results of operations for the nine month period ended September 30, 2008 are not necessarily indicative of the results to be expected for the full year ending December 31, 2008. The December 31, 2007 consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

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

At both September 30, 2008 and December 31, 2007, we had a book overdraft for some of our disbursement cash accounts. A book overdraft represents transactions that have not cleared the bank accounts at the end of the reporting period. We transfer cash on an as-needed basis to fund these items as they clear the bank in subsequent periods.

Cash dividends totaling 60 cents per share for the nine months ended September 30, 2008 and 37.5 cents per share for the nine months ended September 30, 2007 were declared and paid as shown in the table below.

<b>Year</b>	<b>Date Declared</b>	<b>Date Paid</b>	<b>Per Share Amount</b>
2008	February 28, 2008	April 1, 2008	20 cents
	April 24, 2008	July 1, 2008	20 cents
	July 31, 2008	October 1, 2008	20 cents
2007	February 22, 2007	April 2, 2007	12.5 cents
	April 26 2007	July 2, 2007	12.5 cents
	July 20, 2007	October 1, 2007	12.5 cents

During the period of August 4, 2008 through August 12, 2008, we purchased 316,168 shares of common stock at an average price of \$63.26, including transaction fees. The purchase of these

## **Table of Contents**

shares was under the share repurchase program approved by our Board of Directors on July 31, 2008. The Board of Directors approved a share repurchase program that authorizes management to repurchase up to \$100 million of NewMarket Corporation's outstanding common stock until December 31, 2010, as market conditions warrant and covenants under our existing agreements permit. We may conduct the share repurchases in the open market and in privately negotiated transactions. The repurchase program does not require NewMarket to acquire any specific number of shares and may be terminated or suspended at any time. Approximately \$80 million remains available under this authorization.

During the period of January 2, 2008 through January 7, 2008, we purchased 124,855 shares of common stock at an average price of \$54.55, including transaction fees. The purchase of all shares was under the share repurchase program approved by our Board of Directors on October 25, 2007. The Board of Directors approved a share repurchase program that authorized management to repurchase up to \$50 million of NewMarket Corporation's outstanding common stock until December 31, 2009, as market conditions warranted and covenants under our existing agreements permitted. The repurchase program allowed us to conduct the share repurchases in the open market and in privately negotiated transactions. The repurchase program did not require NewMarket to acquire any specific number of shares. This repurchase plan was terminated on July 31, 2008.

During the nine months ended September 30, 2008, we had noncash investing activity of \$11.3 million related to capital expenditures incurred, but not paid, for the construction of the office building by Foundry Park I, LLC (Foundry Park I), as well as other capital projects of Afton Chemical Corporation (Afton).

## **2. Discontinued Operations**

On June 15, 2007, Ethyl Corporation (Ethyl) and Innospec Inc. (Innospec) resolved all pending arbitration actions commenced in 2006 between the subsidiaries of Innospec and Ethyl arising out of the tetraethyl lead (TEL) marketing agreements and the North American TEL supply agreement between the companies and terminated the marketing agreements effective April 1, 2007. Accordingly, the previous operations under the TEL marketing agreements are reported as Discontinued operations in the Consolidated Statements of Income for all periods presented. The gain on the termination of this business was \$1.7 million (\$1.1 million after tax) for the third quarter 2007 and \$22.8 million (\$14.6 million after tax) for nine months 2007. The income from operations of the discontinued business amounted to \$3.5 million (\$2.2 million after tax) and occurred during the first quarter 2007.

Our September 30, 2008 and December 31, 2007 Consolidated Balance Sheets do not include any assets or liabilities of the discontinued operations. The Consolidated Statements of Cash Flows summarizes the activity of discontinued and continuing operations together.

**Table of Contents**3. Asset Retirement Obligations

The following table illustrates the activity associated with our asset retirement obligations for the nine months ended September 30, 2008 and the year ended December 31, 2007.

	September 30 2008	December 31 2007
	<i>(in thousands)</i>	
Asset retirement obligations, beginning of period	\$ 5,048	\$ 5,268
Accretion expense	220	485
Liabilities settled	(1,070)	(1,916)
Changes in expected cash flows and timing	(417)	1,016
Foreign currency impact	(8)	195
Asset retirement obligations, end of period	\$ 3,773	\$ 5,048

4. Segment Information

The tables below show our consolidated segment net sales, operating profit (including a reconciliation of segment operating profit to income from continuing operations before income taxes), and depreciation and amortization.

Beginning with the first quarter 2008, we are reporting our real estate development activities in segment operating profit. Because of the current immateriality of the real estate development operating segment, its results are reported in the All other category. The real estate development operating segment represents the activities of Foundry Park I, a wholly-owned subsidiary of NewMarket Development Corporation (NewMarket Development). In January 2007, Foundry Park I entered into a Deed of Lease Agreement with MeadWestvaco Corporation (MeadWestvaco) under which it will lease an office building which we are constructing on approximately three acres of our land. We intend to build the office to the specifications of MeadWestvaco, as they will be the sole tenant of the facility. The construction phase of this effort is expected to last until late 2009, at which time MeadWestvaco will occupy the building and use it as their corporate headquarters. For 2008 and most of 2009, we will be capitalizing the costs of the project and the financing expenses.

Also included in the All other category is the continuing operations of the TEL business (primarily sales of TEL in North America), as well as certain contract manufacturing Ethyl provides to Afton Chemical Corporation (Afton) and to third parties.

**Segment Net Sales**

*(in millions)*

	Third Quarter Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Petroleum additives	\$ 437.2	\$ 352.1	\$ 1,238.8	\$ 997.3
All other	3.4	4.8	10.0	13.5
Consolidated net sales	\$ 440.6	\$ 356.9	\$ 1,248.8	\$ 1,010.8

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

	Third Quarter Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Petroleum additives (a)	\$ 28.1	\$ 35.2	\$ 97.5	\$ 100.7
All other	0.5	0.6	1.0	(4.4)
Segment operating profit	28.6	35.8	98.5	96.3
Corporate, general, and administrative expenses	(3.3)	(3.0)	(10.9)	(10.2)
Interest and financing expenses	(3.0)	(3.0)	(8.9)	(8.7)
Other income, net	0.6	1.4	1.4	2.4
Income from continuing operations before income taxes	\$ 22.9	\$ 31.2	\$ 80.1	\$ 79.8

(a) *Petroleum additives segment operating profit for nine months 2008 includes a gain of \$3.2 million from a legal settlement related to raw materials.*

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

	Third Quarter Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Petroleum additives	\$ 6.4	\$ 6.4	\$ 19.3	\$ 19.1
All other	0.1		0.1	
Corporate (a)	0.6	0.7	1.8	2.8
Total depreciation and amortization	\$ 7.1	\$ 7.1	\$ 21.2	\$ 21.9

(a) *The amortization of the prepayment for services was \$1 million for nine months 2007 and was included in Discontinued Operations on the Consolidated Statements of Income.*

**5. Pension and Postretirement Benefit Plans**

During the nine months ended September 30, 2008, we made contributions of approximately \$5.0 million for domestic pension plans and approximately \$1.3 million for domestic postretirement benefit plans. We expect to make total contributions in 2008 of approximately \$7 million for our domestic pension plans and approximately \$2 million for our domestic postretirement benefit plans.

We made contributions of approximately \$6.0 million for our foreign pension plans and approximately \$100 thousand for a foreign postretirement benefit plan during the nine months ended September 30, 2008. During 2008, we expect to make total contributions of approximately \$8 million for our foreign pension plans and approximately \$200 thousand for our foreign postretirement benefit plan.



**Table of Contents**

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

	Domestic			
	Pension Benefits		Postretirement Benefits	
	Third Quarter Ended September 30			
	2008	2007	2008	2007
	<i>(in thousands)</i>			
Service cost	\$ 1,420	\$ 1,182	\$ 191	\$ 361
Interest cost	1,938	1,588	716	1,012
Expected return on plan assets	(1,931)	(1,701)	(413)	(470)
Amortization of prior service cost (credit)	73	8	2	(6)
Amortization of net loss (gain)	559	541	(300)	
	<b>\$ 2,059</b>	\$ 1,618	<b>\$ 196</b>	\$ 897

	Domestic			
	Pension Benefits		Postretirement Benefits	
	Nine Months Ended September 30			
	2008	2007	2008	2007
	<i>(in thousands)</i>			
Service cost	\$ 3,986	\$ 3,548	\$ 758	\$ 1,082
Interest cost	5,622	4,761	2,619	3,037
Expected return on plan assets	(5,839)	(5,102)	(1,244)	(1,412)
Amortization of prior service cost (credit)	219	23	8	(16)
Amortization of net loss (gain)	1,415	1,625	(313)	
	<b>\$ 5,403</b>	\$ 4,855	<b>\$ 1,828</b>	\$ 2,691

**Table of Contents**

	Foreign			
	Pension Benefits		Postretirement Benefits	
	Third Quarter Ended September 30			
	2008	2007	2008	2007
	<i>(in thousands)</i>			
Service cost	\$ 741	\$ 728	\$ 5	\$ 5
Interest cost	1,469	1,294	32	31
Expected return on plan assets	(1,450)	(1,342)		
Amortization of prior service cost	20	21		
Amortization of transition asset	(9)	(9)	12	12
Amortization of net loss	350	384	11	16
	<b>\$ 1,121</b>	<b>\$ 1,076</b>	<b>\$ 60</b>	<b>\$ 64</b>

	Foreign			
	Pension Benefits		Postretirement Benefits	
	Nine Months Ended September 30			
	2008	2007	2008	2007
	<i>(in thousands)</i>			
Service cost	\$ 2,251	\$ 2,144	\$ 14	\$ 14
Interest cost	4,469	3,815	100	87
Expected return on plan assets	(4,423)	(3,954)		
Amortization of prior service cost	62	60		
Amortization of transition asset	(29)	(26)	39	35
Amortization of net loss	1,064	1,136	33	47
	<b>\$ 3,394</b>	<b>\$ 3,175</b>	<b>\$ 186</b>	<b>\$ 183</b>



**Table of Contents****6. Earnings Per Share**

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

	Third Quarter Ended		Nine Months Ended	
	September 30 2008	September 30 2007	September 30 2008	September 30 2007
<i>(in thousands, except per-share amounts)</i>				
<b>Basic earnings per share</b>				
Numerator:				
Income from continuing operations	\$ 16,472	\$ 20,090	\$ 53,868	\$ 51,554
Denominator:				
Weighted-average number of shares of common stock outstanding	15,306	16,772	15,418	17,121
Basic earnings per share from continuing operations	\$ 1.08	\$ 1.20	\$ 3.49	\$ 3.01
<b>Diluted earnings per share</b>				
Numerator:				
Income from continuing operations	\$ 16,472	\$ 20,090	\$ 53,868	\$ 51,554
Denominator:				
Weighted-average number of shares of common stock outstanding	15,306	16,772	15,418	17,121
Shares issuable upon exercise of stock options	59	115	75	115
Total shares	15,365	16,887	15,493	17,236
Diluted earnings per share from continuing operations	\$ 1.07	\$ 1.19	\$ 3.48	\$ 2.99

**Table of Contents**7. Intangibles, net of amortization

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

	Identifiable Intangibles			
	September 30 2008		December 31 2007	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizing intangible assets				
Formulas	\$ 85,910	\$ 52,349	\$ 85,910	\$ 48,956
Contracts	10,376	2,996	10,376	1,775
Acquisition of business	15,000			
	<b>\$ 111,286</b>	<b>\$ 55,345</b>	\$ 96,286	\$ 50,731

On September 26, 2008, Afton acquired the North American Fuel Additives Business from GE Water and Process Technologies for \$15 million. We are in the process of performing a valuation of the assets acquired to determine the purchase price allocation. We expect that a significant portion, if not all, of the purchase price will be identifiable intangibles, which will be amortized into earnings over the useful life of the assets as determined through the valuation.

Amortization expense amounted to \$1.5 million for the third quarter 2008, \$4.6 million for nine months 2008, \$1.5 million for third quarter 2007, and \$4.6 million for nine months 2007.

Estimated annual amortization expense related to our intangible assets for the next five years is expected to be (in thousands):

2008	\$ 6,152
2009	\$ 6,152
2010	\$ 6,152
2011	\$ 6,079
2012	\$ 4,972

These expected amortization amounts do not include the amortization which will result from the identifiable intangibles related to the acquisition discussed above. We amortize the cost of intangible assets by the straight-line method over their economic lives. We generally amortize contracts over five to ten years. We generally amortize formulas over 20 years.

**Table of Contents**8. Long-term Debt

Long-term debt consisted of the following:

	September 30 2008	December 31 2007
	<i>(in thousands)</i>	
Senior notes - 7.125% due 2016	\$ 150,000	\$ 150,000
Revolving credit facility	31,800	
Foundry Park I construction loan	30,381	5,298
Capital lease obligations	1,951	2,499
	<b>214,132</b>	157,797
Current maturities of long-term debt	(771)	(736)
	<b>\$ 213,361</b>	\$ 157,061

During 2008, we borrowed under the revolving credit facility resulting in an outstanding balance of \$31.8 million at September 30, 2008. This credit facility includes a \$50 million sub-facility for letters of credit. We had outstanding letters of credit of \$10.5 million at September 30, 2008, resulting in the unused portion of the revolver amounting to \$57.7 million.

Foundry Park I and NewMarket Corporation entered into a construction loan agreement with a group of banks on August 7, 2007 to borrow up to \$116 million to fund the development and construction of an office building. The construction loan bears interest at LIBOR plus a margin of 140 basis points. The term of the loan is for a period of 36 months and is unconditionally guaranteed by NewMarket Corporation. No principal reduction payment is due during the construction period. As a condition of the construction loan and concurrently with the closing of the loan, Foundry Park I also obtained interest rate risk protection in the form of an interest rate swap (swap). The objective in obtaining the swap was to manage our exposure to interest rate movements and add stability to capitalized interest expense. The interest rate swap involves the receipt of variable-rate amounts based on LIBOR in exchange for fixed-rate payments over the life of the agreement without exchange of the underlying notional amount. The fixed-rate payments are at a rate of 4.975%. The notional amount of the swap was approximately \$41.3 million at September 30, 2008 and \$8.2 million at December 31, 2007 and accretes to approximately \$94 million over the term of the swap. The accreting notional amount is necessary to maintain the swap notional at an amount that represents approximately 85% of the projected construction loan principal balance over the loan term. The maturity date of the swap is January 1, 2010.

Statement of Financial Accounting Standard No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), as amended and interpreted, establishes accounting and reporting standards for derivative instruments and for hedging activities. The swap is designated and qualifies as a cash flow hedge under SFAS 133. For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is recorded in accumulated other comprehensive loss and subsequently reclassified to earnings when the hedged transaction affects earnings. The ineffective portion of changes in the fair value of the derivative is recognized immediately in earnings. We assess the effectiveness of the swap quarterly by comparing the changes in the fair value of the derivative hedging instrument with the change in fair value of the designated hedged transaction.

The fair value of the swap was approximately \$1.6 million at both September 30, 2008 and December 31, 2007 and was recorded in other noncurrent liabilities on the Consolidated Balance Sheets. The net unrealized loss of approximately \$1.5 million (\$1.0 million, net of tax) at

---

**Table of Contents**

September 30, 2008 and \$1.6 million (\$1.0 million, net of tax) at December 31, 2007 is recorded as a component of accumulated other comprehensive loss in shareholders' equity on the Consolidated Balance Sheets. Hedge ineffectiveness of approximately \$100 thousand expense at September 30, 2008 and \$20 thousand expense at December 31, 2007 was recognized and recorded in other income, net on the Consolidated Statements of Income. Also recorded as a component of accumulated other comprehensive loss in shareholders' equity on the Consolidated Balance Sheets was the net amount of swap receipts and payments made since the inception of the swap. This amounted to approximately \$300 thousand, net of tax effects, at September 30, 2008 and \$3 thousand, net of tax effects, at December 31, 2007. Any amounts remaining in accumulated other comprehensive loss related to the swap will be recognized in the Consolidated Statements of Income over the depreciable life of the office building beginning at the completion of the construction project, which is expected to be late 2009. No related amounts currently recognized in accumulated other comprehensive loss are expected to be reclassified into earnings over the next twelve months.

9. **Contractual Commitments and Contingencies**

There have been no significant changes in our contractual commitments from those reported in our 2007 Annual Report in Note 17 of the Notes to Consolidated Financial Statements.

**Litigation**

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

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

**Environmental**

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

The Sauget Area 2 Site PRPs submitted a Remedial Investigation and Feasibility Study (RI/FS) to the EPA in early 2004. We have accrued our estimated proportional share of the expenses for the RI/FS. We also accrued our best estimate of our proportional share of the remediation liability proposed in that submission. The EPA did not accept the RI/FS. Through a series of submissions and meetings, the scope of the RI/FS has changed so that it is now scheduled to be submitted to the EPA in 2009. The RI/FS work is ongoing and we believe it is not at a stage where any further conclusion can be drawn as to the remediation liability we may incur. We do not believe there is any additional information available as a basis for revision of the liability that we have established. The amount accrued for this site is not material.

At a former TEL plant site located in the state of Louisiana, we have substantially completed environmental remediation and will be monitoring the site for an extended period. The accrual for this site was approximately \$9.0 million at September 30, 2008 and \$9.6 million at December 31, 2007. We based these amounts on the best estimate of future costs discounted at approximately 2% in both 2008 and 2007. We incorporated an inflation factor in determining the discount rate.

**Table of Contents**

The undiscounted liability was \$9.9 million at September 30, 2008 and \$10.5 million at December 31, 2007. The expected payments for each of the next five years amount to approximately \$600 thousand. Expected payments thereafter amount to \$7 million.

For a plant site in Houston, Texas, we have an accrual of \$7.6 million at September 30, 2008 and \$8.5 million at December 31, 2007 for environmental remediation, dismantling, and decontamination. Included in these amounts are \$6.4 million at September 30, 2008 and \$6.9 million at December 31, 2007 for remediation. A portion of the liability for this site is discounted at approximately 3% at September 30, 2008 and 4% at December 31, 2007 and includes an inflation factor. The undiscounted liability for this site was \$8.6 million at September 30, 2008 and \$9.5 million at December 31, 2007. The expected payments for each of the next five years amount to approximately \$400 thousand for the portion of the site which is discounted. Expected payments thereafter amount to approximately \$3 million.

The remaining environmental liabilities are not discounted.

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

Our total accruals for environmental remediation were approximately \$21.1 million at September 30, 2008 and \$22.3 million at December 31, 2007. In addition to the accruals for environmental remediation, we also have accruals for dismantling and decommissioning costs of \$1.8 million at September 30, 2008 and \$2.7 million at December 31, 2007.

#### 10. Comprehensive Income and Accumulated Other Comprehensive Loss

The components of comprehensive income consist of the following:

	<b>Third Quarter Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30</b>		<b>September 30</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<i>(in thousands)</i>			
Net income	<b>\$ 16,472</b>	\$ 21,157	<b>\$ 53,868</b>	\$ 68,325
Other comprehensive income (loss), net of tax				
Pension plans and other postretirement benefits adjustments	<b>2,352</b>	195	<b>3,533</b>	1,449
Unrealized loss on derivative instruments	<b>(155)</b>	(356)	<b>(243)</b>	(227)
Foreign currency translation adjustments	<b>(11,632)</b>	2,992	<b>(8,100)</b>	5,615
Other comprehensive (loss) income	<b>(9,435)</b>	2,831	<b>(4,810)</b>	6,837
Comprehensive income	<b>\$ 7,037</b>	\$ 23,988	<b>\$ 49,058</b>	\$ 75,162

**Table of Contents**

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

	September 30 2008	December 31 2007
	<i>(in thousands)</i>	
Pension plans and other postretirement benefit adjustments	\$ (31,020)	\$ (34,553)
Accumulated loss on derivative instruments	(1,225)	(982)
Foreign currency translation adjustments	(6,925)	1,175
Accumulated other comprehensive loss	\$ (39,170)	\$ (34,360)

#### 11. Fair Value Measurements

Effective January 1, 2008, we adopted Statement of Financial Accounting Standard No. 157, Fair Value Measurements (SFAS 157), as it applies to our financial instruments, and Statement of Financial Accounting Standard No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 (SFAS 159). SFAS 157 defines fair value, outlines a framework for measuring fair value, and details the required disclosures about fair value measurements. SFAS 159 permits companies to irrevocably choose to measure certain financial instruments and other items at fair value. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparison between entities that choose different measurement attributes for similar types of assets and liabilities.

Under SFAS 157, 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 in the principal or most advantageous market. SFAS 157 establishes a hierarchy in determining the fair value of an asset or liability. The fair value hierarchy has three levels of inputs, both observable and unobservable. SFAS 157 requires the utilization of the lowest possible level of input to determine fair value. Level 1 inputs include quoted market prices in an active market for identical assets or liabilities. Level 2 inputs are market data, other than Level 1, that are observable either directly or indirectly. Level 2 inputs include quoted market prices for similar assets or liabilities, quoted market prices in an inactive market, and other observable information that can be corroborated by market data. Level 3 inputs are unobservable and corroborated by little or no market data.

Except for those assets and liabilities which are required by authoritative accounting guidance to be recorded at fair value in our Consolidated Balance Sheets, we have elected not to record any other assets or liabilities at fair value, as permitted by SFAS 159. No events occurred during the nine months ended September 30, 2008, requiring adjustment to the recognized balances of assets or liabilities which are recorded at fair value on a nonrecurring basis.

**Table of Contents**

The following table provides information on those assets and liabilities measured at fair value on a recurring basis.

	<b>Carrying</b>				
	<b>Amount in</b>				
	<b>Consolidated</b>				
	<b>Balance Sheets</b>	<b>Fair Value</b>	<b>Fair Value Measurements Using</b>		
	<b>September 30</b>	<b>September 30</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	<b>2008</b>	<b>2008</b>			
Interest rate swap liability	\$ 1,627	\$ 1,627	\$	\$ 1,627	\$
Foreign currency forward contracts asset	\$ 418	\$ 418	\$	\$ 418	\$

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

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

Although we have determined that the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustment associated with the derivatives utilizes Level 3 inputs. These Level 3 inputs include estimates of current credit spreads to evaluate the likelihood of default by both us and the counterparties to the derivatives. As of September 30, 2008, we have assessed the significance of the impact of the credit valuation adjustment on the overall valuation of our derivatives and have determined that the credit valuation adjustment is not significant to the overall valuation of the derivatives. Accordingly, we have determined that our derivative valuations should be classified in Level 2 of the fair value hierarchy.

## 12. Recently Issued Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standard No. 157, Fair Value Measurements (SFAS 157). The standard defines fair value, outlines a framework for measuring fair value, and details the required disclosures about fair value measurements. The standard was effective for fiscal years beginning after November 15, 2007. In February 2007, the FASB issued FSP 157-1 and FSP 157-2. FSP 157-1 amends SFAS 157 to exclude FASB Statement No. 13, Accounting for Leases and other accounting pronouncements that address fair value measurements of leases from the provisions of SFAS 157. FSP 157-2 delays the effective date of SFAS 157 for most nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008. Except for additional disclosure requirements, we do not expect the full adoption of SFAS 157, or the related FSPs, to have a significant impact on our financial statements.

**Table of Contents**

In December 2007, the FASB issued Statement of Financial Accounting Standard No. 141 (Revised 2007), Business Combinations (SFAS 141(R)). In addition to clarifying required disclosures in a business combination, SFAS 141(R) established requirements of how the acquirer should recognize and measure identifiable assets acquired, liabilities assumed, and any noncontrolling interest in the acquired entity. The statement also clarifies the recognition and measurement of goodwill acquired in a business combination and a gain from a bargain purchase. Additionally, costs incurred to effect the acquisition are to be recognized separately from the acquisition and expensed as incurred. The standard is effective for fiscal years beginning on or after December 15, 2008. Unless we were to make an acquisition after the effective date of the standard, we do not expect the adoption of SFAS 160 to have a significant impact on our financial statements.

In March 2008, the FASB issued Statement of Financial Accounting Standard No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 requires enhanced disclosures surrounding the use and financial reporting of derivative instruments and hedging activities. The standard is effective for fiscal years and interim periods beginning after November 15, 2008. We are evaluating any potential impact of the adoption of SFAS 161 on our financial statements.

In April 2008, the FASB issued FASB Staff Position No. 142-3, Determination of the Useful Life of Intangible Assets (FSP 142-3). FSP 142-3 clarifies the necessary considerations when developing renewal and extension assumptions in determining the useful life of a recognizable intangible asset under SFAS 142, Goodwill and Other Intangible Assets. FSP 142-3 is effective for fiscal years beginning after December 15, 2008. We do not expect FSP 142-3 to have a significant impact on our financial statements.

13. **Consolidating Financial Information**

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

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



**Table of Contents**

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

The following sets forth the Consolidating Statements of Income for the third quarter and nine months ended September 30, 2008 and September 30, 2007, Consolidating Balance Sheets as of September 30, 2008 and December 31, 2007, and Condensed Consolidating Statements of Cash Flows for the nine months ended September 30, 2008 and September 30, 2007 for the Parent Company, the Guarantor Subsidiaries, and Non-Guarantor Subsidiaries. The financial information is based on our understanding of the SEC's interpretation and application of Rule 3-10 of the SEC Regulation S-X.

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

**Table of Contents****NewMarket Corporation and Subsidiaries****Consolidating Statements of Income****Third Quarter Ended September 30, 2008**

(in thousands)

	<b>Parent</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Total Consolidating Adjustments</b>	<b>Consolidated</b>
Net sales	\$	\$ 238,452	\$ 202,152	\$	\$ 440,604
Cost of goods sold		203,953	163,073		367,026
Gross profit		34,499	39,079		73,578
Selling, general, and administrative expenses	1,099	23,003	4,374		28,476
Research, development, and testing expenses		15,206	4,265		19,471
Operating (loss) profit	(1,099)	(3,710)	30,440		25,631
Interest and financing expenses (income)	3,102	(306)	170		2,966
Other income, net	11	59	152		222
(Loss) income from continuing operations before income taxes and equity income of subsidiaries	(4,190)	(3,345)	30,422		22,887
Income tax (benefit) expense	(2,550)	(707)	9,672		6,415
Equity income of subsidiaries	18,112			(18,112)	
Net income (loss)	\$ 16,472	\$ (2,638)	\$ 20,750	\$ (18,112)	\$ 16,472

**Table of Contents****NewMarket Corporation and Subsidiaries****Consolidating Statements of Income****Third Quarter Ended September 30, 2007**

(in thousands)

	<b>Parent</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Total Consolidating Adjustments</b>	<b>Consolidated</b>
Net sales	\$	\$ 192,227	\$ 164,719	\$	\$ 356,946
Cost of goods sold		128,182	149,695		277,877
<b>Gross profit</b>		<b>64,045</b>	<b>15,024</b>		<b>79,069</b>
Selling, general, and administrative expenses	658	22,548	4,453		27,659
Research, development, and testing expenses		14,927	3,549		18,476
Operating (loss) profit	(658)	26,570	7,022		32,934
Interest and financing expenses (income)	2,997	(261)	218		2,954
Other income, net	576	247	412		1,235
<b>(Loss) income from continuing operations before income taxes and equity income of subsidiaries</b>	<b>(3,079)</b>	<b>27,078</b>	<b>7,216</b>		<b>31,215</b>
Income tax expense	231	9,709	1,185		11,125
Equity income of subsidiaries	24,467			(24,467)	
Income from continuing operations	21,157	17,369	6,031	(24,467)	20,090
Gain on settlement of discontinued business (net of tax)		512	555		1,067
Net income	\$ 21,157	\$ 17,881	\$ 6,586	\$ (24,467)	\$ 21,157

**Table of Contents****NewMarket Corporation and Subsidiaries****Consolidating Statements of Income****Nine Months Ended September 30, 2008**

(in thousands)

	<b>Parent</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Total Consolidating Adjustments</b>	<b>Consolidated</b>
Net sales					
Cost of goods sold	\$	\$ 666,330	\$ 582,506	\$	\$ 1,248,836
Gross profit		502,765	508,697		1,011,462
		163,565	73,809		237,374
Selling, general, and administrative expenses	3,587	71,319	12,842		87,748
Research, development, and testing expenses		46,538	15,041		61,579
Operating (loss) profit	(3,587)	45,708	45,926		88,047
Interest and financing expenses (income)	9,159	(859)	554		8,854
Other income, net	347	12	542		901
(Loss) income from continuing operations before income taxes and equity income of subsidiaries	(12,399)	46,579	45,914		80,094
Income tax (benefit) expense	(7,960)	18,903	15,283		26,226
Equity income of subsidiaries	58,307			(58,307)	
Net income	\$ 53,868	\$ 27,676	\$ 30,631	\$ (58,307)	\$ 53,868

**Table of Contents****NewMarket Corporation and Subsidiaries****Consolidating Statements of Income****Nine Months Ended September 30, 2007**

(in thousands)

	<b>Parent</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Total Consolidating Adjustments</b>	<b>Consolidated</b>
Net sales	\$	\$ 549,572	\$ 461,183	\$	\$ 1,010,755
Cost of goods sold	77	381,223	405,439		786,739
Gross (loss) profit	(77)	168,349	55,744		224,016
Selling, general, and administrative expenses	3,399	64,187	13,874		81,460
Research, development, and testing expenses		45,348	11,039		56,387
Operating (loss) profit	(3,476)	58,814	30,831		86,169
Interest and financing expenses (income)	8,948	(844)	639		8,743
Other income, net	1,334	506	542		2,382
(Loss) income from continuing operations before income taxes and equity income of subsidiaries	(11,090)	60,164	30,734		79,808
Income tax (benefit) expense	(2,882)	22,578	8,558		28,254
Equity income of subsidiaries	76,533			(76,533)	
Income from continuing operations	68,325	37,586	22,176	(76,533)	51,554
Gain on settlement of discontinued business (net of tax)		10,082	4,472		14,554
Income from operations of discontinued business (net of tax)		2,111	106		2,217
Net income	\$ 68,325	\$ 49,779	\$ 26,754	\$ (76,533)	\$ 68,325

**Table of Contents****NewMarket Corporation and Subsidiaries****Consolidating Balance Sheets****September 30, 2008**

(in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
<b>ASSETS</b>					
Cash and cash equivalents	\$ 78	\$ 8,745	\$ 24,668	\$	\$ 33,491
Trade and other accounts receivable, net	7,749	112,054	128,377		248,180
Amounts due from affiliated companies	65,420	138,955	33,542	(237,917)	
Inventories		107,681	120,371		228,052
Deferred income taxes	1,818	4,942	5,306		12,066
Prepaid expenses and other current assets	2,999	3,196	1,270		7,465
<b>Total current assets</b>	<b>78,064</b>	<b>375,573</b>	<b>313,534</b>	<b>(237,917)</b>	<b>529,254</b>
Amounts due from affiliated companies		20,174	5,500	(25,674)	
Property, plant and equipment, at cost		695,030	143,207		838,237
Less accumulated depreciation & amortization		497,007	114,245		611,252
<b>Net property, plant and equipment</b>		<b>198,023</b>	<b>28,962</b>		<b>226,985</b>
Investment in consolidated subsidiaries	541,664			(541,664)	
Prepaid pension cost		2,812	3,464		6,276
Deferred income taxes	25,229	(5,841)	4,244		23,632
Other assets and deferred charges	5,023	14,595	1,319		20,937
Intangibles, net of amortization		55,941			55,941
<b>Total assets</b>	<b>\$ 649,980</b>	<b>\$ 661,277</b>	<b>\$ 357,023</b>	<b>\$ (805,255)</b>	<b>\$ 863,025</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>					
Accounts payable	\$ 15	\$ 86,751	\$ 40,663	\$	\$ 127,429
Accrued expenses	13,650	36,746	12,593		62,989
Dividends payable	2,667				2,667
Book overdraft	19	4,593			4,612
Amounts due to affiliated companies	75,764	77,667	84,486	(237,917)	
Long-term debt, current portion		771			771
Income taxes payable	(14,552)	14,981	4,739		5,168
<b>Total current liabilities</b>	<b>77,563</b>	<b>221,509</b>	<b>142,481</b>	<b>(237,917)</b>	<b>203,636</b>
Long-term debt	181,800	31,561			213,361
Amounts due to affiliated companies		5,500	20,174	(25,674)	
Other noncurrent liabilities	59,348	38,630	16,781		114,759
<b>Total liabilities</b>	<b>318,711</b>	<b>297,200</b>	<b>179,436</b>	<b>(263,591)</b>	<b>531,756</b>

Shareholders equity:

Edgar Filing: NEWMARKET CORP - Form 10-Q

Common stock and paid-in capital		260,981	75,138	(336,119)	
Accumulated other comprehensive loss	(39,170)	(7,625)	(24,177)	31,802	(39,170)
Retained earnings	370,439	110,721	126,626	(237,347)	370,439
Total shareholders' equity	331,269	364,077	177,587	(541,664)	331,269
<b>Total liabilities and shareholders' equity</b>	<b>\$ 649,980</b>	<b>\$ 661,277</b>	<b>\$ 357,023</b>	<b>\$ (805,255)</b>	<b>\$ 863,025</b>

**Table of Contents****NewMarket Corporation and Subsidiaries****Consolidating Balance Sheets****December 31, 2007**

(in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
<b>ASSETS</b>					
Cash and cash equivalents	\$ 18,899	\$ 13,673	\$ 39,300	\$	\$ 71,872
Trade and other accounts receivable, net	3,380	89,350	114,460		207,190
Amounts due from affiliated companies	24,844	49,006	31,584	(105,434)	
Inventories		100,399	93,295		193,694
Deferred income taxes	1,825	8,482	8,420		18,727
Prepaid expenses and other current assets	574	1,748	1,236		3,558
<b>Total current assets</b>	<b>49,522</b>	<b>262,658</b>	<b>288,295</b>	<b>(105,434)</b>	<b>495,041</b>
Amounts due from affiliated companies		20,850		(20,850)	
Property, plant and equipment, at cost		647,561	142,073		789,634
Less accumulated depreciation & amortization		490,055	116,017		606,072
<b>Net property, plant and equipment</b>		<b>157,506</b>	<b>26,056</b>		<b>183,562</b>
Investment in consolidated subsidiaries	456,630			(456,630)	
Prepaid pension cost		2,461	155		2,616
Deferred income taxes	25,440	(8,480)	4,436		21,396
Other assets and deferred charges	5,881	14,964	1,919		22,764
Intangibles, net of amortization		45,555			45,555
<b>Total assets</b>	<b>\$ 537,473</b>	<b>\$ 495,514</b>	<b>\$ 320,861</b>	<b>\$ (582,914)</b>	<b>\$ 770,934</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
Accounts payable	\$ 43	\$ 68,689	\$ 35,904	\$	\$ 104,636
Accrued expenses	6,174	38,936	11,933		57,043
Dividends payable	3,154				3,154
Book overdraft	41	6,208			6,249
Amounts due to affiliated companies	6,908	24,598	73,928	(105,434)	
Long-term debt, current portion		736			736
Income taxes payable	(9,513)	12,343	3,013		5,843
<b>Total current liabilities</b>	<b>6,807</b>	<b>151,510</b>	<b>124,778</b>	<b>(105,434)</b>	<b>177,661</b>
Long-term debt	150,000	7,061			157,061
Amounts due to affiliated companies			20,850	(20,850)	
Other noncurrent liabilities	63,659	38,251	17,295		119,205
<b>Total liabilities</b>	<b>220,466</b>	<b>196,822</b>	<b>162,923</b>	<b>(126,284)</b>	<b>453,927</b>

Shareholders' equity:



Edgar Filing: NEWMARKET CORP - Form 10-Q

Common stock and paid-in capital	5,235	251,709	75,185	(326,894)	5,235
Accumulated other comprehensive loss	(34,360)	(6,696)	(17,265)	23,961	(34,360)
Retained earnings	346,132	53,679	100,018	(153,697)	346,132
Total shareholders' equity	317,007	298,692	157,938	(456,630)	317,007
<b>Total liabilities and shareholders' equity</b>	<b>\$ 537,473</b>	<b>\$ 495,514</b>	<b>\$ 320,861</b>	<b>\$ (582,914)</b>	<b>\$ 770,934</b>

**Table of Contents****NewMarket Corporation and Subsidiaries****Condensed Consolidating Statements of Cash Flows****Nine Months Ended September 30, 2008**

(in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
<b>Cash (used in) provided from operating activities</b>	\$ (37,269)	\$ 49,621	\$ (789)	\$	\$ 11,563
<b>Cash flows from investing activities:</b>					
Capital expenditures		(15,086)	(6,745)		(21,831)
Foundry Park I capital expenditures		(29,046)			(29,046)
Acquisition of business		(14,721)			(14,721)
Proceeds from interest rate lock agreement		1,050			1,050
(Increase) decrease in intercompany loans		313	(5,500)	5,187	
Cash dividends from subsidiaries	24,424			(24,424)	
<b>Cash provided from (used in) investing activities</b>	<b>24,424</b>	<b>(57,490)</b>	<b>(12,245)</b>	<b>(19,237)</b>	<b>(64,548)</b>
<b>Cash flows from financing activities:</b>					
Draws on Foundry Park I construction loan		25,083			25,083
Net borrowings under revolving credit agreement	31,800				31,800
Repurchases of common stock	(26,810)				(26,810)
Dividends	(12,090)	(24,424)		24,424	(12,090)
Change in book overdraft, net	(22)	(1,615)			(1,637)
Payment for financing of intangible asset		(750)			(750)
Proceeds from exercise of stock options	246				246
Excess tax benefits from stock-based payment arrangements	900				900
Repayment of intercompany note payable			(313)	313	
Financing from affiliated companies		5,500		(5,500)	
Payments on the capital lease		(548)			(548)
<b>Cash (used in) provided from financing activities</b>	<b>(5,976)</b>	<b>3,246</b>	<b>(313)</b>	<b>19,237</b>	<b>16,194</b>
<b>Effect of foreign exchange on cash and cash equivalents</b>		<b>(305)</b>	<b>(1,285)</b>		<b>(1,590)</b>
<b>Decrease in cash and cash equivalents</b>	<b>(18,821)</b>	<b>(4,928)</b>	<b>(14,632)</b>		<b>(38,381)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>18,899</b>	<b>13,673</b>	<b>39,300</b>		<b>71,872</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 78</b>	<b>\$ 8,745</b>	<b>\$ 24,668</b>	<b>\$</b>	<b>\$ 33,491</b>

**Table of Contents****NewMarket Corporation and Subsidiaries****Condensed Consolidating Statements of Cash Flows****Nine Months Ended September 30, 2007**

(in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
<b>Cash provided from (used in) operating activities</b>	\$ 5,758	\$ 102,006	\$ (27,094)	\$	\$ 80,670
<b>Cash flows from investing activities:</b>					
Capital expenditures		(20,702)	(3,928)		(24,630)
Foundry Park I capital expenditures		(4,334)			(4,334)
Foundry Park I deferred leasing costs		(3,599)			(3,599)
Proceeds from settlement and termination of TEL marketing agreements			28,000		28,000
Payment for interest rate lock agreement		(1,110)			(1,110)
Payment for acquisition of intangible asset		(2,650)			(2,650)
Net (increase) decrease in investment in subsidiaries	(4,835)	4,835			
Cash dividends from subsidiaries	81,484			(81,484)	
(Increase) decrease in intercompany loans	(8,319)	(1,000)	2,362	6,957	
Other, net		(566)			(566)
<b>Cash provided from (used in) investing activities</b>	<b>68,330</b>	<b>(29,126)</b>	<b>26,434</b>	<b>(74,527)</b>	<b>(8,889)</b>
<b>Cash flows from financing activities:</b>					
Draws on Foundry Park I bridge loan		6,571			6,571
Repayment on Foundry Park I bridge loan		(6,571)			(6,571)
Draws on Foundry Park I construction loan		4,944			4,944
Repayment of 8.875% senior notes	(250)				(250)
Repurchase of common stock	(50,000)				(50,000)
Dividends	(4,695)	(81,484)		81,484	(4,695)
Change in book overdraft, net	15	961			976
Debt issuance costs	(146)				(146)
Debt issuance costs - Foundry Park I		(1,696)			(1,696)
Proceeds from exercise of stock options	26				26
Financing from affiliated companies		5,957	1,000	(6,957)	
Payments on the capital lease		(523)			(523)
<b>Cash (used in) provided from financing activities</b>	<b>(55,050)</b>	<b>(71,841)</b>	<b>1,000</b>	<b>74,527</b>	<b>(51,364)</b>
Effect of foreign exchange on cash and cash equivalents		(2,011)	4,241		2,230
<b>Increase (decrease) in cash and cash equivalents</b>	<b>19,038</b>	<b>(972)</b>	<b>4,581</b>		<b>22,647</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>19,688</b>	<b>8,211</b>	<b>32,401</b>		<b>60,300</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 38,726</b>	<b>\$ 7,239</b>	<b>\$ 36,982</b>	<b>\$</b>	<b>\$ 82,947</b>

14. Subsequent Event

During October 2008, the *Emergency Economic Stabilization Act of 2008* was enacted which extends the research and development credit through December 31, 2009. We expect this extension will result in a favorable impact of approximately \$1.9 million to our income tax expense during the fourth quarter 2008.

**Table of Contents**

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

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

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

These factors include, but are not limited to, changes in the demand for our products, increases in product cost and our ability to increase prices, timing of sales orders, gain or loss of significant customers, competition from other manufacturers and resellers, resolution of environmental liabilities, significant changes in new product introduction, the impact of fluctuations in foreign exchange rates on reported results of operations, changes in various markets, geopolitical risks in certain of the countries in which we conduct business, our ability to complete the construction of the office building for MeadWestvaco within budget and in a timely manner, and other factors detailed from time to time in the reports we file with the SEC, including the risk factors in Item 1A, Risk Factors, in the 2007 Annual Report. Readers are urged to review and consider carefully the disclosures we make in our filings with the SEC.

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

**Overview**

Our results through the first nine months of 2008 continue to reflect improvements in net sales and product shipments as compared to the first nine months of 2007. The petroleum additives segment has experienced reduced operating margins due to significant increases in the cost of many of our key raw materials during 2008, as well as increased energy and other manufacturing costs. We have implemented multiple price increases in the marketplace in an effort to recover these costs. Despite the current conditions, we believe our petroleum additives segment results reflect our success in providing our customers with quality products, specific technical services, and marketing solutions that enhance their position in the marketplace.

**Table of Contents**

During January 2008, we purchased 124,855 shares of common stock at an average price of \$54.55 and during August 2008, we purchased 316,168 shares of common stock at an average price of \$63.26. Both purchases were under previously approved share repurchase programs.

**Results of Operations****Net Sales**

Our consolidated net sales for the third quarter 2008 amounted to \$440.6 million, representing an increase of approximately 23% from the 2007 level of \$356.9 million. Nine months 2008 consolidated net sales were \$1,248.8 million, an increase of approximately 24% over the 2007 level of \$1,010.8 million. The table below shows our consolidated segment net sales.

**Segment Net Sales**

(in millions)

	Third Quarter Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Petroleum additives	\$ 437.2	\$ 352.1	\$ 1,238.8	\$ 997.3
All other	3.4	4.8	10.0	13.5
Consolidated net sales	\$ 440.6	\$ 356.9	\$ 1,248.8	\$ 1,010.8

**Petroleum Additives Segment**

Petroleum additives net sales in the third quarter 2008 of \$437.2 million were up \$85.1 million, or approximately 24%, from \$352.1 million in the third quarter 2007. The increase in net sales reflects higher selling prices, including a significant favorable foreign currency impact reflecting the weakness of the U.S. Dollar versus the other currencies in which we conduct business. In addition, net sales increased due to higher product shipments. The volume of product shipments was approximately 4% higher during third quarter 2008 as compared to third quarter 2007. The increase in shipments was across the lubricant additives product lines, with some offset from a slight decrease in fuel additive product line shipments.

The nine months 2008 petroleum additives net sales of \$1,238.8 million were also approximately 24% higher when compared to the nine months 2007 level of \$997.3 million. Similar to the third quarter results, the increase between the two nine months periods reflects higher selling prices, a significant favorable foreign currency impact, and an increase of 12% in product shipments. While all major product lines reflected higher shipments, the majority of the product shipment increase was in the lubricant additive product lines.

**Table of Contents**

The table below details the approximate components of the increase between the two third quarter and nine months periods. Approximately 18% of the change in selling prices and customer mix in the table below for the third quarter is the result of the favorable foreign currency impact. For nine months, the favorable foreign currency impact contributed approximately 29% of the change in selling prices and customer mix reflected in the table below.

	<b>Third Quarter</b>	<b>Nine Months</b>
	<b>(in millions)</b>	
Period ended September 30, 2007	\$ 352.1	\$ 997.3
Change in shipments and product mix	20.6	121.3
Change in selling prices, customer mix, and foreign currency	64.5	120.2
 Period ended September 30, 2008	 \$ 437.2	 \$ 1,238.8

**Segment Operating Profit**

NewMarket evaluates the performance of the petroleum additives business based on segment operating profit. NewMarket Services Corporation (NewMarket Services) departments and other expenses are charged to Afton and Ethyl based on the services provided under the holding company structure, pursuant to service agreements between NewMarket Services and Afton, as well as NewMarket Services and Ethyl. Depreciation on segment property, plant, and equipment, as well as amortization of segment intangible assets is included in segment operating profit.

Beginning with the first quarter 2008, we are reporting our real estate development activities in segment operating profit. Because of the current immateriality of the real estate development operating segment, its results are reported in the All other category. The real estate development operating segment represents the activities of Foundry Park I, a wholly-owned subsidiary of NewMarket Development.

In January 2007, Foundry Park I entered into a Deed of Lease Agreement with MeadWestvaco under which it will lease an office building which we are constructing on approximately three acres of our land. We intend to build the office to the specifications of MeadWestvaco, as they will be the sole tenant of the facility. The construction phase of this effort is expected to last until late 2009, at which time MeadWestvaco intends to occupy the building and use it as their corporate headquarters. For 2008 and most of 2009, we will be capitalizing the costs of the project and the financing expenses.

Also included in the All other category is the continuing operations of the TEL business (primarily sales of TEL in North America), as well as certain contract manufacturing Ethyl provides to Afton and to third parties.

**Table of Contents**

The table below reports segment operating profit for the third quarter and nine months ended September 30, 2008 and September 30, 2007.

**Segment Operating Profit**

(in millions)

	Third Quarter Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Petroleum additives	\$ 28.1	\$ 35.2	\$ 97.5	\$ 100.7
All other	\$ 0.5	\$ 0.6	\$ 1.0	\$ (4.4)

**Petroleum Additives Segment**

Petroleum additives operating profit decreased to \$28.1 million from \$35.2 million when comparing the 2008 and 2007 third quarter periods resulting in an operating profit margin of 6.4% for third quarter 2008 as compared to 10.0% for third quarter 2007. The reduction in profit is spread across the engine oil additives and fuel additives product lines partially offset by a small increase in the industrial additives and driveline additives product lines.

The petroleum additives operating profit for nine months 2008 decreased \$3.2 million when compared to nine months 2007. This decrease in operating profit between the two nine months periods is reflected across all product lines except the industrial additives and driveline additives product lines which reflected an increase in operating profit. The operating profit margin was 7.9% for nine months 2008 and 10.1% for nine months 2007. The 2008 nine months period includes a gain of \$3.2 million resulting from a legal settlement related to raw materials.

The change in operating profit between both the third quarter and nine months periods was the result of several key factors, which are discussed below:

A significant reduction in operating margins due to increased raw material costs and other manufacturing costs;

Increased investments in selling, general, and administrative (SG&A) costs, as well as research, development, and testing (R&D) costs;

A favorable impact from increased selling prices;

A favorable impact from higher product shipments; and

A favorable impact from foreign exchange.

During both the third quarter 2008 and nine months 2008 there has been a significant compression of operating margins due to the increased costs of raw materials, as well as increased energy costs and other manufacturing costs. The cost of crude oil reached record-high levels during the 2008 nine month period, reflecting an increase in base oil costs in the United States of approximately 50% from the end of 2007. While the cost of crude oil has decreased, our cost of base oil, a major raw material, had not declined through September 30, 2008. We have successfully increased selling prices to begin recovering these cost increases.

The third quarter 2008 also included negative impacts on both cost and sales volume due to Hurricane Gustav and Hurricane Ike. Our plants in Houston, Texas and Port Arthur, Texas were both damaged due to Hurricane Ike and were not in production for several days. We recognized



Edgar Filing: NEWMARKET CORP - Form 10-Q

expense of \$700 thousand during the third quarter 2008 for repairs to the two facilities. In addition, we estimate

## **Table of Contents**

our operating profit for the third quarter 2008 was approximately \$3 million lower due to the time that we were not in production, as well as the time period that our customers, who were also impacted by the hurricanes, could not accept shipments of our products.

SG&A expenses of the petroleum additives segment were approximately 5% higher when comparing the two third quarter periods and approximately 12% higher when comparing the two nine months periods. The increase for both the third quarter and nine months periods primarily resulted from higher personnel-related expenses. R&D expenses for third quarter 2008 increased approximately \$1.0 million from third quarter 2007 levels. R&D expenses were approximately \$5.2 million higher when comparing the two nine months periods. The increase for both third quarter and nine months was reflected across all product lines. We continue to spend to support our customers' programs and to develop the technology required to remain a technology leader in this industry. We expect this to continue for the foreseeable future. The increases in SG&A and R&D across both the third quarter 2008 and nine months 2008 included a significant unfavorable foreign currency impact.

Partially offsetting the unfavorable impacts of operating margin compression, as well as increased SG&A and R&D expenses, were the impacts of increased selling prices, higher product shipments, and favorable foreign currency impacts. The impact of higher selling prices is discussed more fully in the Net Sales section above. Total product shipments were approximately 4% higher when comparing the two third quarter periods and approximately 12% higher when comparing the nine months periods. A more complete discussion of the impact from higher shipments is presented in the Net Sales discussion above. Petroleum additives operating profit also benefitted from foreign currency impacts. When the U.S. dollar is weak versus the other currencies in which we conduct business, as it is currently, our revenues and operating profit are favorably impacted. We believe favorable foreign currency impacts contributed approximately \$4 million to operating profit results when comparing the two third quarter periods and approximately \$9 million when comparing the two nine months periods.

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

## **Interest and Financing Expenses**

Interest and financing expenses were \$3.0 million for both third quarter 2008 and third quarter 2007. Nine months 2008 amounted to \$8.9 million, while nine months 2007 was \$8.7 million. Average interest rates for both the third quarter and nine months 2008 periods were slightly lower than the same 2007 periods. The increase in interest and financing expenses from 2007 levels resulted primarily from the borrowing under the revolving credit facility during 2008. We did not borrow under our revolving credit facility during 2007.

## **Other Income, Net**

Other income, net was \$200 thousand for third quarter 2008 and \$1.2 million for third quarter 2007. Nine months 2008 other income, net was \$900 thousand, while nine months 2007 was \$2.4 million. The amounts for all periods primarily represent investment income earned on excess cash.

## **Income Taxes**

Income taxes were \$6.4 million for third quarter 2008 and \$11.1 million for third quarter 2007. The effective tax rate on income from continuing operations was 28.0% for third quarter 2008 and 35.6% for third quarter 2007. The decrease in the effective tax rate from 2007 to 2008 resulted in a decrease of approximately \$1.7 million in income taxes, while lower income from continuing

## **Table of Contents**

operations before income tax resulted in a decrease of \$3.0 million when comparing the two third quarter periods. The lower effective tax rate in the third quarter 2008 includes the benefit of \$1 million related to the completion of the review of certain years by the Internal Revenue Service, as well as the benefit of increased foreign earnings at lower statutory rates.

Nine months 2008 income taxes were \$26.2 million with an effective tax rate of 32.7%. The income taxes for nine months 2007 were \$28.3 million with an effective tax rate of 35.4%. The reduction in the effective tax rate resulted in substantially the entire decrease in income taxes between nine months 2008 and nine months 2007. The lower effective tax rate is primarily due to the same items which reduced the third quarter 2008 effective tax rate, as discussed above.

Income taxes for all periods exclude income tax expense on discontinued operations.

Our deferred taxes are in a net asset position. Based on our current projections, we believe that we will recover the full benefit of our deferred tax assets and have therefore not recorded a valuation allowance.

## **Income from Continuing Operations**

Income from continuing operations was \$16.5 million or \$1.07 per diluted share for third quarter 2008 as compared to \$20.1 million or \$1.19 per diluted share for third quarter 2007. Income from continuing operations was \$53.9 million or \$3.48 per diluted share for nine months 2008 and included a gain of \$3.2 million (\$2.0 million after income tax) resulting from a legal settlement related to raw materials. Income from continuing operations for nine months 2007 was \$51.6 million or \$2.99 per diluted share. Earnings per share from continuing operations in the third quarter 2008 and nine months 2008 includes the benefit of the share repurchases made in both 2008 and 2007.

## **Discontinued Operations**

On June 15, 2007, Ethyl and Innospec resolved all pending arbitration actions commenced in 2006 between the subsidiaries of Innospec and Ethyl arising out of the tetraethyl lead marketing agreements and the North American TEL supply agreement between the companies and terminated the marketing agreements. Ethyl received \$28.0 million in cash as compensation for the termination of the marketing agreements, as well as the return of approximately \$12.0 million of a working capital advance. Upon receipt of this payment, all marketing agreements between the subsidiaries of Ethyl and Innospec were terminated effective April 1, 2007. Accordingly, both the gain on the settlement, as well as the previous operations under the TEL marketing agreements, are reported as discontinued operations.

The gain on the termination of this business was \$22.8 million (\$14.6 million after tax) for nine months 2007 including a \$1.7 million (\$1.1 million after tax) benefit in the third quarter 2007. The income from operations before tax of the discontinued business amounted to \$3.5 million and occurred during the first quarter 2007. These results are presented in the Consolidated Statements of Income under Discontinued operations.

## **Net Income**

Our net income for third quarter 2008 was \$16.5 million or \$1.07 per diluted share. This compares to net income for third quarter 2007 of \$21.2 million or \$1.25 per diluted share. Nine months 2008 net income was \$53.9 million or \$3.48 per diluted share, as compared to \$68.3 million, or \$3.96 per diluted share for nine months 2007.

---

**Table of Contents**

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

Cash and cash equivalents at September 30, 2008 were \$33.5 million, which was a decrease of \$38.4 million since December 31, 2007 and included a \$1.6 million unfavorable impact from foreign currency translation.

We expect that cash from operations, together with borrowing available under our revolving credit facility, will continue to be sufficient to cover our operating expenses for the foreseeable future. At September 30, 2008, we had borrowing capacity under our revolving credit facility of \$57.7 million.

**Cash Flows – Operating Activities**

Cash flows provided from operating activities for the nine months 2008 were \$11.6 million and included an increase of \$71.6 million in certain working capital requirements, including higher accounts receivable and inventories partially offset by an increase in accounts payable. The increase in accounts receivable, inventories, and accounts payable reflects the growth of petroleum additives operations, as well as higher product costs.

Including the change in cash, we had working capital of \$325.6 million at September 30, 2008 and \$317.4 million at December 31, 2007. The current ratio was 2.60 to 1 at September 30, 2008 and 2.79 to 1 at December 31, 2007.

**Cash Flows – Investing Activities**

Cash used in investing activities was \$64.5 million during nine months 2008 and included \$14.7 million for the acquisition of a business (see Note 7 in the Notes to Consolidated Financial Statements), as well as the return of \$1.1 million for a deposit on an interest rate lock agreement related to the Foundry Park I project. We now meet the deposit requirement for the interest rate lock by posting letters of credit. Excluding the construction of the office building by Foundry Park I, we funded capital expenditures of \$21.8 million through September 30, 2008. We estimate our total capital spending during 2008, excluding the capital expenditures by Foundry Park I, will be approximately \$30 million to \$35 million. We expect to continue to finance capital spending, excluding the expenditures for the construction of the office building by Foundry Park I, through cash on hand and cash provided from operations, together with borrowing available under our revolving credit facility.

Capital expenditures during nine months 2008 related to the Foundry Park I project amounted to \$29.1 million. We expect capital expenditures in 2008 related to the construction of the office building to be approximately \$45 million with \$6 million of that amount provided by cash from operations and the remainder being borrowed. Over the term of the construction project, we expect to borrow 80% to 85% of the total projected cost of construction of the office building by Foundry Park I and to fund the remaining cost of construction with cash on hand or borrowings under our revolving credit facility.

**Cash Flows – Financing Activities**

Cash provided from financing activities during nine months 2008 amounted to \$16.2 million. The use of cash included the repurchase of 441,023 shares of our common stock for \$26.8 million, as well as the funding of dividends of \$12.1 million. We also spent \$800 thousand for payments on the fourth quarter 2006 acquisition of an intangible asset. Our book overdraft decreased \$1.6 million.

We had total long-term debt, including the current portion, of \$214.1 million at September 30, 2008, representing an increase of approximately \$56.3 million in our total debt since December 31,

---

**Table of Contents**

2007. The increase resulted from draws of \$31.8 million on our revolving credit facility and \$25.1 million on the Foundry Park I construction loan, partially offset by payments on capital leases. Further information on our Foundry Park I construction loan and the related interest rate swap is discussed in the next section below.

In addition to the Foundry Park I construction loan, at September 30, 2008, we had outstanding senior notes in the aggregate principal amount of \$150 million that bear interest at a fixed rate of 7.125% and are due in 2016.

We also have a \$100 million revolving credit facility for general corporate purposes that bears interest at variable rates. The revolving credit facility includes a \$50 million sub-facility for letters of credit. The facility matures on December 21, 2011. At September 30, 2008, we had outstanding borrowings under the revolving credit facility of \$31.8 million. We had outstanding letters of credit of \$10.5 million at September 30, 2008, resulting in the unused portion of the revolver amounting to \$57.7 million.

Both the senior notes and the revolving credit facility contain covenants, representations, and events of default that management considers typical of credit agreements of this nature. We were in compliance with these covenants as of both September 30, 2008 and December 31, 2007.

As a percentage of total capitalization (total debt and shareholders' equity), our total debt increased from 33.2% at the end of 2007 to 39.3% at September 30, 2008. The change in the percentage was primarily the result of the increase in debt, offset by a smaller increase in shareholders' equity. The increase in shareholders' equity reflects our earnings, partially offset by the impact of the stock repurchase program and dividend payments. Normally, we repay any outstanding long-term debt with cash from operations or refinancing activities.

**Foundry Park I Construction Loan and Interest Rate Swap**

Foundry Park I and NewMarket Corporation entered into a construction loan agreement with a group of banks on August 7, 2007 to borrow up to \$116 million to fund the development and construction of an office building. The construction loan bears interest at LIBOR plus a margin of 140 basis points. The term of the loan is for a period of 36 months and is unconditionally guaranteed by NewMarket Corporation. No principal reduction payment is due during the construction period. As a condition of the construction loan and concurrently with the closing of the loan, Foundry Park I also obtained interest rate risk protection in the form of an interest rate swap. The objective in obtaining the swap was to manage our exposure to interest rate movements and add stability to capitalized interest expense. The interest rate swap involves the receipt of variable-rate amounts based on LIBOR in exchange for fixed-rate payments over the life of the agreement without exchange of the underlying notional amount. The fixed-rate payments are at a rate of 4.975%. The notional amount of the swap was approximately \$41.3 million at September 30, 2008 and \$8.2 million at December 31, 2007 and accretes to approximately \$94 million over the term of the swap. The accreting notional amount is necessary to maintain the swap notional at an amount that represents approximately 85% of the projected construction loan principal balance over the loan term. The maturity date of the swap is January 1, 2010.

SFAS 133, as amended and interpreted, establishes accounting and reporting standards for derivative instruments and for hedging activities. The swap is designated and qualifies as a cash flow hedge under SFAS 133. For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is recorded in accumulated other comprehensive loss and subsequently reclassified to earnings when the hedged transaction affects earnings. The ineffective portion of changes in the fair value of the derivative is recognized immediately in

## **Table of Contents**

earnings. We assess the effectiveness of the swap quarterly by comparing the changes in the fair value of the derivative hedging instrument with the change in fair value of the designated hedged transaction.

The fair value of the swap was approximately \$1.6 million at both September 30, 2008 and December 31, 2007 and was recorded in other noncurrent liabilities on the Consolidated Balance Sheets. The net unrealized loss of approximately \$1.5 million (\$1.0 million, net of tax) at September 30, 2008 and \$1.6 million (\$1.0 million, net of tax) at December 31, 2007 is recorded as a component of accumulated other comprehensive loss in shareholders' equity on the Consolidated Balance Sheets. Hedge ineffectiveness of approximately \$100 thousand expense at September 30, 2008 and \$20 thousand expense at December 31, 2007 was recognized and recorded in other income, net on the Consolidated Statements of Income. Also recorded as a component of accumulated other comprehensive loss in shareholders' equity on the Consolidated Balance Sheets was the net amount of swap receipts and payments made since the inception of the swap. This amounted to approximately \$300 thousand, net of tax effects, at September 30, 2008 and \$3 thousand, net of tax effects, at December 31, 2007. Any amounts remaining in accumulated other comprehensive loss related to the swap will be recognized in the Consolidated Statements of Income over the depreciable life of the office building beginning at the completion of the construction project, which is expected to be late 2009. No related amounts currently recognized in accumulated other comprehensive loss are expected to be reclassified into earnings over the next twelve months.

## **Critical Accounting Policies**

It is our goal to clearly present our financial information in a manner that enhances the understanding of our sources of earnings and our financial condition. We do this by including the information required by the SEC, as well as additional information that gives further insight into our financial operations.

This report, as well as the 2007 Annual Report, includes a discussion of our accounting principles, as well as methods and estimates used in the preparation of our financial statements. We believe these discussions and financial statements fairly represent the financial position and operating results of our company in all material respects. The purpose of this portion of our discussion is to further emphasize some of the more critical areas where a significant change in facts and circumstances in our operating and financial environment might cause a change in reported financial results.

## **Intangibles, Net of Amortization**

We had certain identifiable intangibles amounting to \$40.9 million at September 30, 2008. These intangibles relate to our petroleum additives business and are being amortized over periods with up to approximately 7 years of remaining life. We continue to assess the market related to these intangibles, as well as their specific values, and believe the amortization periods and values are appropriate. We also evaluate these intangibles for any potential impairment when significant events or circumstances occur that might impair the value of these assets. These evaluations continue to support the value at which these identifiable intangibles are carried on our financial statements. However, if conditions were to substantially change in this market, it could possibly cause a reduction in the periods of this amortization charge or result in a noncash write-off of a portion of the intangibles' carrying value. A reduction in the amortization period would have no effect on cash flows. We do not anticipate such a change in the market conditions.

---

## Table of Contents

In addition to the \$40.9 million of identifiable intangibles discussed above, we have recorded an additional \$15 million in Intangibles, net of amortization on the Consolidated Balance Sheets at September 30, 2008. On September 26, 2008, Afton acquired the North American Fuel Additives Business from GE Water and Process Technologies. We are in the process of performing a valuation of the assets acquired to determine the purchase price allocation. We expect that a significant portion, if not all, of the purchase price will be identifiable intangibles, which will be amortized into earnings over the useful life of the assets as determined through the valuation.

### Environmental and Legal Proceedings

We have made disclosure of our environmental issues in Part I, Item 1 of the 2007 Annual Report, as well as in the Notes to Consolidated Financial Statements included in the 2007 Annual Report. We have made additional disclosures in Part I, Item 1 of this Form 10-Q. We believe our environmental accruals are appropriate for the exposures and regulatory guidelines under which we currently operate. While we currently do not anticipate significant changes to the many factors that could impact our environmental requirements, we continue to keep our accruals consistent with these requirements as they change.

Also, as noted in the discussion of Legal Proceedings in Part II, Item 1 of this Quarterly Report on Form 10-Q and Part I, Item 3 of the 2007 Annual Report, while it is not possible to predict or determine with certainty the outcome of any legal proceeding, it is our opinion, based on our current knowledge, that we will not experience materially adverse effects on our results of operations or financial condition as a result of any pending or threatened proceeding.

### Pension Plans and Other Postretirement Benefits

We use significant assumptions to record the impact of the pension and postretirement plans in the financial statements. These assumptions include the discount rate, expected long-term rate of return on plan assets, rate of compensation increase, and health care cost trend rate. A change in any one of these assumptions could result in different results for the plans. We develop these assumptions after considering available information that we deem relevant. Information is provided on the pension and postretirement plans in Note 18 of the 2007 Annual Report. In addition, further disclosure on the effect of changes in these assumptions is provided in the Financial Position and Liquidity section of Part II, Item 7 of the 2007 Annual Report.

During the past several months as the financial markets have been negatively impacted, the market value of our pension plan assets have decreased. At the same time, the factors used to develop discount rate assumptions have fluctuated in a manner which would result in a significant increase in the discount rate assumption from that used at the end of 2007. Unless the financial markets experience significant recovery during the fourth quarter 2008, these changes in asset values and assumptions will affect our pension results at the end of 2008, and will potentially impact funding requirements and expense recognition during 2009. Despite this uncertainty, we do not intend to modify the provisions of our pension plans or our investment strategy for pension plan assets. The pension obligation is long-term in nature as is our investment philosophy. Accordingly, the majority of our pension assets are invested in equity securities, as historically equity securities have outperformed debt securities and cash investments resulting in a higher investment return over the long-term. While in the short-term, equity securities may underperform other investment classes, we continue to be less concerned with short-term results and more concerned with long-term improvement.

### Income Taxes

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

## **Table of Contents**

### **Recently Issued Accounting Pronouncements**

For a full discussion of the more significant pronouncements which may impact our financial statements, see the Notes to Consolidated Financial Statements.

### **Outlook**

As we approach the end of 2008, our business is performing well in an uncertain economic environment. Our facilities are operating at high rates, and we are meeting our customers' demands while continuing to invest in R&D.

Our view of the petroleum additives industry has not changed. It is a low growth industry. We experienced good demand during the first half of 2008 and some growth in the third quarter 2008. We are, however, beginning to experience some slowdown in demand for our products. Accordingly, we are concerned that we may experience lower demand in the fourth quarter than we have experienced during the first three quarters of this year. It is impossible at this point to project demand for the fourth quarter, but a reduction in the 5% to 10% range versus the third quarter 2008 would not be out of line with what we are currently experiencing.

In view of current economic conditions, we now expect that 2008 petroleum additives operating profit will be at least as much as 2007. We believe we have taken the necessary steps in the marketplace to recover the increases in raw material costs that we experienced this year and expect the favorable impact of those actions to be reflected in operating margins in the fourth quarter. The significant uncertainty in achieving this improvement in operating margins is the overall demand for our products. If the economic slowdown continues or worsens, the demand for our customers' products may be negatively impacted, which would in turn adversely affect the demand for our products.

As we have communicated in the past, we intend to leverage our financial strength to increase shareholder value by growing the business, with acquisitions being an area of primary interest. Our primary focus in the acquisition area remains on the petroleum additives industry. It is our view that this industry will provide the greatest opportunity for a good return on our investment while minimizing risk. In the past, we have grown the business through strategic acquisitions such as Amoco Petroleum Additives Company and Texaco Additives Company. We remain focused on this strategy and will evaluate any future opportunities. Nonetheless, we are patient in this pursuit and intend to make the right acquisition for our company when the opportunity arises. Meanwhile, we believe we have many internal opportunities for growth in the near term, from both geographical and product line extensions. Until an acquisition materializes, we will build cash on our balance sheet and will continue to evaluate all alternative uses for that cash to enhance shareholder value, including stock repurchases and dividends.

While our liquidity position is strong and all of our bank group members continue to perform on our banking needs, we are not immune to the current turmoil in the financial markets. Our pension assets are invested predominately in equity securities, which have suffered a significant deterioration in value this year. Although we manage the pension assets and obligations with a long-term view, in the near-term we may need to provide additional funding to the pension plan trust funds and may experience higher pension expense in the future. The commercial real estate loan market has also been impacted by the recent financial events. As a result of current capital market conditions, we could not obtain permanent financing at this time under the mortgage loan application we have in place with Principal Commercial Funding II, LLC. While the application remains open, we are investigating other alternatives and have approximately 15 months before financing needs to be in place. Currently, we cannot predict the financing terms which will be available to us at that time.



**Table of Contents**

The Foundry Park I project continues to progress on schedule and within our cost estimates. It is our expectation that this will continue for the remainder of the project until completion in late 2009.

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

Other than our foreign currency risk and interest rate risk, there have been no significant changes in our market risk from the information provided in the 2007 Annual Report.

All of the Euro-denominated forward contracts which we entered into during 2007 had matured by May 31, 2008. In April, 2008 we entered into \$10.9 million of Euro-denominated forward contracts to minimize currency exposure from expected cash flows from foreign operations. The contracts have maturity dates in 2008. At September 30, 2008, there were \$4.7 million remaining of these Euro-denominated contracts. With other variables held constant, a hypothetical 10% adverse change in the September 30, 2008 forward Euro rates would have resulted in a decrease of approximately \$400 thousand in the value of the contracts.

At September 30, 2008, we had outstanding debt of \$31.8 million under our revolving credit facility at variable interest rates. Holding all other variables constant, if the variable portion of the weighted-average interest on the variable rate debt hypothetically increased 10% (approximately 40 basis points), the effect on our earnings and cash flows would have been higher interest expense of approximately \$100 thousand per year.

**ITEM 4. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

We maintain a system of internal control over financial reporting to provide reasonable, but not absolute, assurance of the reliability of the financial records and the protection of assets. Our controls and procedures include written policies and procedures, careful selection and training of qualified personnel, and an internal audit program.

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

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

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

**Table of Contents**

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

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

There has been no change in our internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act, during the quarter ended September 30, 2008, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents****PART II Other Information****ITEM 1. Legal Proceedings**

We are involved in legal proceedings that are incidental to our business and include administrative or judicial actions seeking remediation under environmental laws, such as Superfund. Some of these legal proceedings relate to environmental matters and involve governmental authorities. For further information, see Environmental in Part I, Item 1 of our 2007 Annual Report.

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

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

## ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)
July 1 to July 31	0	n/a	n/a	\$ 100,000,000
August 1 to August 31	316,168	\$ 63.26	316,168	\$ 80,000,069
September 1 to September 30	0	n/a	n/a	\$ 80,000,069
Total	316,168	\$ 63.26	316,168	\$ 80,000,069

- (1) On July 31, 2008, we announced that our Board of Directors had approved a share repurchase program that authorized management to repurchase up to \$100 million of NewMarket Corporation's outstanding common stock until December 31, 2010, as market conditions warrant and covenants under our existing agreements permit. We may conduct the share repurchases in the open market and in privately negotiated transactions. The repurchase program does not require NewMarket to acquire any specific number of shares and may be terminated or suspended at any time.

**Table of Contents**

**ITEM 6. Exhibits**

Exhibit 3.1	Articles of Incorporation (incorporated by reference to Exhibit 3.1 to Form 10-K (File No. 1-32190) filed March 14, 2005)
Exhibit 3.2	NewMarket Corporation Bylaws Amended and Restated effective October 25, 2007 (incorporated by reference to Exhibit 3.1 to Form 8-K (File No. 1-32190) filed October 26, 2007)
Exhibit 10.1	First Amendment to Second Amended and Restated Revolving Credit Agreement
Exhibit 31(a)	Certification pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Thomas E. Gottwald
Exhibit 31(b)	Certification pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by David A. Fiorenza
Exhibit 32(a)	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Thomas E. Gottwald
Exhibit 32(b)	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by David A. Fiorenza

Table of Contents

SIGNATURES

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

NEWMARKET CORPORATION

(Registrant)

Date: October 30, 2008

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

Treasurer  
(Principal Financial Officer)

Date: October 30, 2008

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

**Table of Contents**

EXHIBIT INDEX

Exhibit 10.1	First Amendment to Second Amended and Restated Revolving Credit Agreement
Exhibit 31(a)	Certification pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Thomas E. Gottwald
Exhibit 31(b)	Certification pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by David A. Fiorenza
Exhibit 32(a)	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Thomas E. Gottwald
Exhibit 32(b)	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by David A. Fiorenza