

NEWMARKET CORP
Form 10-Q
October 31, 2006
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2006

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)
330 SOUTH FOURTH STREET

20-0812170
(I.R.S. Employer
Identification No.)
23218-2189

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RICHMOND, VIRGINIA
(Address of principal executive offices)

(Zip Code)

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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, 2006: 17,272,259.

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NEWMARKET CORPORATION

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

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
Net sales	\$ 325,119	\$ 270,932	\$ 957,135	\$ 781,888
Cost of goods sold	258,955	217,761	757,266	633,443
Gross profit	66,164	53,171	199,869	148,445
Operating profit from TEL marketing agreements services	3,238	6,352	6,426	19,629
Selling, general, and administrative expenses	27,794	24,967	79,260	71,229
Research, development, and testing expenses	16,582	15,919	50,264	47,996
Special items income	7,843	2,878	11,093	6,746
Operating profit	32,869	21,515	87,864	55,595
Interest and financing expenses	3,917	4,138	11,689	12,920
Other income, net	859	372	6,502	743
Income before income taxes	29,811	17,749	82,677	43,418
Income tax expense	10,890	4,348	29,615	12,188
Net income	\$ 18,921	\$ 13,401	\$ 53,062	\$ 31,230
Basic earnings per share	\$ 1.10	\$ 0.79	\$ 3.08	\$ 1.84
Diluted earnings per share	\$ 1.09	\$ 0.77	\$ 3.05	\$ 1.80
Shares used to compute basic earnings per share	17,257	17,042	17,204	17,013
Shares used to compute diluted earnings per share	17,409	17,317	17,405	17,312
Cash dividends declared per common share	\$ 0.125	\$	\$ 0.375	\$

See accompanying notes to the condensed consolidated financial statements.

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

(In thousands, except share amount)

(Unaudited)

	September 30 2006	December 31 2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 86,670	\$ 56,413
Restricted cash	240	1,419
Trade and other accounts receivable, less allowance for doubtful accounts (\$832 - 2006; \$1,045 - 2005)	190,793	189,460
Inventories:		
Finished goods	144,978	121,493
Raw materials	27,636	22,440
Stores, supplies and other	8,152	8,066
	180,766	151,999
Deferred income taxes	8,073	9,289
Prepaid expenses	7,063	3,119
Total current assets	473,605	411,699
Property, plant and equipment, at cost	742,593	764,945
Less accumulated depreciation and amortization	587,678	610,939
Net property, plant and equipment	154,915	154,006
Prepaid pension cost	17,663	18,316
Deferred income taxes	19,791	23,157
Other assets and deferred charges	39,987	44,480
Intangibles, net of amortization	46,617	49,874
Total assets	\$ 752,578	\$ 701,532
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 83,249	\$ 88,350
Accrued expenses	59,823	58,847
Dividends payable	2,167	
Book overdraft	4,266	4,222
Long-term debt, current portion	671	640
Income taxes payable	14,305	14,728
Total current liabilities	164,481	166,787
Long-term debt	152,675	153,189
Other noncurrent liabilities	116,778	115,496
Commitments and contingencies (Note 9)		

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Shareholders' equity:

Common stock and paid-in capital (without par value) Issued - 17,272,259 in 2006 and 17,081,559 in 2005	87,379	85,162
Accumulated other comprehensive loss	(26,734)	(30,511)
Retained earnings	257,999	211,409
	318,644	266,060
Total liabilities and shareholders' equity	\$ 752,578	\$ 701,532

See accompanying notes to the condensed consolidated financial statements.

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

(In thousands)

(Unaudited)

	Nine Months Ended September 30	
	2006	2005
Cash and cash equivalents at beginning of year	\$ 56,413	\$ 28,778
Cash flows from operating activities:		
Net income	53,062	31,230
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation and other amortization	22,156	25,755
Amortization of deferred financing costs	1,417	1,417
Noncash pension expense	9,630	9,565
Deferred income tax expense (benefit)	2,307	(10,701)
Gain on insurance settlement		(3,868)
Gain on legal settlement	(2,569)	
Gain on sale of property	(3,250)	(2,878)
Pharmaceutical earn-out agreement	(5,274)	
Interest on income tax settlement	(4,429)	
Working capital changes	(26,838)	(3,064)
Excess tax benefits from stock-based payment arrangements	(1,387)	
Cash pension contributions	(10,915)	(8,663)
Proceeds from insurance settlement	4,200	11,150
Proceeds from legal settlement	2,250	
Proceeds from income tax settlement	911	
Long-term receivable - TEL marketing agreements	2,571	1,119
Other, net	(817)	2,804
Cash provided from operating activities	43,025	53,866
Cash flows from investing activities:		
Capital expenditures	(14,390)	(13,749)
Proceeds from pharmaceutical earn-out agreement	5,274	
Proceeds from sale of property	3,408	4,244
Other, net	90	
Cash used in investing activities	(5,618)	(9,505)
Cash flows from financing activities:		
Net borrowings under revolving credit agreement		(30,000)
Dividends	(6,472)	
Change in book overdraft	44	(354)
Proceeds from exercise of stock options	830	353
Excess tax benefits from stock-based payment arrangements	1,387	
Payment of capital leases	(483)	(453)
Cash used in financing activities	(4,694)	(30,454)

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Effect of foreign exchange on cash and cash equivalents	(2,456)	(2,380)
Increase in cash and cash equivalents	30,257	11,527
Cash and cash equivalents at end of period	\$ 86,670	\$ 40,305

See accompanying notes to the condensed consolidated financial statements.

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NEWMARKET CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. **Financial Statement Presentation**

In the opinion of management, the accompanying condensed consolidated financial statements of NewMarket Corporation and Subsidiaries contain all necessary adjustments for the fair presentation of, in all material respects, our consolidated financial position as of September 30, 2006, as well as our consolidated results of operations for the three-months and nine-months ended September 30, 2006 and September 30, 2005 and our consolidated cash flows for the nine-months ended September 30, 2006 and September 30, 2005. 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, 2005 (2005 Annual Report), as filed with the Securities and Exchange Commission (SEC). The results of operations for the three-month and nine-month periods ended September 30, 2006 are not necessarily indicative of the results to be expected for the full year ending December 31, 2006. The December 31, 2005 condensed 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, 2006 and December 31, 2005, 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 declared for the nine-months ended September 30, 2006 totaled 37.5 cents per share including a dividend of 12.5 cents per share declared on February 23, 2006 and paid April 3, 2006; a dividend of 12.5 cents per share declared on April 27, 2006 and paid on July 3, 2006; and a dividend of 12.5 cents per share declared on July 20, 2006 and paid on October 2, 2006. There were no dividends declared or paid for the nine-months ended September 30, 2005.

2. **Asset Retirement Obligations**

The following table illustrates the activity associated with our asset retirement obligations for the nine-months ended September 30, 2006 and the year ended December 31, 2005. The asset retirement obligations are related primarily to our tetraethyl lead (TEL) operations. We expense accretion in current operations. The current portion of our asset retirement obligations is included in accrued expenses on our balance sheet. The long-term portion of the obligation is included in other noncurrent liabilities on our balance sheet.

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	September 30 2006	December 31 2005
	<i>(in thousands)</i>	
Asset retirement obligation, beginning of period	\$ 10,386	\$ 10,268
Accretion expense	526	761
Liabilities incurred		675
Liabilities settled	(3,308)	(3,736)
Changes in expected cash flows and timing	(810)	2,292