NEWMARKET CORP
Form 10-Q
October 30, 2014
Table of Contents

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2014
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 1-32190

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)	23219-4350 (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 x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x
Number of shares of common stock, without par value, outstanding as of September 30, 2014: 12,531,045

Table of Contents

NEWMARKET CORPORATION

INDEX

Table of Contents

PART I. FINANCIAL INFORMATION
ITEM 1. Financial Statements

NEWMARKET CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(in thousands, except per-share amounts)	Third Quarter Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net sales	$589,667	$580,455	$1,786,527	$1,723,984
Cost of goods sold	424,448	416,632	1,278,632	1,222,326
Gross profit	165,219	163,823	507,895	501,658
Selling, general, and administrative expenses	41,376	40,886	121,837	121,748
Research, development, and testing expenses	35,799	35,865	103,373	103,315
Operating profit	88,044	87,072	282,685	276,595
Interest and financing expenses, net	4,168	4,259	12,678	13,614
Other income (expense), net	385	(613)	(4,034)	5,508
Income from continuing operations before income tax expense	84,261	82,200	265,973	268,489
Income tax expense	27,348	25,179	84,773	80,143
Income from continuing operations	56,913	57,021	181,200	188,346
Discontinued operations:				
Gain on sale of discontinued business, net of tax	0	21,855	0	21,855
Income from operations of discontinued business, net of tax	0	20	0	540
Net income	$56,913	$78,896	$181,200	$210,741
Earnings per share - basic and diluted:				
Income from continuing operations	$4.53	$4.29	$14.20	$14.13
Income from discontinued operations	0.00	1.65	0.00	1.68
Net income	$4.53	$5.94	$14.20	$15.81
Cash dividends declared per common share	$1.10	$0.90	$3.30	$2.70

See accompanying Notes to Consolidated Financial Statements

Table of Contents

NEWMARKET CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

(in thousands)	Third Quarter Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	$56,913	$78,896	$181,200	$210,741
Other comprehensive income (loss):				
Pension plans and other postretirement benefits:				
Amortization of prior service cost (credit) included in net periodic benefit cost, net of income tax expense (benefit) of $5 in third quarter 2014, $1 in third quarter 2013, $13 in nine months 2014 and $4 in nine months 2013	(3)	(3)	(9)	2
Actuarial net gain (loss) arising during the period, net of income tax expense (benefit) of $(504) in third quarter 2014, $2,036 in third quarter 2013, $(537) in nine months 2014 and $2,131 in nine months 2013	(501)	3,225	(591)	3,510
Amortization of actuarial net loss (gain) included in net periodic benefit cost, net of income tax expense (benefit) of $352 in third quarter 2014, $705 in third quarter 2013, $1,119 in nine months 2014 and $2,293 in nine months 2013	649	1,237	2,061	3,962
Settlements and curtailments, net of income tax expense (benefit) of $346 in third quarter 2014, $608 in nine months 2014 and $126 in nine months 2013	727	0	1,126	378
Amortization of transition obligation (asset) included in net periodic benefit cost, net of income tax expense (benefit) of $3 in third quarter 2013, $1 in nine months 2014 and $9 in nine months 2013	0	7	4	26
Total pension plans and other postretirement benefits	872	4,466	2,591	7,878
Reclassification adjustments for losses (gains) on derivative instruments included in net income, net of income tax expense (benefit) of $1,545 in third quarter 2013 and $2,622 in nine months 2013	0	2,481	0	4,173
Foreign currency translation adjustments, net of income tax expense (benefit) of $(1,261) in third quarter 2014, $85 in third quarter 2013, $(955) in nine months 2014 and $(1,673) in nine months 2013	(18,997)	12,666	(9,437)	(9,744)
Other comprehensive income (loss)	(18,125)	19,613	(6,846)	2,307
Comprehensive income	$38,788	$98,509	$174,354	$213,048

See accompanying Notes to Consolidated Financial Statements

Table of Contents

NEWMARKET CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(in thousands, except share amounts)	September 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$141,536	$238,703
Trade and other accounts receivable, less allowance for doubtful accounts	327,641	309,847
Inventories:		
Finished goods and work-in-process	277,747	257,446
Raw materials	47,070	41,799
Stores, supplies, and other	8,779	8,273
	333,596	307,518
Deferred income taxes	6,498	8,267
Prepaid expenses and other current assets	34,871	32,984
Total current assets	844,142	897,319
Property, plant, and equipment, at cost	1,003,510	985,196
Less accumulated depreciation and amortization	706,063	700,160
Net property, plant, and equipment	297,447	285,036
Prepaid pension cost	65,812	55,087
Deferred income taxes	20,913	22,961
Intangibles (net of amortization) and goodwill	18,538	23,319
Deferred charges and other assets	41,466	43,552
Total assets	$1,288,318	$1,327,274
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$128,834	$134,132
Accrued expenses	87,865	77,992
Dividends payable	12,446	12,996
Income taxes payable	8,339	11,419
Other current liabilities	13,097	11,075
Total current liabilities	250,581	247,614
Long-term debt	384,512	349,467
Other noncurrent liabilities	158,708	157,745
Total liabilities	793,801	754,826
Commitments and contingencies (Note 8)		
Shareholders' equity:		
Common stock and paid-in capital (without par value; authorized shares - 80,000,000; issued and outstanding shares - 12,531,045 at September 30, 2014 and 13,099,356 at December 31, 2013)	0	0
Accumulated other comprehensive loss	(66,932)	(60,086)
Retained earnings	561,449	632,534
	494,517	572,448
Total liabilities and shareholders' equity	$1,288,318	$1,327,274

See accompanying Notes to Consolidated Financial Statements

5

Table of Contents

NEWMARKET CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Unaudited)

(in thousands, except share and per-share amounts)	Common Stock and Paid-in Capital Shares	Common Stock and Paid-in Capital Amount	Accumulated Other Comprehensive Loss	Retained Earnings	Total Shareholders' Equity
Balance at December 31, 2012	13,417,877	$721	$ (110,689)	$512,173	$402,205
Net income				210,741	210,741
Other comprehensive income (loss)			2,307		2,307
Cash dividends ($2.70 per share)				(35,914)	(35,914)
Repurchases of common stock	(157,800)	(1,614)		(39,542)	(41,156)
Stock-based compensation	329	893		10	903
Balance at September 30, 2013	13,260,406	$0	$ (108,382)	$647,468	$539,086
Balance at December 31, 2013	13,099,356	$0	$ (60,086)	$632,534	$572,448
Net income				181,200	181,200
Other comprehensive income (loss)			(6,846)		(6,846)
Cash dividends ($3.30 per share)				(41,962)	(41,962)
Repurchases of common stock	(568,610)	(1,702)		(210,331)	(212,033)
Stock-based compensation	299	1,702		8	1,710
Balance at September 30, 2014	12,531,045	$0	$ (66,932)	$561,449	$494,517

See accompanying Notes to Consolidated Financial Statements

Table of Contents

NEWMARKET CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(in thousands)	Nine Months Ended September 30, 2014	2013
Cash and cash equivalents at beginning of year	$238,703	$89,129
Cash flows from operating activities:		
Net income	181,200	210,741
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation and amortization	31,244	35,926
Noncash pension benefits expense	10,742	13,903
Noncash postretirement benefits expense	1,865	2,485
Deferred income tax expense (benefit)	5,623	(979)
Gain on sale of discontinued business	0	(35,770)
Unrealized gain on derivative instruments, net	(614)	(10,044)
Working capital changes	(58,699)	(988)
Cash pension benefits contributions	(16,431)	(24,065)
Cash postretirement benefits contributions	(1,018)	(1,382)
Proceeds from legal settlements	5,150	5,100
Other, net	2,616	13,472
Cash provided from (used in) operating activities	161,678	208,399
Cash flows from investing activities:		
Capital expenditures	(38,949)	(47,163)
Proceeds from sale of discontinued business	0	140,011
Deposits for interest rate swap	(5,867)	(11,018)
Return of deposits for interest rate swap	6,600	21,880
Other, net	(5,004)	(4,927)
Cash provided from (used in) investing activities	(43,220)	98,783
Cash flows from financing activities:		
Net borrowings (repayments) under revolving credit facility	35,000	(75,000)
Net borrowings under lines of credit	4,432	3,088
Dividends paid	(41,962)	(35,914)
Debt issuance costs	0	(1,145)
Repurchases of common stock	(209,336)	(41,156)
Cash provided from (used in) financing activities	(211,866)	(150,127)
Effect of foreign exchange on cash and cash equivalents	(3,759)	1,081
(Decrease) increase in cash and cash equivalents	(97,167)	158,136
Cash and cash equivalents at end of period	$141,536	$247,265

See accompanying Notes to Consolidated Financial Statements

Table of Contents

NEWMARKET CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Financial Statement Presentation

In the opinion of management, the accompanying consolidated financial statements of NewMarket Corporation and its subsidiaries contain all necessary adjustments for the fair statement of, in all material respects, our consolidated financial position as of September 30, 2014 and December 31, 2013, our consolidated results of operations and comprehensive income for the third quarter and nine months ended September 30, 2014 and September 30, 2013, and our changes in shareholders' equity and cash flows for the nine months ended September 30, 2014 and September 30, 2013. All adjustments are of a normal, recurring nature, unless otherwise disclosed. These financial statements should be read in conjunction with the consolidated financial statements and related notes included in the NewMarket Corporation Annual Report on Form 10-K for the year ended December 31, 2013 (2013 Annual Report), as filed with the Securities and Exchange Commission (SEC). The results of operations for the three and nine month periods ended September 30, 2014 are not necessarily indicative of the results to be expected for the full year ending December 31, 2014. The December 31, 2013 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 indicates, all references to “we,” “us,” “our,” the “Company,” and “NewMarket” are to NewMark Corporation and its consolidated subsidiaries.

Certain reclassifications have been made to the accompanying consolidated financial statements to conform to the current presentation.

2. Discontinued Operations

On July 2, 2013, Foundry Park I completed the sale of its real estate assets for $144 million in cash, which comprised our entire real estate development segment. The operations of the real estate development segment for all periods presented are reported in income from operations of discontinued business, net of tax, in the Consolidated Statements of Income. We recognized a gain of $36 million ($22 million after tax) in 2013 related to this transaction.

The components of income from operations of discontinued business, net of tax, were as follows:

(in thousands)	Third Quarter Ended September 30, 2013	Nine Months Ended September 30, 2013
Rental revenue	$31	$5,747
Cost of rental	0	2,136
Interest, financing, and other expenses, net	0	2,728
Income before income tax expense	31	883
Income tax expense	11	343
Income from operations of discontinued business, net of tax	$20	$540

Interest and financing expenses, net include only amounts directly related to the Foundry Park I mortgage loan agreement (mortgage loan) and related interest rate swap. Other interest and financing expenses have not been allocated to discontinued operations. The Consolidated Statements of Cash Flows summarize the activity of discontinued operations and continuing operations together.

Table of Contents

3. Segment Information

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

Consolidated Revenue by Segment

	Third Quarter Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2014	2013	2014	2013
Petroleum additives				
Lubricant additives	$483,574	$461,936	$1,470,344	$1,389,720
Fuel additives	102,044	115,660	306,824	327,615
Total	585,618	577,596	1,777,168	1,717,335
All other	4,049	2,859	9,359	6,649
Consolidated revenue	$589,667	$580,455	$1,786,527	$1,723,984

Segment Operating Profit

	Third Quarter Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2014	2013	2014	2013
Petroleum additives	$94,310	$95,491	$299,578	$295,309
All other	399	(1,614)	1,792	(1,832)
Segment operating profit	94,709	93,877	301,370	293,477
Corporate, general, and administrative expenses	(6,320)	(6,850)	(18,448)	(17,255)
Interest and financing expenses, net	(4,168)	(4,259)	(12,678)	(13,614)
Gain (loss) on interest rate swap agreement (a)	113	(659)	(4,390)	5,116
Other (expense) income, net	(73)	91	119	765
Income from continuing operations before income tax expense	$84,261	$82,200	$265,973	$268,489

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

Table of Contents

4. Pension Plans and Other Postretirement Benefits

The table below shows cash contributions made during the nine months ended September 30, 2014, as well as the remaining cash contributions we expect to make during the year ending December 31, 2014 for both our domestic and foreign pension plans and postretirement benefit plans.

(in thousands)	Actual Cash Contributions for Nine Months Ended September 30, 2014	Expected Remaining Cash Contributions for Year Ending December 31, 2014
Domestic plans		
Pension benefits	$11,366	$5,039
Postretirement benefits	964	321
Foreign plans		
Pension benefits	5,065	1,712
Postretirement benefits	54	0

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

	Domestic			
	Pension Benefits		Postretirement Benefits	
	Third Quarter Ended September 30,			
(in thousands)	2014	2013	2014	2013
Service cost	$2,430	$2,967	$577	$600
Interest cost	2,727	2,396	672	513
Expected return on plan assets	(4,482)	(3,655)	(327)	(362)
Amortization of prior service cost	25	3	1	2
Amortization of actuarial net loss (gain)	914	1,711	(181)	(138)
Net periodic benefit cost (income)	$1,614	$3,422	$742	$615

	Domestic			
	Pension Benefits		Postretirement Benefits	
	Nine Months Ended September 30,			
(in thousands)	2014	2013	2014	2013
Service cost	$7,205	$8,294	$1,387	$1,598
Interest cost	8,202	7,163	2,054	1,876
Expected return on plan assets	(13,143)	(10,889)	(983)	(1,090)
Amortization of prior service cost	75	11	6	7
Amortization of actuarial net loss (gain)	2,869	5,313	(534)	(138)
Net periodic benefit cost (income)	$5,208	$9,892	$1,930	$2,253

Table of Contents

(in thousands)	Foreign Pension Benefits		Postretirement Benefits	
	Third Quarter Ended September 30,			
	2014	2013	2014	2013
Service cost	$1,494	$1,271	$0	$5
Interest cost	1,459	1,330	0	25
Expected return on plan assets	(1,950)	(1,712)	0	0
Amortization of prior service credit	(25)	(7)	0	0
Amortization of transition obligation	0	0	0	9
Amortization of actuarial net loss	273	359	0	7
Settlements and curtailments	1,817	0	0	0
Net periodic benefit cost (income)	$3,068	$1,241	$0	$46

(in thousands)	Foreign Pension Benefits		Postretirement Benefits	
	Nine Months Ended September 30,			
	2014	2013	2014	2013
Service cost	$4,495	$3,946	$3	$21
Interest cost	4,583	4,011	41	78
Expected return on plan assets	(6,127)	(5,127)	0	0
Amortization of prior service credit	(77)	(11)	0	0
Amortization of transition obligation	0	0	5	35
Amortization of actuarial net loss	843	1,059	8	27
Settlements and curtailments	1,817	133	(122)	71
Net periodic benefit cost (income)	$5,534	$4,011	$(65)	$232

The 2013 settlements and curtailments amounts in the tables above reflect the workforce reduction at our Ethyl Canada facility as a result of the decision to discontinue the production of a fuel additive at this facility. The 2014 settlements and curtailments amounts reflect the termination of the Canadian hourly pension plan and the Canadian postretirement benefit plan and the curtailment of the Canadian salaried pension plan.

Table of Contents

5. Earnings Per Share

We had 19,430 shares of nonvested restricted stock at September 30, 2014 and 11,585 shares of nonvested restricted stock at September 30, 2013. The nonvested restricted stock is considered a participating security since the restricted stock contains nonforfeitable rights to dividends. As such, we use the two-class method to compute basic and diluted earnings per share. The following table illustrates the earnings allocation method utilized in the calculation of basic and diluted earnings per share from continuing operations.

	Third Quarter Ended September 30,		Nine Months Ended September 30,	
(in thousands, except per-share amounts)	2014	2013	2014	2013
Earnings per share from continuing operations numerator:				
Income from continuing operations attributable to common shareholders before allocation of earnings to participating securities	$56,913	$57,021	$181,200	$188,346
Income from continuing operations allocated to participating securities	81	70	273	175
Income from continuing operations attributable to common shareholders after allocation of earnings to participating securities	$56,832	$56,951	$180,927	$188,171
Earnings per share from continuing operations denominator:				
Weighted-average number of shares of common stock outstanding - basic and diluted	12,549	13,279	12,745	13,319
Earnings per share from continuing operations - basic and diluted	$4.53	$4.29	$14.20	$14.13

6. Intangibles (Net of Amortization) and Goodwill

	Identifiable Intangibles			
	September 30, 2014		December 31, 2013	
(in thousands)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizing intangible assets				
Formulas and technology	$88,891	$80,844	$88,917	$77,217
Contracts	4,476	3,543	7,127	5,528
Customer bases	7,010	3,232	7,012	2,918
Trademarks and trade names	1,587	730	1,591	610
Goodwill	4,923		4,945	
	$106,887	$88,349	$109,592	$86,273

All of the intangibles relate to the petroleum additives segment. The change in the gross carrying amount between 2013 and 2014 is due to an intangible asset which became fully amortized in 2014 and foreign currency fluctuations. There is no accumulated goodwill impairment.

Amortization expense was (in thousands):

Third quarter ended September 30, 2014	$1,576
Nine months ended September 30, 2014	4,727
Third quarter ended September 30, 2013	1,862
Nine months ended September 30, 2013	5,590

12

Table of Contents

Estimated amortization expense for the remainder of 2014, as well as annual amortization expense related to our intangible assets for the next five years is expected to be (in thousands):

2014	$1,436
2015	5,790
2016	1,910
2017	746
2018	715
2019	688

We amortize contracts over 1.5 to 10 years; customer bases over 20 years; and formulas and technology over 5 to 20 years. Trademarks and trade names are amortized over 10 years.

7. Long-term Debt

(in thousands)	September 30, 2014	December 31, 2013
Senior notes - 4.10% due 2022	$349,512	$349,467
Revolving credit facility	35,000	0
	$384,512	$349,467

The outstanding senior notes have an aggregate principal amount of $350 million and are registered under the Securities Act of 1933.
The following table provides information related to the unused portion of our revolving credit facility:

(in thousands)	September 30, 2014	December 31, 2013
Maximum borrowing capacity under the revolving credit facility	$650,000	$650,000
Outstanding borrowings under the revolving credit facility	35,000	0
Outstanding letters of credit	3,272	3,100
Unused portion of revolving credit facility	$611,728	$646,900

The average interest rate for borrowings under our revolving credit facility was 2.9% during the first nine months of 2014 and 2.2% during 2013.
We were in compliance with all covenants under our debt agreements at September 30, 2014 and at December 31, 2013.

Table of Contents

8. Commitments and Contingencies

Information on certain commitments and contingencies follows.

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 results of operations, financial condition, or cash flows.

As we previously disclosed, the United States Department of Justice has advised us that it is conducting a review of certain of our foreign business activities in relation to compliance with relevant U.S. economic sanctions programs and anti-corruption laws, as well as certain historical conduct in the domestic U.S. market, and has requested certain information in connection with such review. We are cooperating with the investigation. In connection with such cooperation, we have voluntarily agreed to provide certain information and are conducting an internal review for that purpose.

Environmental

We are involved in environmental proceedings and potential proceedings relating to soil and groundwater contamination, disposal of hazardous waste, and other environmental matters at several of our current or former facilities, or at third-party sites where we have been designated as a potentially responsible party (PRP). 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. Recorded liabilities are discounted to present value (including an inflation factor in the estimate) only if we can reliably determine the amount and timing of future cash payments. While we believe we are currently adequately accrued for known environmental issues, it is possible that unexpected future costs could have a significant impact on our financial position, results of operations, and cash flows. Our total accruals for environmental remediation, dismantling, and decontamination were approximately $18 million at both September 30, 2014 and December 31, 2013.

Our more significant environmental sites include a former TEL plant site in Louisiana (the Louisiana site) and a former Houston, Texas plant site (the Texas site). Together, the amounts accrued on a discounted basis related to these sites represent approximately $11 million of the total accrual above at both September 30, 2014 and December 31, 2013, using discount rates ranging from 3% to 9%. Of the total accrued for these two sites, the amount related to remediation of groundwater and soil at both September 30, 2014 and December 31, 2013 was $5 million for the Louisiana site and $6 million for the Texas site. The aggregate undiscounted amount for these sites was $15 million at September 30, 2014 and $16 million at December 31, 2013.

In 2000, the Environmental Protection Agency (EPA) named us as a PRP under Superfund law for the clean-up of soil and groundwater contamination at the five grouped disposal sites known as "Sauget Area 2 Sites" 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. In December 2013, the EPA issued its Record of Decision confirming its remedies for the selected Sauget Area 2 sites. We have accrued our estimated proportional share of the remedial costs and expenses addressed in the Record of Decision. We do not believe there is any additional information available as a basis for revision of the liability that we have established at September 30, 2014. The amount accrued for this site is not material.

Guarantees

We have agreements with several financial institutions that provide guarantees for certain business activities of our subsidiaries, including performance, insurance, credit, and lease guarantees. The parent company provides guarantees of the subsidiaries' performance under these agreements and also provides a guarantee for repayment of a line of credit for a subsidiary in China. Guarantees outstanding under all of these agreements at September 30, 2014 are $11 million. Certain of these guarantees are secured by letters of credit, all of which were issued under the $100 million letter of credit sub-facility of our revolving credit facility. The maximum potential amount of future payments under all other guarantees not secured by letters of credit at September 30, 2014 is $17 million. Expiration dates of the letters of credit and certain guarantees range from 2014 to 2017. Some of the guarantees have no expiration date. We renew letters of credit as necessary.

Table of Contents

9. Derivatives and Hedging Activities

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

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

Our foreign operations expose us to fluctuations of foreign exchange rates. These fluctuations may impact the value of our cash receipts and payments as compared to our reporting currency, the U.S. Dollar. To manage this exposure, we sometimes enter into foreign currency forward contracts to minimize currency exposure due to cash flows from foreign operations. There were no such contracts outstanding at September 30, 2014 or December 31, 2013.

Non-designated Hedges

On June 25, 2009, we entered into an interest rate swap with Goldman Sachs in the notional amount of $97 million and with a maturity date of January 19, 2022 (Goldman Sachs interest rate swap). NewMarket entered into the Goldman Sachs interest rate swap in connection with the termination of a loan application and related rate lock agreement between Foundry Park I and Principal Commercial Funding II, LLC (Principal). When the rate lock agreement was originally executed in 2007, Principal simultaneously entered into an interest rate swap with a third party to hedge Principal's exposure to fluctuation in the ten-year United States Treasury Bond rate. Upon the termination of the rate lock agreement on June 25, 2009, Goldman Sachs both assumed Principal's position with the third party and entered into an offsetting interest rate swap with NewMarket. Under the terms of this interest rate swap, NewMarket is making fixed rate payments at 5.3075% and Goldman Sachs makes variable rate payments based on three-month LIBOR. We have collateralized this exposure through cash deposits posted with Goldman Sachs amounting to $25 million at September 30, 2014 and $26 million at December 31, 2013.

We have made an accounting policy election to not offset derivative fair value amounts with the fair value amounts for the right to reclaim cash collateral under our master netting arrangement. We do not use hedge accounting for the Goldman Sachs interest rate swap, and therefore, immediately recognize any change in the fair value of this derivative financial instrument directly in earnings.

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The table below presents the fair value of our derivative financial instruments, as well as their classification on the Consolidated Balance Sheets.

	Liability Derivatives			
	September 30, 2014		December 31, 2013	
(in thousands)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives Not Designated as Hedging Instruments				
Goldman Sachs interest rate swap	Accrued expenses and Other noncurrent liabilities	$20,596	Accrued expenses and Other noncurrent liabilities	$21,211

Table of Contents

The following table presents the effect of our derivative financial instruments on the Consolidated Statements of Income.
Effect of Derivative Instruments on the Consolidated Statements of Income
Non-Designated Derivatives
(in thousands)

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives			
		Third Quarter Ended September 30,		Nine Months Ended September 30,	
		2014	2013	2014	2013
Goldman Sachs interest rate swap	Other income (expense), net	$113	$(659)	$(4,390)	$5,116

Credit-risk Related Contingent Features
The agreement we have with our current derivative counterparty contains a provision where we could be declared in default on our derivative obligation if repayment of indebtedness is accelerated by our lender(s) due to our default on the indebtedness.
As of September 30, 2014, the fair value of the derivative in a net liability position related to this agreement, which includes accrued interest but excludes any adjustment for nonperformance risk, was $21 million. We have minimum collateral posting thresholds with the counterparty and have posted cash collateral of $25 million as of September 30, 2014. If required, we could have settled our obligations under the agreement at the termination value of $21 million at September 30, 2014.

10. Other Comprehensive Income (Loss) and Accumulated Other Comprehensive Loss
The balances of, and changes in, the components of accumulated other comprehensive loss, net of tax, consist of the following:

(in thousands)	Pension Plans and Other Postretirement Benefits	Derivative Instruments	Foreign Currency Translation Adjustments	Accumulated Other Comprehensive (Loss) Income
Balance at December 31, 2012	$(96,139)	$(4,173)	$(10,377)	$(110,689)
Other comprehensive income (loss) before reclassifications	3,510	0	(9,744)	(6,234)
Amounts reclassified from accumulated other comprehensive loss	4,368	4,173	0	8,541
Other comprehensive income (loss)	7,878	4,173	(9,744)	2,307
Balance at September 30, 2013	$(88,261)	$0	$(20,121)	$(108,382)
Balance at December 31, 2013	$(44,493)	$0	$(15,593)	$(60,086)
Other comprehensive income (loss) before reclassifications	(591)	0	(9,437)	(10,028)
Amounts reclassified from accumulated other comprehensive loss	3,182	0	0	3,182
Other comprehensive income (loss)	2,591	0	(9,437)	(6,846)
Balance at September 30, 2014	$(41,902)	$0	$(25,030)	$(66,932)

Table of Contents

The following table illustrates the amounts, net of tax, reclassified out of each component of accumulated other comprehensive loss and their location within the respective line items on the Consolidated Statements of Income.

(in thousands)	Amount Reclassified from Accumulated Other Comprehensive Loss				
Accumulated Other Comprehensive Loss Component	Third Quarter Ended September 30, 2014	2013	Nine Months Ended September 30, 2014	2013	Affected Line Item on the Consolidated Statements of Income
Pension plans and other postretirement benefits:					
Amortization of prior service (credit) cost	$(3)	$(3)	$(9)	$2	(a)
Amortization of actuarial net loss	649	1,237	2,061	3,962	(a)
Settlements and curtailments	727	0	1,126	378	(a)
Amortization of transition obligation	0	7	4	26	(a)
Total pension plans and other postretirement benefits	1,373	1,241	3,182	4,368	
Derivative instruments:					
Amortization of mortgage loan interest rate swap	0	0	0	1,666	Income from operations of discontinued business, net of tax (b)
Amortization of construction loan interest rate swap	0	2,481	0	2,507	Discontinued operations (b)
Total derivative instruments	0	2,481	0	4,173	
Total reclassifications for the period	$1,373	$3,722	$3,182	$8,541	

(a) These components of accumulated other comprehensive loss are included in the computation of net periodic benefit cost (income). See Note 4 in this Form 10-Q and Note 18 in our 2013 Annual Report for further information.

(b) Amounts relate to the Foundry Park I mortgage loan interest rate swap and the construction loan interest rate swap. Amounts are presented net of income tax expense of $1.5 million for the construction loan interest rate swap for the third quarter ended September 30, 2013 and $1.1 million for the mortgage loan interest rate swap and $1.6 million for the construction loan interest rate swap for the nine months ended September 30, 2013. Due to the sale of the real estate assets of Foundry Park I in July 2013, the amounts recorded in accumulated other comprehensive loss for both interest rate swaps were completely recognized in the Consolidated Statements of Income in 2013.

For the third quarter of 2013 and nine months of 2013, $2.5 million of the amount reported in the table above for the amortization of the construction loan interest rate swap is a component of gain on sale of discontinued business, net of tax. The remaining amount is a component of income from operations of discontinued business, net of tax.

Table of Contents

11. Fair Value Measurements

The following table provides information on assets and liabilities measured at fair value on a recurring basis. No material events occurred during the nine months ended September 30, 2014 requiring adjustment to the recognized balances of assets or liabilities which are recorded at fair value on a nonrecurring basis.

	Carrying Amount in Consolidated Balance Sheets	Fair Value	Fair Value Measurements Using		
			Level 1	Level 2	Level 3
(in thousands)	September 30, 2014				
Cash and cash equivalents	$141,536	$141,536	$141,536	$0	$0
Cash deposit for collateralized interest rate swap	25,106	25,106	25,106	0	0
Interest rate swap liability	20,596	20,596	0	20,596	0
	December 31, 2013				
Cash and cash equivalents	$238,703	$238,703	$238,703	$0	$0
Cash deposit for collateralized interest rate swap	25,839	25,839	25,839	0	0
Interest rate swap liability	21,211	21,211	0	21,211	0

We determine the fair value of derivative instruments shown in the table above by using widely-accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of the instrument. The analysis reflects the contractual term of the derivative, 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. 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 derivative fall within Level 2 of the fair value hierarchy, the credit valuation adjustment associated with the derivative 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 derivative. As of September 30, 2014 and December 31, 2013, we have assessed the significance of the impact of the credit valuation adjustment on the overall valuation of our derivative and have determined that the credit valuation adjustment is not significant to the overall valuation of the derivative. Accordingly, we have determined that our derivative valuation should be classified in Level 2 of the fair value hierarchy.

We have made an accounting policy election to measure credit risk of any derivative financial instruments subject to master netting agreements on a net basis by counterparty portfolio.

Long-term debt – We record the value of our long-term debt at historical cost. The estimated fair value of our long-term debt is shown in the following table and is based primarily on estimated current rates available to us for debt of the same remaining duration and adjusted for nonperformance risk and credit risk. The estimated fair value is determined by the market standard practice of modeling the contractual cash flows required under the debt instrument and discounting the cash flows back to present value at the appropriate credit-risk adjusted market interest rates. For floating rate debt obligations, we use forward rates, derived from observable market yield curves, to project the expected cash flows we will be required to make under the debt instrument. We then discount those cash flows back to present value at the appropriate credit-risk adjusted market interest rates. The fair value is categorized as Level 2.

(in thousands)	September 30, 2014 Carrying Amount	Fair Value	December 31, 2013 Carrying Amount	Fair Value
Long-term debt	$384,512	$407,197	$349,467	$345,283

Table of Contents

12. Consolidating Financial Information

The 4.10% senior notes are guaranteed on a senior unsecured basis by certain of our domestic subsidiaries that guarantee our obligations under the revolving credit facility and any of our other indebtedness (Guarantor Subsidiaries). The subsidiary guarantees are joint and several obligations of the Guarantor Subsidiaries. The indenture governing the 4.10% senior notes includes a provision which allows for a Guarantor Subsidiary to be released of its obligations under the subsidiary guarantee under certain conditions. Those conditions include the sale or other disposition of all or substantially all of the Guarantor Subsidiary's assets in compliance with the indenture and the release or discharge of a Guarantor Subsidiary from its obligations as a guarantor under our revolving credit facility and all of our other indebtedness. The Guarantor Subsidiaries and the subsidiaries that do not guarantee the 4.10% senior notes (the Non-Guarantor Subsidiaries) are 100% owned by NewMarket Corporation (the Parent Company). The Guarantor Subsidiaries consist of the following:

Ethyl Corporation	Afton Chemical Corporation
NewMarket Services Corporation	Afton Chemical Additives Corporation

We conduct all of our business through and derive essentially all of our income from our subsidiaries. Therefore, our ability to make payments on the 4.10% senior notes or other obligations is dependent on the earnings and the distribution of funds from our subsidiaries.

The following sets forth the Consolidating Statements of Income and Comprehensive Income for the third quarter and nine months ended September 30, 2014 and September 30, 2013; Consolidating Balance Sheets as of September 30, 2014 and December 31, 2013; and Condensed Consolidating Statements of Cash Flows for the nine months ended September 30, 2014 and September 30, 2013 for the Parent Company, the Guarantor Subsidiaries, and the 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 and Comprehensive Income
Third Quarter Ended September 30, 2014

(in thousands)	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Net sales	$0	$238,170	$ 351,497	$0	$589,667
Cost of goods sold	0	126,033	298,415	0	424,448
Gross profit	0	112,137	53,082	0	165,219
Selling, general, and administrative expenses	2,222	21,361	17,793	0	41,376
Research, development, and testing expenses	0	25,814	9,985	0	35,799
Operating (loss) profit	(2,222)	64,962	25,304	0	88,044
Interest and financing expenses, net	4,480	(1,038)	726	0	4,168
Other income (expense), net	112	(56)	329	0	385
(Loss) income from continuing operations before income taxes and equity income of subsidiaries	(6,590)	65,944	24,907	0	84,261
Income tax (benefit) expense	(2,827)	26,953	3,222	0	27,348
Equity income of subsidiaries	60,676	0	0	(60,676)	0
Net income	56,913	38,991	21,685	(60,676)	56,913
Other comprehensive income (loss)	(18,125)	(3,235)	(14,275)	17,510	(18,125)
Comprehensive income	$38,788	$35,756	$ 7,410	$(43,166)	$38,788

NewMarket Corporation and Subsidiaries
Consolidating Statements of Income and Comprehensive Income
Third Quarter Ended September 30, 2013

(in thousands)	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Net sales	$0	$226,276	$ 354,179	$0	$580,455
Cost of goods sold	0	118,699	297,933	0	416,632
Gross profit	0	107,577	56,246	0	163,823
Selling, general, and administrative expenses	1,901	24,914	14,071	0	40,886
Research, development, and testing expenses	0	25,450	10,415	0	35,865
Operating (loss) profit	(1,901)	57,213	31,760	0	87,072