NEWMARKET CORP
Form 10-Q
April 30, 2007
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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 March 31, 2007

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	**20-0812170**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
330 SOUTH FOURTH STREET	**23218-2189**

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 x 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 x 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 x

Number of shares of common stock, without par value, outstanding as of March 31, 2007: 17,295,860.

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NEWMARKET CORPORATION

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

NEWMARKET CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended March 31 2007	Three Months Ended March 31 2006
Net sales	$ 309,796	$ 301,950
Cost of goods sold	240,367	237,946
Gross profit	69,429	64,004
Operating profit from TEL marketing agreements services	3,481	1,338
Selling, general, and administrative expenses	26,755	24,798
Research, development, and testing expenses	18,811	16,566
Operating profit	27,344	23,978
Interest and financing expenses, net	2,962	3,906
Other income, net	390	597
Income before income taxes	24,772	20,669
Income tax expense	8,530	6,897
Net income	$ 16,242	$ 13,772
Basic earnings per share	$ 0.94	$ 0.80
Diluted earnings per share	$ 0.93	$ 0.79
Shares used to compute basic earnings per share	17,294	17,122
Shares used to compute diluted earnings per share	17,412	17,394
Cash dividends declared per common share	$ 0.125	$ 0.125

See accompanying notes to the consolidated financial statements.

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NEWMARKET CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share amount)

(Unaudited)

	March 31 2007	December 31 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 72,901	$ 60,300
Restricted cash	210	240
Trade and other accounts receivable, less allowance for doubtful accounts ($835 - 2007; $835 - 2006)	185,523	198,243
Inventories:		
Finished goods	145,840	150,468
Raw materials	27,245	28,002
Stores, supplies and other	7,305	7,111
	180,390	185,581
Deferred income taxes	12,927	12,277
Prepaid expenses	8,565	5,319
Total current assets	460,516	461,960
Property, plant and equipment, at cost	766,584	751,355
Less accumulated depreciation and amortization	595,656	589,241
Net property, plant and equipment	170,928	162,114
Prepaid pension cost	103	85
Deferred income taxes	29,277	30,088
Other assets and deferred charges	38,747	38,838
Intangibles, net of amortization	50,170	51,708
Total assets	$ 749,741	$ 744,793
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 83,618	$ 81,623
Accrued expenses	47,809	59,692
Dividends payable	2,162	2,162
Book overdraft	3,368	2,549
Long-term debt, current portion	702	691
Income taxes payable	12,879	13,466
Total current liabilities	150,538	160,183
Long-term debt	152,319	152,748
Other noncurrent liabilities	129,440	130,460

Commitments and contingencies (Note 8)		
Shareholders equity:		
Common stock and paid-in capital (without par value) Issued - 17,295,860 in 2007 and 17,289,860 in 2006	88,290	88,263
Accumulated other comprehensive loss	(45,230)	(47,165)
Retained earnings	274,384	260,304
	317,444	301,402
Total liabilities and shareholders equity	$ 749,741	$ 744,793

See accompanying notes to the consolidated financial statements.

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NEWMARKET CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended March 31 2007	Three Months Ended March 31 2006
Cash and cash equivalents at beginning of year	$ 60,300	$ 56,413
Cash flows from operating activities:		
Net income	16,242	13,772
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation and other amortization	7,577	7,491
Amortization of deferred financing costs	247	472
Noncash pension expense	2,658	3,344
Deferred income tax (benefit) expense	(996)	1,289
Working capital changes	6,169	(20,259)
Excess tax benefits from stock-based payment arrangements		(576)
Cash pension contributions	(3,961)	(3,399)
Proceeds from insurance settlement		4,200
Long-term receivable - TEL marketing agreements	(242)	696
Other, net	494	(681)
Cash provided from operating activities	28,188	6,349
Cash flows from investing activities:		
Capital expenditures	(10,256)	(4,329)
Foundry Park I capital expenditures	(686)	
Payment for acquisition of intangible asset	(2,150)	
Payment for interest rate guarantee	(1,110)	
Other, net	6	
Cash used in investing activities	(14,196)	(4,329)
Cash flows from financing activities:		
Repayment of 8.875% senior notes	(250)	
Dividends	(2,162)	(2,148)
Change in book overdraft	819	(636)
Debt issuance costs	(94)	
Proceeds from exercise of stock options	27	462
Excess tax benefits from stock-based payment arrangements		576
Payments on the capital lease	(168)	(159)
Cash used in financing activities	(1,828)	(1,905)
Effect of foreign exchange on cash and cash equivalents	437	(63)
Increase in cash and cash equivalents	12,601	52

Cash and cash equivalents at end of period	$ 72,901	$ 56,465

See accompanying notes to the consolidated financial statements.

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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 Subsidiaries contain all necessary adjustments for the fair presentation of, in all material respects, our consolidated financial position as of March 31, 2007, as well as our consolidated results of operations for the three-months ended March 31, 2007 and March 31, 2006 and our consolidated cash flows for the three-months ended March 31, 2007 and March 31, 2006. 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, 2006 (2006 Annual Report), as filed with the Securities and Exchange Commission (SEC). The results of operations for the three-month period ended March 31, 2007 are not necessarily indicative of the results to be expected for the full year ending December 31, 2007. The December 31, 2006 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 March 31, 2007 and December 31, 2006, 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 for the three-months ended March 31, 2007 totaled 12.5 cents per share and were declared on February 22, 2007 and paid on April 2, 2007. Cash dividends declared for the three-months ended March 31, 2006 also totaled 12.5 cents per share and were declared on February 23, 2006 and paid April 3, 2006.

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2. Asset Retirement Obligations

The following table illustrates the activity associated with our asset retirement obligations for the three-months ended March 31, 2007 and the year ended December 31, 2006.

	March 31 2007	December 31 2006
	(in thousands)	
Asset retirement obligations, beginning of period	**$ 5,268**	$ 10,386
Accretion expense	**153**	690
Liabilities settled	**(560)**	(5,269)
Changes in expected cash flows and timing	**713**	(654)
Foreign currency impact	**2**	115
Asset retirement obligations, end of period	**$ 5,576**	$ 5,268

3. Segment Information

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

Net Sales by Segment

(in millions)

	Three Months Ended March 31	
	2007	2006
Petroleum additives	**$ 307.2**	$ 299.5
Tetraethyl lead	**2.6**	2.4
Consolidated net sales	**$ 309.8**	$ 301.9

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Segment Operating Profit

(in millions)

	Three Months Ended March 31	
	2007	2006
Petroleum additives	**$ 29.0**	$ 25.7
Tetraethyl lead	**1.9**	0.2
Contract manufacturing and other	**0.4**	1.1
Segment operating profit	**31.3**	27.0
Corporate, general, and administrative expense	**(3.9)**	(3.0)
Interest and financing expenses, net	**(3.0)**	(3.9)
Other income, net	**0.4**	0.6
Income before income taxes	**$ 24.8**	$ 20.7

Depreciation and Amortization

(in millions)

	Three Months Ended March 31	
	2007	2006
Petroleum additives	**$ 6.3**	$ 5.8
Tetraethyl lead	**1.0**	1.4
Other long-lived assets	**0.3**	0.3
Total depreciation and amortization	**$ 7.6**	$ 7.5

4. Pension and Postretirement Plans

During the three-months ended March 31, 2007, we made contributions of approximately $2.1 million for domestic pension plans and approximately $600 thousand for domestic postretirement plans. We expect to make total contributions in 2007 of approximately $7 million for our domestic pension plans and $2 million for our domestic postretirement plans.

We made contributions of approximately $1.9 million for our foreign pension plans and approximately $20 thousand for a foreign postretirement plan during the three-months ended March 31, 2007. During 2007, we expect to make total contributions of approximately $8 million to our foreign pension plans and $100 thousand to our foreign postretirement plan.

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

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	Domestic			
	Pension Benefits		Postretirement Benefits	
	Three Months Ended March 31			
	2007	**2006**	**2007**	**2006**
	(in thousands)			
Service cost	**$ 1,183**	$ 1,433	**$ 361**	$ 410
Interest cost	**1,586**	1,557	**1,012**	958
Expected return on plan assets	**(1,701)**	(1,564)	**(471)**	(471)
Amortization of prior service cost	**8**	114	**(5)**	(5)
Amortization of net loss	**542**	650		
	$ 1,618	$ 2,190	**$ 897**	$ 892

	Foreign			
	Pension Benefits		Postretirement Benefits	
	Three Months Ended March 31			
	2007	**2006**	**2007**	**2006**
	(in thousands)			
Service cost	**$ 701**	$ 637	**$ 4**	$ 4
Interest cost	**1,251**	1,036	**28**	28
Expected return on plan assets	**(1,296)**	(947)		
Amortization of prior service cost	**19**	76		
Amortization of transition asset	**(8)**	(9)	**11**	16
Amortization of net loss	**373**	361	**15**	13
	$ 1,040	$ 1,154	**$ 58**	$ 61

5. Earnings Per Share

Basic and diluted earnings per share 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.

At March 31, 2006, there were outstanding options to purchase 50,000 shares of NewMarket common stock at an exercise price of $44.375 per share. For the three-months ended March 31, 2006, these options were not included in the computation of diluted earnings per share due to their anti-dilutive impact. At March 31, 2007, we had no anti-dilutive options that were excluded from the calculation of earnings per share.

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	Three Months Ended March 31 2007	2006
	(in thousands, except per share amounts)	
Basic earnings per share		
Numerator:		
Net income, as reported	**$ 16,242**	$ 13,772
Denominator:		
Average number of shares of common stock outstanding	**17,294**	17,122
Basic earnings per share	**$ .94**	$ .80
Diluted earnings per share		
Numerator:		
Net income, as reported	**$ 16,242**	$ 13,772
Denominator:		
Average number of shares of common stock outstanding	**17,294**	17,122
Shares issuable upon exercise of stock options	**118**	272
Total shares	**17,412**	17,394
Diluted earnings per share	**$ .93**	$ .79

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6. 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			
	March 31		December 31	
	2007		2006	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(in thousands)			
Amortizing intangible assets				
Formulas	**$ 85,910**	**$ 45,561**	$ 85,910	$ 44,430
Contracts	**10,376**	**555**	10,376	148
	$ 96,286	**$ 46,116**	$ 96,286	$ 44,578
Aggregate amortization expense		**$ 1,538**		$ 4,673

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

2007	$6,152
2008	$6,152
2009	$6,152
2010	$6,152
2011	$6,079

We amortize the cost of intangible assets by the straight-line method over their economic lives. We generally amortize contracts over a period of five years to ten years. We generally amortize formulas over 20 years.

7. Long-term Debt

Long-term debt consisted of the following:

	March 31 2007	December 31 2006
	(in thousands)	
Senior notes - 7.125% due 2016	**$ 150,000**	$ 150,000
Senior notes - 8.875% due 2010		250
Capital lease obligations	**3,021**	3,189
	153,021	153,439
Current maturities of long-term debt	**(702)**	(691)
	$ 152,319	$ 152,748

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8. Contractual Commitments and Contingencies

Except as discussed in the following paragraph, there have been no significant changes in our contractual commitments from those reported in our 2006 Annual Report.

On February 26, 2007, Foundry Park I, LLC (Foundry Park I), a wholly-owned subsidiary of NewMarket Development Corporation, agreed to an application with Principal Commercial Funding II, LLC for a mortgage loan in the approximate principal amount of $116 million related to the construction of a multi-story office building for MeadWestvaco Corporation (MeadWestvaco). We expect that the mortgage loan will be executed in 2009 at the completion of the construction. In addition, Foundry Park I entered into a rate lock agreement to lock an interest rate on $105 million of the above referenced application amount. The interest rate on the remaining $11 million of debt will be determined at a later date. NewMarket Corporation guaranteed the funding of the interest rate lock agreement.

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.

Innospec Inc. - On August 16, 2006, Ethyl filed a request for arbitration against a subsidiary of Innospec Inc. (Innospec). This arbitration is related to a long-standing supply agreement that requires the Innospec subsidiary to supply Ethyl with TEL for resale by Ethyl in the United States (the U.S. Supply Agreement). The request was filed pursuant to the rules of the London Court of International Arbitration. Ethyl filed this request because it believes that Innospec has violated the U.S. Supply Agreement by attempting to increase the price it charges Ethyl for TEL in the United States in a manner not in accordance with the contract. As such, we have not recorded an accrual of these costs. The difference in prices that Innospec is claiming and has billed is approximately $1.7 million for product supplied through September 30, 2006. It is estimated that if the same factors were applied to TEL supplied through the first quarter 2007, the additional amount would be approximately $2.4 million. We have placed $1.7 million for product supplied through September 30, 2006 in an escrow account pending resolution of the arbitration. We are confident in our position and believe we will prevail.

After the commencement of the above arbitration, Ethyl received three requests for arbitration filed by three subsidiaries of Innospec. The Innospec requests were filed on October 2, 2006, pursuant to the rules of the London Court of International Arbitration and allegedly pursuant to long-standing marketing and supply agreements between Ethyl or its subsidiaries and subsidiaries of Innospec for the sale of TEL outside of the United States. Innospec is claiming the right to terminate the agreements and is seeking damages. Although these marketing and supply agreements relate only to TEL, Innospec contends that the agreements impose certain duties that were breached by the sales

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and marketing of MMT® in Iraq and South Africa by affiliates of Ethyl. Ethyl will vigorously defend the cases and believes it will ultimately prevail in these arbitrations. Therefore, no accrual has been recorded.

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 late 2007. 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 $9 million at both March 31, 2007 and December 31, 2006. We based these amounts on the best estimate of future costs discounted at approximately 3% in both 2007 and 2006. We incorporated an inflation factor in determining the discount rate. The remaining environmental liabilities are not discounted. At a plant site in Houston, Texas, we have an accrual of $7 million for environmental remediation, dismantling, and decontamination at both March 31, 2007 and December 31, 2006. Included in this amount is $3 million at both March 31, 2007 and December 31, 2006 for site remediation.

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 $19 million at both March 31, 2007 and December 31, 2006. In addition to the accruals for environmental remediation, we also have accruals for dismantling and decommissioning costs of $3 million at both March 31, 2007 and December 31, 2006.

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9. Comprehensive Income and Accumulated Other Comprehensive Loss

The components of comprehensive income consist of the following:

	Three Months Ended March 31	
	2007	**2006**
	(in thousands)	
Net income	**$ 16,242**	$ 13,772
Other comprehensive income, net of tax		
Pension plans and other postretirement benefits adjustments	**548**	
Unrealized gain on derivative instruments	**57**	
Foreign currency translation adjustments	**1,330**	610
Other comprehensive income	**1,935**	610
Comprehensive income	**$ 18,177**	$ 14,382

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

	March 31 2007	**December 31 2006**
	(in thousands)	
Accumulated loss on derivative instruments	**$ (72)**	$ (129)
Pension plans and other postretirement benefits adjustments	**(41,846)**	(42,394)
Foreign currency translation adjustments	**(3,312)**	(4,642)
Accumulated other comprehensive loss	**$ (45,230)**	$ (47,165)

10. Income Taxes

We adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, (FIN 48) on January 1, 2007. As a result of the implementation of FIN 48, we recognized no material adjustment in the liability for unrecognized income tax benefits. At the adoption date of January 1, 2007 and at March 31, 2007, we had $2.9 million of gross unrecognized tax benefits. Of that amount, $2.5 million would affect our effective tax rate if recognized.

We recognize accrued interest and penalties associated with uncertain tax positions as part of other income, net on our Consolidated Statements of Income. As of January 1, 2007, we had approximately $500 thousand of accrued interest related to uncertain tax positions.

We expect the amount of unrecognized tax benefits to change in the next 12 months; however, we do not expect the change to be material.

Our U.S. subsidiaries join in the filing of a U.S. federal consolidated income tax return. The Internal Revenue Service (IRS) concluded its examination of our consolidated federal income tax

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returns for the years 2001 through 2003 and issued final Revenue Agents Reports (RAR) during 2006 for these years. The U.S. federal statute of limitations remains open for the years 2004 and forward. There are no years currently under examination by the IRS. Foreign and U.S. state jurisdictions have statutes of limitations generally ranging from three to five years. Years still open to examination by foreign tax authorities in major jurisdictions include, the United Kingdom (2003 and forward), Singapore (2001 and forward), Japan (2002 and forward), Belgium (2005 and forward), and Canada (2002 and forward). We are currently under examination in various U.S. state and foreign jurisdictions.

11. Recently Issued Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (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 is effective for fiscal years beginning after November 15, 2007. We are evaluating the impact of the adoption of SFAS 157 on our financial statements.

In February 2007, the FASB issued 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 159 permits companies to 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. The standard is effective for fiscal years beginning after November 15, 2007. We are evaluating the impact of the adoption of SFAS 159 on our financial statements.

12. 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.	NewMarket Services Corporation
Interamerica Terminals Corporation	The Edwin Cooper Corporation
Afton Chemical Intangibles LLC	Old Town LLC
NewMarket Investment Company	NewMarket Development Corporation
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	

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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 three-months ended March 31, 2007 and March 31, 2006, Consolidating Balance Sheets as of March 31, 2007 and December 31, 2006 and Condensed Consolidating Statements of Cash Flows for the three-months ended March 31, 2007 and March 31, 2006 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.

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NewMarket Corporation and Subsidiaries

Consolidating Statements of Income

Three Months Ended March 31, 2007

(in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Net sales	$	$ 224,374	$ 152,369	$ (66,947)	$ 309,796
Cost of goods sold	77	171,942	132,343	(63,995)	240,367
Gross profit	(77)	52,432	20,026	(2,952)	69,429
Operating profit from TEL marketing agreements services		(770)	4,251		3,481
Intercompany service fee income (expense) from TEL marketing agreements		3,673	(3,673)		
Selling, general, and administrative expenses	2,186	19,823	4,746		26,755
Research, development, and testing expenses		15,019	3,792		18,811
Operating profit	(2,263)	20,493	12,066	(2,952)	27,344
Interest and financing expenses, net	2,997	(237)	202		2,962
Other income (expense), net	292	139	(41)		390
Income before income taxes and equity income of subsidiaries	(4,968)	20,869	11,823	(2,952)	24,772
Income tax (benefit) expense	(2,279)	7,921	3,996	(1,108)	8,530
Equity income of subsidiaries	18,931			(18,931)	
Net income	$ 16,242	$ 12,948	$ 7,827	$ (20,775)	$ 16,242

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NewMarket Corporation and Subsidiaries

Consolidating Statements of Income

Three Months Ended March 31, 2006

(in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Net sales	$	$ 231,009	$ 148,920	$ (77,979)	$ 301,950
Cost of goods sold		182,764	132,131	(76,949)	237,946
Gross profit		48,245	16,789	(1,030)	64,004
Operating profit from TEL marketing agreements services		(700)	2,038		1,338
Intercompany service fee income (expense) from TEL marketing agreements		2,698	(2,698)		
Selling, general, and administrative expenses	911	19,458	4,429		24,798
Research, development, and testing expenses		12,866	3,700		16,566
Operating (loss) profit	(911)	17,919	8,000	(1,030)	23,978
Interest and financing expenses (income), net	3,891	(120)	135		3,906
Other income, net	243	44	310		597
(Loss) income before income taxes and equity income of subsidiaries	(4,559)	18,083	8,175	(1,030)	20,669
Income tax (benefit) expense	(1,594)	6,116	2,764	(389)	6,897
Equity income of subsidiaries	16,737			(16,737)	
Net income	$ 13,772	$ 11,967	$ 5,411	$ (17,378)	$ 13,772

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NewMarket Corporation and Subsidiaries

Consolidating Balance Sheets

March 31, 2007

(in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
ASSETS					
Cash and cash equivalents	$ 34,618	$ 12,780	$ 25,503	$	$ 72,901
Restricted cash	210				210
Trade and other accounts receivable, net	2,669	87,275	95,579		185,523
Amounts due from affiliated companies		167,435	33,900	(201,335)	
Inventories		99,823	94,010	(13,443)	180,390
Deferred income taxes	1,825	5,225	792	5,085	12,927
Prepaid expenses	2,642	4,392	1,531		8,565
Total current assets	41,964	376,930	251,315	(209,693)	460,516
Amounts due from affiliated companies		18,001		(18,001)	
Property, plant and equipment, at cost		626,999	139,585		766,584
Less accumulated depreciation & amortization		478,755	116,901		595,656
Net property, plant and equipment		148,244	22,684		170,928
Investment in consolidated subsidiaries	559,631			(559,631)	
Prepaid pension cost			103		103
Deferred income taxes	28,845	(1,057)	1,489		29,277
Other assets and deferred charges	6,778	10,924	21,045		38,747
Intangibles, net of amortization		50,170			50,170
Total assets	$ 637,218	$ 603,212	$ 296,636	$ (787,325)	$ 749,741
LIABILITIES AND SHAREHOLDERS EQUITY					
Accounts payable	$ 65	$ 56,114	$ 27,439	$	$ 83,618
Accrued expenses	9,358	27,251	11,200		47,809
Dividends payable	2,162				2,162
Book overdraft	115	3,253			3,368
Amounts due to affiliated companies	90,239	41,320	69,776	(201,335)	
Long-term debt, current portion		702			702
Income taxes payable	(4,410)	10,885	6,404		12,879
Total current liabilities	97,529	139,525	114,819	(201,335)	150,538
Long-term debt	150,000	2,319			152,319
Amounts due to affiliated companies			18,001	(18,001)	
Other noncurrent liabilities	72,245	36,537	20,658		129,440
Total liabilities	319,774	178,381	153,478	(219,336)	432,297

Shareholders equity:					
Common stock and paid-in capital	88,290	236,176	76,763	(312,939)	88,290
Accumulated other comprehensive loss	(45,230)	(8,297)	(21,420)	29,717	(45,230)
Retained earnings	274,384	196,952	87,815	(284,767)	274,384
Total shareholders equity	317,444	424,831	143,158	(567,989)	317,444
Total liabilities and shareholders equity	$ 637,218	$ 603,212	$ 296,636	$ (787,325)	$ 749,741

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NewMarket Corporation and Subsidiaries

Consolidating Balance Sheets

December 31, 2006

(in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
ASSETS					
Cash and cash equivalents	$ 19,688	$ 8,211	$ 32,401	$	$ 60,300
Restricted cash	240				240
Trade and other accounts receivable, net	9,686	87,971	100,586		198,243
Amounts due from affiliated companies		164,649	36,037	(200,686)	
Inventories		99,967	96,105	(10,491)	185,581
Deferred income taxes	1,825	5,589	887	3,976	12,277
Prepaid expenses	2,259	2,022	1,038		5,319
Total current assets	33,698	368,409	267,054	(207,201)	461,960
Amounts due from affiliated companies		17,744		(17,744	