

ALBEMARLE CORP  
Form S-3  
October 13, 2004  
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As filed with the Securities and Exchange Commission on October 13, 2004

Registration Statement No. 333-

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**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM S-3**

*REGISTRATION STATEMENT*

*UNDER THE SECURITIES ACT OF 1933*

**ALBEMARLE CORPORATION**

(Exact Name of Registrant as Specified in its Charter)

Virginia  
(State or Other Jurisdiction of Incorporation or Organization)  
330 South Fourth Street  
Richmond, Virginia 23219  
(804) 788-6000

54-1692118  
(I.R.S. Employer Identification No.)

(Address, Including Zip Code, and Telephone Number, Including Area Code, of

Registrant's Principal Executive Offices)

**PAUL F. ROCHELEAU**  
Senior Vice President and  
Chief Financial Officer  
330 South Fourth Street  
P. O. Box 1335  
Richmond, Virginia 23210  
(804) 788-6000

**LUTHER C. KISSAM, IV, ESQ.**  
Vice President, General  
Counsel and Secretary  
330 South Fourth Street  
P. O. Box 1335  
Richmond, Virginia 23210  
(804) 788-6000

(Name, Address, Including Zip Code, and Telephone Number, Including

Area Code, of Agent for Service)

*It is respectfully requested that the Commission send copies of all notices, orders and communications to:*

**ALLEN C. GOOLSBY, ESQ.**  
**JOHN OWEN GWATHMEY, ESQ.**  
Hunton & Williams LLP  
Riverfront Plaza, East Tower  
951 E. Byrd Street  
Richmond, Virginia 23219  
(804) 788-8200

**JOHN D. LOBRANO, ESQ.**  
Simpson Thacher & Bartlett LLP  
425 Lexington Avenue  
New York, New York 10017  
(212) 455-2000

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**Approximate date of commencement of proposed sale to the public:** From time to time after the effective date of this registration statement as the registrant determines.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. "

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If the Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. "

### CALCULATION OF REGISTRATION FEE

| Title of Each Class of<br>Securities to be Registered | Amount to be<br>Registered | Proposed Maximum<br>Offering Price Per Unit | Proposed Maximum<br>Aggregate Offering Price | Amount of<br>Registration Fee |
|---|----------------------------|---|--|-------------------------------|
| <b>Primary Offering:</b> (1)(2)(3)                    |                            |   | \$700,000,000                                | \$88,690                      |
| Senior Debt Securities                                | (4)(5)(6)                  |   |  |                               |
| Subordinated Debt Securities                          | (4)(5)(6)                  |   |  |                               |
| Preferred Stock                                       | (4)(5)(6)                  |   |  |                               |
| Common Stock, \$.01 par value per share               | (4)(5)(6)                  |   |  |                               |
| <b>Secondary Offering:</b>                            |                            |   |  |                               |
| Common Stock, \$.01 par value per share               | 1,600,000                  | \$35.23(7)                                  | \$56,368,000(7)                              | \$7,142(7)                    |
| <b>Total</b>  |                            |   | <b>\$756,368,000</b>                         | <b>\$95,832</b>               |

- (1) Calculated pursuant to Rule 457(o) under the Securities Act.
- (2) The amount to be registered and the proposed maximum offering price per unit are not specified as to each class of securities to be registered in connection with the primary offering pursuant to General Instruction II.D of Form S-3 under the Securities Act.
- (3) The proposed maximum offering price per unit will be determined from time to time by Albemarle Corporation in connection with, and at the time of, the issuance by Albemarle Corporation of the securities registered herein.
- (4) Such indeterminate principal amount, liquidation amount or number of senior debt securities, subordinated debt securities, preferred stock and common stock of Albemarle Corporation as may from time to time be issued at indeterminate prices. The aggregate maximum offering price of all securities issued by Albemarle Corporation pursuant to this registration statement shall not have a maximum aggregate offering price that exceeds \$700,000,000 in U.S. dollars or the equivalent at the time of offering in any other currency.
- (5) Also includes such indeterminate principal amount, liquidation amount or number of senior debt securities, subordinated debt securities, preferred stock and common stock as may be issued upon conversion or exchange of any senior debt securities, subordinated debt securities or preferred stock that provide for conversion or exchange into other securities.
- (6) No separate consideration will be received for the senior debt securities, subordinated debt securities, preferred stock or common stock issuable upon conversion of or in exchange for senior debt securities, subordinated debt securities or preferred stock.
- (7) Estimated solely for the purpose of calculating the registration fee for the secondary offering of common stock by the selling shareholders named in the prospectus contained in this registration statement and calculated pursuant to Rule 457(c) under the Securities Act based upon \$35.23 per share, which was the average of the high and low prices of the common stock on the New York Stock Exchange on October 7, 2004.

**The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

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**The information in this prospectus supplement is not complete and may be changed. We may not sell these securities until the Securities and Exchange Commission declares our registration statement effective. This prospectus supplement and the accompanying prospectus are not an offer to sell these securities and they are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

**SUBJECT TO COMPLETION, DATED OCTOBER 13, 2004**

**PROSPECTUS SUPPLEMENT**

(to Prospectus dated \_\_\_\_\_, 2004)

**Shares**

**Common Stock**

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We are offering \_\_\_\_\_ shares of our common stock. In addition, the selling shareholders named in this prospectus supplement are offering \_\_\_\_\_ shares of our common stock. Our common stock is listed on the New York Stock Exchange under the symbol ALB. On October 12, 2004, the last reported sale price of our common stock on the NYSE was \$34.40 per share.

See **Risk Factors** beginning on page S-12 of this prospectus supplement to read about the risks you should consider before buying shares of our common stock.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

| Per<br>Share | Total |
|--------------|-------|
| _____        | _____ |

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|   |    |    |
|---|----|----|
| Public Offering Price                   | \$ | \$ |
| Underwriting Discount                   | \$ | \$ |
| Proceeds, before Expenses, to Albemarle | \$ | \$ |
| Proceeds to the Selling Shareholders    | \$ | \$ |

We have granted the underwriters a 30-day option to purchase up to \_\_\_\_\_ additional shares to cover any over-allotments.

Delivery of the shares will be made on or about \_\_\_\_\_, 2004.

**Bear, Stearns & Co. Inc.**

**UBS Investment Bank**

**Banc of America Securities LLC**

The date of this prospectus supplement is \_\_\_\_\_, 2004.

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# GLOBAL LOCATIONS

## AMERICAS

### Executive Offices

330 South Fourth Street\*

Richmond, Virginia 23219

804-788-6000

### Operations Offices

451 Florida Street\*

Baton Rouge, Louisiana 70801

225-388-8011

### Sales and General Offices

Baton Rouge, Louisiana\*

225-388-7402

Houston, Texas\*

281-480-4747

### Research and

### Development Facilities

Baton Rouge, Louisiana

Dayton, Ohio\*

Pasadena, Texas

Santa Cruz, Brazil\*\*

Tyrone, Pennsylvania

**Plants**

Baton Rouge, Louisiana

Dayton, Ohio\*

Magnolia, Arkansas (3 locations)

Orangeburg, South Carolina

Pasadena, Texas (2 locations)

Pasadena, Texas\*\*

Santa Cruz, Brazil\*\*

Tyrone, Pennsylvania

**EUROPE/MIDDLE**

**EAST/AFRICA**

**Sales and General Offices**

Amersfoort, Netherlands\*

31 33 467 6310

Bergheim, Germany

49 2271 902 0

Louvain-La-Neuve, Belgium

32 10 48 1711

**Research and**

**Development Facilities**

Amsterdam, Netherlands

Bergheim, Germany

Louvain-La-Neuve, Belgium

Thann, France

**Plants**

Amsterdam, The Netherlands

Avonmouth, United Kingdom

Bergheim, Germany

Feluy, Belgium\*

Gela, Italy\*\*

Jubail, Saudi Arabia\*\*

La Voulte, France\*\*

Port-de-Bouc, France

Safi, Jordan\*\*

Santa Cruz, Brazil\*\*

St. Jakob/Breitenau, Austria\*\*

Teesport, United Kingdom

Thann, France

**ASIA-PACIFIC**

**Sales and General Offices**

Beijing, China

106 505 4153

Seoul, South Korea\*

82 2 555 3005

Shanghai, China\*

86 21 5306 1360

Singapore\*

65 6732 6286

Tokyo, Japan\*

81 3 5251 0791

**Research and**

**Development Facilities**

Niihama, Japan\*\*

**Plants**

Jin Shan District, Shanghai,

China\*\*

Ninghai County, Zhejiang

Province, China\*\*

Niihama, Japan\*\*

Takaishi City, Osaka, Japan \*\*

*\* Leased Location*

*\*\*Joint Venture*

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**ABOUT THIS PROSPECTUS SUPPLEMENT**

This document consists of two parts. The first part is the prospectus supplement, which describes the specific terms of this offering and certain other matters relating to Albemarle Corporation. The second part, the accompanying prospectus, gives more general information, some of which does not apply to this offering. Generally, when we refer to the prospectus, we are referring to both parts of this document combined. If the description in the prospectus supplement differs from the description in the accompanying prospectus, the description in the prospectus supplement supersedes the description in the accompanying prospectus.

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. Neither we, the selling shareholders nor the underwriters have authorized anyone to provide you with information other than that contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. The information in this prospectus supplement and the accompanying prospectus may be accurate only as of their respective dates.

We, the selling shareholders and the underwriters are not making an offer to sell the common stock in jurisdictions where the offer or sale is not permitted. The distribution of this prospectus supplement and the accompanying prospectus and the offering of the common stock in certain jurisdictions may be restricted by law. Persons who come into possession of this prospectus supplement and the accompanying prospectus must inform themselves about and observe any restrictions relating to the offering of the common stock and the distribution of this prospectus supplement and the accompanying prospectus. This prospectus supplement and the accompanying prospectus do not constitute, and may not be used in connection with, an offer to sell, or a solicitation of an offer to buy, any securities offered by this prospectus supplement and the accompanying prospectus by any person in any jurisdiction in which it is unlawful for a person to make an offer or solicitation.

Unless the context otherwise indicates, the terms Albemarle, we, us, our or the company mean Albemarle Corporation and its consolidated subsidiaries.

**MARKET AND INDUSTRY DATA**

This prospectus supplement and the accompanying prospectus include market share and industry data and forecasts that we obtained from internal company surveys, market research, publicly available information and industry publications and surveys. Industry publications and surveys generally state that the information contained therein has been obtained from sources believed to be reliable, but there can be no assurance as to the accuracy and completeness of such information. We have not independently verified any of the data from third-party sources nor have we ascertained the underlying economic assumptions relied upon therein. Similarly, internal company surveys, forecasts and market research, which we believe to be reliable based upon management's knowledge of the industry, have not been verified by any independent sources. Except where otherwise noted, statements as to our position relative to our competitors or as to market position or share refer to the most recently available data.

**NON-GAAP FINANCIAL MEASURE**

In this prospectus supplement, we present EBITDA, which is a supplemental financial measure that is not required by, or presented in accordance with, accounting principles generally accepted in the United States, or U.S. GAAP. Our management believes EBITDA is more reflective of our operations as it presents investors with information about our operations and, in doing so, provides transparency to investors

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and enhances period-to-period comparability of operations, financial performance and liquidity. See footnote 5 in the section of this prospectus supplement titled "Summary Historical and Pro Forma Consolidated Financial Information of Albemarle" for the definition of EBITDA and related disclosure.

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EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our financial results prepared in accordance with U.S. GAAP. Some of these limitations are:

EBITDA does not reflect our cash expenditures, future requirements for capital expenditures or contractual commitments;

EBITDA does not reflect changes in, or cash requirements for, our working capital needs;

EBITDA does not reflect the significant interest expense, or the cash requirements necessary to make interest or principal payments, on our debts;

although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA does not reflect any cash requirements for such replacements; and

other companies in our industry may calculate EBITDA differently than we do, limiting its usefulness as a comparative measure.

Because of these limitations, EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business.

## **PRO FORMA FINANCIAL INFORMATION**

This prospectus supplement contains various references to pro forma financial information. This pro forma financial information is included in, or is derived from, the Unaudited Pro Forma Combined Financial Information that has been prepared in conformity with Regulation S-X. This unaudited pro forma financial information, included in this prospectus supplement, gives effect to (1) the acquisition of the refinery catalysts business of Akzo Nobel N.V., (2) the financing of the purchase price through borrowings under our new senior credit agreement and 364-day loan agreement, including amounts borrowed to refinance our then-existing credit agreement and to pay related fees and expenses and (3) to the extent appropriate, the completion of this offering and the application of the net proceeds as described under Use of Proceeds, as if such transactions had occurred on January 1, 2003, in the case of statement of income data, or on June 30, 2004, in the case of balance sheet data. Our Current Report on Form 8-K/A, incorporated by reference in this prospectus supplement, also includes pro forma financial information as of June 30, 2004 and for the year ended December 31, 2003 and the six months ended June 30, 2004 and 2003. The pro forma financial information set forth in the Current Report on Form 8-K/A reflects the acquisition and related financings as if they had occurred on January 1, 2003, in the case of income data, or on June 30, 2004, in the case of balance sheet data, which differs in presentation from what is included in the Unaudited Pro Forma Combined Financial Information set forth in this prospectus supplement because it does not give effect to the completion of this offering and the application of the net proceeds as described under Use of Proceeds. The term pro forma also reflects, to the extent appropriate, the realignment of our polyolefin catalysts business from our Polymer Chemicals segment, which we renamed Polymer Additives, to our new Catalysts segment.

**Table of Contents****EXCHANGE RATES**

The combined financial statements of Akzo Nobel's refinery catalysts business contained in this prospectus supplement are denominated in European Union euros. The following chart shows for certain periods from January 1, 2001 through September 30, 2004, the average, high and low noon buying rates in The City of New York for cable transfers of euros as certified for customs purposes by the Federal Bank of New York expressed as U.S. dollars per euro, or the noon buying rate. The noon buying rate on October 8, 2004, was \$1.2418 per 1.00. We make no representation that the euro or U.S. dollar amounts referred to in this prospectus supplement have been, could have been or could, in the future, be converted into U.S. dollars or euros, as the case may be, at any particular rate, if at all.

(dollars per euro)

| <u>Year</u>    | <u>Low</u> | <u>High</u> | <u>Average<sup>(1)</sup></u> | <u>Period<br/>End</u> |
|----------------|------------|-------------|------------------------------|-----------------------|
| 2001           | 0.8370     | 0.9535      | 0.8952                       | 0.8901                |
| 2002           | 0.8594     | 1.0485      | 0.9454                       | 1.0485                |
| 2003           | 1.0361     | 1.2597      | 1.1315                       | 1.2597                |
| <br>           |            |             |                              |                       |
| <u>Month</u>   | <u>Low</u> | <u>High</u> | <u>Average<sup>(1)</sup></u> | <u>Period<br/>End</u> |
| March 2004     | 1.2088     | 1.2431      | 1.2261                       | 1.2292                |
| April 2004     | 1.1802     | 1.2358      | 1.1989                       | 1.1975                |
| May 2004       | 1.1801     | 1.2274      | 1.2000                       | 1.2217                |
| June 2004      | 1.2006     | 1.2320      | 1.2146                       | 1.2179                |
| July 2004      | 1.2032     | 1.2437      | 1.2266                       | 1.2032                |
| August 2004    | 1.2025     | 1.2368      | 1.2191                       | 1.2183                |
| September 2004 | 1.2052     | 1.2417      | 1.2214                       | 1.2417                |

(1) The average of the noon buying rates in The City of New York for cable transfers of euros as certified for customs purposes by the Federal Reserve Bank of New York on the last day of each month that are published on the website maintained by the Federal Reserve Bank of New York.

**FORWARD-LOOKING STATEMENTS**

Some of the information presented in this prospectus supplement and the accompanying prospectus, including the documents incorporated by reference, may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are based on our current expectations, which are in turn based on assumptions that we believe are reasonable based on our current knowledge of our business and operations. We have used words such as anticipate, believe, could, estimate, expect, intend, should, will and variations of such words and similar expressions to identify such forward-looking statements. These forward-looking statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions, which are difficult to predict and many of which are beyond our control. There can be no assurance, therefore, that our actual results will not differ materially from the results and expectations expressed or implied in the forward-looking statements. Factors that could cause actual results to differ materially include, without limitation:

the timing of orders received from customers;

the gain or loss of significant customers;

competition from other manufacturers;

changes in the demand for our products;

changes in our margins;

increases in the cost of raw materials and energy, and our inability to pass through such increases;

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changes in our manufacturing processes;

changes in our markets in general;

fluctuations in foreign currencies;

changes in new product introductions resulting in increases in capital project requests and approvals leading to additional capital spending;

changes in laws and regulations;

the occurrence of claims or litigation;

the inability to maintain current levels of product or premises liability insurance or the denial of such coverage;

political unrest affecting the global economy, including adverse effects from terrorism or hostilities;

changes in accounting standards;

the integration of the Akzo Nobel refinery catalysts business into our operations;

the inability to achieve results from our global manufacturing cost reduction initiatives as well as our ongoing continuous improvement and rationalization programs;

changes in interest rates, to the extent they (1) affect our ability to raise capital or increase our cost of funds, (2) have an impact on the overall performance of our pension fund investments and (3) increase our pension expense and funding obligations; and

the other factors detailed from time to time in the reports we file with the Securities and Exchange Commission, or the SEC.

We assume no obligation to provide revisions to any forward-looking statements should circumstances change, except as otherwise required by securities and other applicable laws.

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**PROSPECTUS SUPPLEMENT SUMMARY**

*The following section summarizes more detailed information presented later in this prospectus supplement and the accompanying prospectus. You should read this entire prospectus supplement and the accompanying prospectus carefully, including the section entitled "Risk Factors", before making an investment decision. Unless indicated otherwise, the information contained in this prospectus supplement and the accompanying prospectus assumes that the underwriters' over-allotment option is not exercised.*

**Albemarle Corporation**

We are a leading global developer, manufacturer and marketer of highly-engineered specialty chemicals. Our products enhance the value of our customers' end-products by improving performance, providing essential product attributes, lowering cost and simplifying processing. We sell a highly diversified mix of products to a wide range of customers, including manufacturers of electronics, building and construction materials, automotive parts, packaging, pharmaceuticals and agrichemicals and to petroleum refiners. We believe that our commercial and geographic diversity, technical expertise, flexible, low-cost global manufacturing base, strong cash flows and experienced management team enable us to maintain leading market positions in those areas of the specialty chemicals industry in which we operate.

We and our joint ventures currently operate 38 production facilities, research and development facilities, and administrative and sales offices in North and South America, Europe and Asia and serve more than 3,400 customers in approximately 100 countries. In 2003, we generated net sales of \$1,515.2 million, operating profit of \$139.9 million, net income (before cumulative effect of a change in accounting principle) of \$97.5 million and earnings before interest, taxes, depreciation and amortization, or EBITDA, of \$ million, in each case on a pro forma basis. The following chart presents the geographic balance of our 2003 pro forma net sales.

On July 31, 2004, we acquired the refinery catalysts business of Akzo Nobel N.V. for 615.7 million (approximately \$763 million at applicable exchange rates) in cash. We financed the acquisition with borrowings under our new senior credit agreement and 364-day loan agreement. We believe that this acquisition significantly enhances our business by giving us a strong new operating segment. Key attributes of the acquired refinery catalysts business are:

leading global market positions;

strong industry fundamentals;

proprietary technology and service-driven business model; and

attractive margins and cash flows.

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Following the refinery catalysts acquisition, we transferred our existing polyolefin catalysts business from our Polymer Chemicals segment, which we renamed Polymer Additives, to a newly created Catalysts segment, which includes the assets we acquired from Akzo Nobel. Our operations are now managed and reported as three operating segments: Polymer Additives; Catalysts; and Fine Chemicals. The following chart presents the contributions of our three segments based on our 2003 pro forma net sales.

### **Polymer Additives**

Our Polymer Additives business consists of the following two product categories:

**Flame Retardants.** We are a leading global producer of brominated, mineral-based and phosphorous flame retardants. These flame retardants comprise the bulk of the global flame retardant market, which is estimated at more than \$2.0 billion. Our flame retardants help materials in a wide variety of finished products meet fire-safety requirements. Some of the products that benefit from our flame retardants include plastic enclosures for consumer electronic products, printed circuit boards, wire and cable, electrical connectors, foam seating in furniture and automobiles, and textiles. We believe that the key drivers for growth of demand for our flame retardants are the increasing demand for electrical and electronic equipment, new construction and increasingly stringent fire-safety regulations in many countries around the world.

**Other Additives.** We produce plastic and other additives, such as curatives, antioxidants and stabilizers, which are often specially developed and formulated for a customer's specific manufacturing requirements. Our additives improve the performance characteristics of inks and coatings, adhesives, bullet-proof glass and numerous plastic products by enhancing strength, durability, color stability and other performance qualities. We also produce antioxidants used in fuels and lubricants, which are sold to lubricant manufacturers and refiners, some of which are also customers of our Catalysts segment.

### **Catalysts**

Our Catalysts business consists of the following two product categories:

**Refinery Catalysts.** We and our joint ventures, collectively, are one of the leading global producers of hydroprocessing, or HPC, catalysts and fluidized catalytic cracking, or FCC, catalysts. HPC catalysts are primarily used to reduce the quantity of sulfur and other impurities in petroleum products. FCC catalysts assist in the cracking of petroleum streams into derivative, higher-value products such as gasoline, diesel and raw material components. In 2002, worldwide sales of HPC and FCC catalysts accounted for approximately 80% of the estimated \$2.0 billion refinery catalysts market. We believe the key drivers for the growth of demand for refinery catalysts are the increasing global demand for petroleum products, the generally deteriorating quality of crude oil feedstocks and the implementation of more stringent fuel quality requirements in many countries around the world as part of anti-pollution initiatives.

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***Polyolefin Catalysts.*** We are a leading global manufacturer of aluminum- and magnesium-alkyls. These alkyls are used in the production of plastic products such as food wrap, stretch films, trash bags and a variety of plastic films. We are also a leader in the production of metallocene/single-site catalysts, which aid in the development and production of new polymers that increase impact strength, clarity and melt characteristics of plastic films. We expect that our extensive experience in polyolefin catalysts will present synergistic opportunities with our refinery catalysts business, particularly with respect to increasing our business with petroleum and petrochemical processing customers.

## **Fine Chemicals**

Our Fine Chemicals business consists of the following four product categories:

***Performance Chemicals.*** We are a leading global producer of bromine with geographically diverse production resources. In 2003, approximately 87% of the bromine that we produced was used internally in our Polymer Additives and Fine Chemicals segments and the remainder was sold into the merchant market. We also produce a number of bromides and bromine-based performance chemicals, which are used in a broad range of applications, including chemical synthesis, oil and gas well drilling and completion fluids, paper manufacturing, water purification, glass manufacturing and photography.

***Pharmaceuticals.*** Our bulk actives, ibuprofen and naproxen, are widely used to provide temporary pain relief and fever reduction. Bulk ibuprofen and naproxen are formulated by pharmaceutical companies for sale in both the prescription and over-the-counter markets. These products compete against other painkillers, including aspirin and acetaminophen. We are one of the largest global producers of ibuprofen. We also produce other intermediates used in the manufacture of a variety of over-the-counter and prescription drugs.

***Agrichemicals.*** We sell a diverse portfolio of chemical intermediates and active ingredients used in the manufacture of crop protection products, such as herbicides, insecticides, fungicides and soil fumigants. Our agrichemicals customers include major global agrichemical manufacturers and distributors.

***Fine Chemistry Services and Intermediates.*** Our fine chemistry services and intermediates business offers custom manufacturing, research and scale-up services for downstream chemical and pharmaceutical companies. We support our customers' product development efforts by offering discovery-through-commercialization services, including cGMP manufacturing capabilities.

## **Competitive Strengths**

We believe we benefit from the following competitive strengths:

***Leading Market Positions in Major Product Categories.*** We believe that we have leading global market positions in our major product categories, including bromine and bromine-based products, flame retardants and refinery catalysts. We have achieved these positions as a result of the performance characteristics of our products, long-standing customer relationships and our ability to develop and effectively market new generations of value-added products.

***Commercial and Geographic Diversity.*** We, along with our joint ventures, sell our products to over 3,400 customers across a diverse range of end-use markets in approximately 100 countries worldwide. Our broad product range allows us to serve customers in a wide variety of industries, including petroleum refining, consumer electronics, building and construction materials, automotive parts, pharmaceuticals and agrichemicals. We believe that the diversity of our operations fosters stability in our operating performance through reduced reliance on any one customer, industry, product or geographic area.

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**Technological Expertise.** We are a technological innovator within the markets we serve and are committed to maintaining a leadership position with respect to technological innovation, expertise and service. At September 30, 2004, we had over 1,400 patents as well as over 850 pending patent applications. At September 30, 2004, our research and development effort was supported by approximately 350 employees, of whom approximately one-third had PhDs. Examples of our innovative products and services include:

reactive brominated flame retardants that, when incorporated into commonly used resin systems, help electronic devices meet fire-safety requirements;

advanced mineral-based flame retardants for extreme temperature applications, such as automotive electrical connectors;

highly active HPC catalysts that help petroleum refiners meet more stringent fuel quality requirements without significant capital expenditures or reductions in refining capacity; and

in conjunction with a pharmaceutical company, a novel polymeric drug release coating for use in a recently approved medical device.

**Strong Underlying Industry Fundamentals.** We believe we are well positioned to capitalize on favorable trends within the areas of the specialty chemicals industry in which we operate. We expect our Polymer Additives segment to benefit from the increasing demand for electrical and electronic equipment, new construction and increasingly more stringent fire-safety regulations. We expect demand for our refinery catalysts to grow as a result of the increasing global demand for petroleum products, the generally deteriorating quality of crude oil feedstocks and the implementation of more stringent fuel quality requirements in many countries around the world as a part of anti-pollution initiatives. We expect our Fine Chemicals segment to continue to benefit from the rapid pace of innovation and the introduction of new products coupled with a movement by pharmaceutical companies to outsource certain research, product development and manufacturing functions.

**Flexible, Low-Cost Global Manufacturing Base.** We believe our manufacturing base affords us a competitive advantage by virtue of its breadth, cost position and flexibility. We and our joint ventures operate 27 manufacturing plants, with major facilities in North and South America, Europe and Asia. This global footprint allows us to provide timely service to our customers and supply our products to rapidly growing regions such as Asia. We are also vertically integrated in bromine. We believe that we are one of the lowest-cost producers of the bromine used in our brominated flame retardants and bromine derivative products. In addition, our pilot facilities provide us with the flexibility to commercialize newly developed products rapidly and cost efficiently. The ability to move quickly from product innovation to large-scale, commercial production contributes to our ability to capitalize on our product development efforts. For example, our Orangeburg, South Carolina facility currently is scaling up to produce commercial quantities of a new antioxidant for fuels after initial market-trial quantities were successfully produced at our Tyrone, Pennsylvania facility.

**Strong Cash Flows.** We have generated strong cash flows from operations even through adverse business cycles and periods of challenging chemical sector fundamentals. We generated average net cash provided from operations of approximately \$150 million per year between 1999 and 2003. In 2003, Akzo Nobel's refinery catalysts business had net cash provided from operations of approximately 41.1 million (approximately \$50.1 million based on an exchange rate of 1.00=\$1.2179, the noon buying rate for euros on June 30, 2004). Our ability to generate strong cash flows is principally attributable to the diversity of our product lines, our strong margins and the effective management of working capital. We believe that our strong cash flow will help us to reduce our indebtedness and implement our growth strategies discussed below.

**Experienced Management Team.** We have a highly experienced management team throughout our organization, including our Catalysts segment, which includes all of the incumbent managers of Akzo Nobel's refinery catalysts business. Our senior management team has an average of 29 years of experience in the



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chemicals business and a proven track record of developing and marketing new chemical products. Members of this team also have significant experience in executing and integrating acquisitions, including the acquisitions of eight businesses or product lines during the last five years.

### **Growth Strategy**

Our key objectives are to increase our revenues and our profitability and to broaden our product offerings. Our strategies to achieve these objectives include:

***Develop New Value-Added Products and New Applications for Existing Products.*** We believe that significant opportunities exist for us to generate additional high margin business through the introduction of new value-added products and processes. We estimate that approximately 14% of our 2003 net sales were from products newly introduced or re-engineered during the preceding five years.

***Expand Our Global Reach.*** We intend to grow domestically and internationally by expanding our product sales to new and existing multinational customers, particularly as they target high-growth regions and markets. We believe that our relationships with large multinational customers will provide access to new geographic and end-use product markets. We intend to add personnel focused on sales, marketing and research and development in selected regions and to expand our infrastructure to respond to the needs of our customers. We also plan on making selective acquisitions and participating in joint ventures consistent with this strategy. For example, we recently acquired a significant distributor in Korea, giving us direct access to a growing market for many of our Polymer Additives products.

***Focus on Operational Improvement.*** In 2002, we launched a three-year \$50 million manufacturing cost reduction program to reduce our fixed cost base. As of June 30, 2004, we believe that this program has yielded estimated savings of approximately \$22 million. We expect to implement additional cost-saving initiatives focused on achieving operational efficiencies by continuing to invest in flexible manufacturing equipment and processes, to optimize process control technologies and to reduce fixed costs through the rationalization of manufacturing capacity and the efficient management of capital spending.

***Cultivate Strategic Collaborations and Alliances.*** We believe that strategic collaborations and alliances, including joint ventures, afford us the opportunity to develop and expand our business with less capital investment and lower risk. We currently have joint ventures in Austria, Brazil, France, Japan, Jordan, the People's Republic of China and the United States. By entering into collaborations and alliances, we can leverage the technology and research and development skills of our partners, extend our business reach, gain greater access to important raw materials and benefit from our partners' knowledge of the local business environment.

***Pursue Disciplined Acquisition Strategy.*** We intend to continue to explore possible acquisitions in areas that allow us to build upon our product and technology portfolio, expand our customer base, and leverage our sales and distribution infrastructure and existing customer relationships. We intend to target acquisitions that are expected to contribute to sustainable cash flow and that are consistent with maintaining our investment grade credit rating.

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We were incorporated in Virginia in 1993. Our principal executive offices are located at 330 South Fourth Street, Richmond, Virginia 23219, and our telephone number is (804) 788-6000.



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**The Offering**

|   |  |
|---|--|
| Issuer  | Albemarle Corporation  |
| Common stock offered by us                                    | shares <sup>(1)</sup>  |
| Common stock offered by the selling shareholders              | shares   |
| Common stock to be outstanding immediately after the offering | shares <sup>(1)(2)</sup>   |
| Use of proceeds   | <p>We expect to use all of the net proceeds from our offering of common stock to retire a corresponding portion of the outstanding short-term debt that we incurred to finance our acquisition of Akzo Nobel's refinery catalysts business.</p> <p>We will not receive any of the proceeds from the sale of shares of our common stock by the selling shareholders.</p>  |
| Dividend policy   | <p>We intend to continue to declare and pay quarterly cash dividends on our common stock. The current annual rate is \$0.58 per share. The declaration and payment of dividends is subject to the discretion of our board of directors and will depend on various factors, including our financial condition, earnings, cash requirements, legal requirements and other factors deemed relevant by our board of directors.</p> |
| Listing   | New York Stock Exchange  |
| Symbol  | ALB  |

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(1) Excludes up to an additional \_\_\_\_\_ shares of common stock that may be purchased by the underwriters within 30 days of the date of this prospectus supplement if their over-allotment option is exercised.

(2) Excludes:

3,150,525 shares issuable upon the exercise of outstanding stock options as of September 30, 2004; and

2,321,000 shares available for future issuance under our incentive compensation plan as of September 30, 2004.

**Table of Contents****Summary Historical and Pro Forma Consolidated Financial Information of Albemarle**

The following table sets forth summary historical consolidated financial information of Albemarle as of and for the years ended December 31, 2003, 2002 and 2001, which have been derived from our audited consolidated financial statements, and as of and for the six months ended June 30, 2004 and 2003, which have been derived from our unaudited consolidated financial statements. In the opinion of our management, the unaudited consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and include all adjustments necessary for a fair presentation of the information set forth therein. Interim results are not necessarily indicative of full year results.

The following table also sets forth summary unaudited pro forma financial information, which gives effect to (1) our acquisition of Akzo Nobel's refinery catalysts business, (2) the financing of the purchase price through borrowings under our new senior credit agreement and 364-day loan agreement, including amounts borrowed to refinance our then-existing credit agreement and to pay related fees and expenses and (3) the completion of this offering and the application of the net proceeds therefrom as described under Use of Proceeds. The unaudited pro forma financial information is based on our historical consolidated financial statements and the historical combined financial statements of the refinery catalysts business and includes, in the opinion of our management, all adjustments necessary for a fair presentation of the information set forth therein. The pro forma adjustments are based on information and assumptions we believe are reasonable. The unaudited pro forma financial information is presented for informational purposes only and does not purport to represent what our results of operations or financial position would have been had the transactions reflected occurred on the dates indicated or to project our financial position as of any future date or our results of operations for any future period.

You should read the information in this table together with Summary Historical Combined Financial Information of Akzo Nobel's Refinery Catalysts Business, Unaudited Pro Forma Combined Financial Information, Selected Historical Consolidated Financial Information of Albemarle, Management's Discussion and Analysis of Financial Condition and Results of Operations of Albemarle, our historical consolidated financial statements and the related notes and the historical combined financial statements of the refinery catalysts business and related notes contained elsewhere in this prospectus supplement and the other information contained in the documents incorporated by reference in this prospectus supplement. See Where You Can Find More Information and Documents Incorporated by Reference.

|   | Pro Forma                    |             |                            | Historical                   |             |                            |              |            |
|---|------------------------------|-------------|----------------------------|------------------------------|-------------|----------------------------|--------------|------------|
|   | Six Months<br>Ended June 30, |             | Year Ended<br>December 31, | Six Months<br>Ended June 30, |             | Year Ended<br>December 31, |              |            |
|   | 2004                         | 2003        | 2003                       | 2004                         | 2003        | 2003                       | 2002         | 2001       |
|   | (unaudited)                  | (unaudited) | (unaudited)                | (unaudited)                  | (unaudited) | (restated)(1)              |              |            |
| (in thousands, except per share amounts and ratios) |                              |             |                            |                              |             |                            |              |            |
| <b>Statements of Income Data:</b>                   |                              |             |                            |                              |             |                            |              |            |
| Net sales   | \$                           | \$          | \$                         | \$ 648,768                   | \$ 538,562  | \$ 1,110,237               | \$ 1,007,918 | \$ 942,752 |
| Cost of goods sold                                  |                              |             |                            | 521,556                      | 419,788     | 871,727                    | 775,388      | 721,417    |
| Gross profit  |                              |             |                            | 127,212                      | 118,774     | 238,510                    | 232,530      | 221,335    |
| Selling, general and administrative expenses        |                              |             |                            | 63,003                       | 57,061      | 117,226                    | 111,676      | 98,915     |
| Research and development expenses                   |                              |             |                            | 9,667                        | 9,363       | 18,411                     | 16,485       | 21,919     |
| In-process research and development                 |                              |             |                            |                              |             |                            |              |            |
| Special items (2)                                   |                              |             |                            | 5,057                        |             | 10,049                     | 1,550        | 2,051      |

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|  |                   |                   |                   |                   |                   |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| Operating profit   | 49,485            | 52,350            | 92,824            | 102,819           | 98,450            |
| Interest and financing expenses                              | (2,918)           | (2,594)           | (5,376)           | (5,070)           | (5,536)           |
| Other income, net including minority interest                | 1,619             | 3,257             | 607               | 3,358             | 4,282             |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Income before income taxes                                   | 48,186            | 53,013            | 88,055            | 101,107           | 97,196            |
| Income taxes   | 13,811            | 5,492             | 13,890            | 28,086            | 29,029            |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Income from operations                                       | 34,375            | 47,521            | 74,165            | 73,021            | 68,167            |
| Cumulative effect of change in accounting principle, net (3) |                   | (2,220)           | (2,220)           |                   |                   |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Net income (4)   | \$                | \$                | \$                | \$                | \$                |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |

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|  | Pro Forma   |             |              | Historical     |             |            |               |            |
|--|---|-------------|--------------|----------------|-------------|------------|---------------|------------|
|  | Six Months  |             | Year Ended   | Six Months     |             | Year Ended |               |            |
|  | Ended June 30,                                      |             | December 31, | Ended June 30, |             |            | December 31,  |            |
|  | 2004  | 2003        | 2003         | 2004           | 2003        | 2003       | 2002          | 2001       |
|  | (unaudited)   | (unaudited) | (unaudited)  | (unaudited)    | (unaudited) |            | (restated)(1) |            |
|  | (in thousands, except per share amounts and ratios) |             |              |                |             |            |               |            |
| <b>Basic earnings per share:</b>                               |   |             |              |                |             |            |               |            |
| Income from operations   | \$  | \$          | \$           | \$ 0.83        | \$ 1.15     | \$ 1.79    | \$ 1.73       | \$ 1.49    |
| Cumulative effect of a change in accounting principle, net (3) |   |             |              |                | (0.05)      | (0.05)     |               |            |
| Net income   | \$  | \$          | \$           | \$ 0.83        | \$ 1.10     | \$ 1.74    | \$ 1.73       | \$ 1.49    |
| <b>Diluted earnings per share:</b>                             |   |             |              |                |             |            |               |            |
| Income from operations   | \$  | \$          | \$           | \$ 0.81        | \$ 1.12     | \$ 1.76    | \$ 1.69       | \$ 1.47    |
| Cumulative effect of a change in accounting principle, net (3) |   |             |              |                | (0.05)      | (0.05)     |               |            |
| Net income (4)   | \$  | \$          | \$           | \$ 0.81        | \$ 1.07     | \$ 1.71    | \$ 1.69       | \$ 1.47    |
| <b>Other Financial Data:</b>                                   |   |             |              |                |             |            |               |            |
| Net cash provided (used) by operating activities               |   |             |              | \$ 85,443      | \$ 85,333   | \$ 150,098 | \$ 144,771    | \$ 143,864 |
| EBITDA (5)   |   |             |              | 94,066         | 96,386      | 177,445    | 186,780       | 180,342    |
| Depreciation and amortization                                  |   |             |              | 42,962         | 40,779      | 84,014     | 80,603        | 77,610     |
| Capital expenditures   |   |             |              | 19,634         | 19,278      | 41,058     | 38,382        | 49,903     |
| Ratio of earnings to fixed charges (6)                         |   |             |              | 9.4x           | N/A         | 9.2x       | 11.1x         | 10.1x      |
| <b>Balance Sheet Data (as of end of period):</b>               |   |             |              |                |             |            |               |            |
| Cash and cash equivalents                                      | \$  |             |              | \$ 38,653      | \$ 61,092   | \$ 35,173  | \$ 47,784     | \$ 30,585  |
| Working capital  |   |             |              | 245,408        | 273,995     | 271,298    | 256,481       | 79,824     |
| Total assets   |   |             |              | 1,381,081      | 1,262,988   | 1,387,291  | 1,200,398     | 1,138,272  |
| Total debt   |   |             |              | 176,530        | 186,458     | 228,579    | 190,628       | 170,215    |
| Total liabilities  |   |             |              | 726,105        | 660,543     | 751,070    | 626,061       | 538,649(1) |
| Shareholders' equity   |   |             |              | 654,976        | 602,445     | 636,221    | 574,337       | 599,623(1) |

- (1) We restated our financial statements for the year ended December 31, 2002 to move the recognition of revenue of a fourth quarter 2002 transaction from December 31, 2002 results to the first quarter and second quarter of 2003. In addition, the December 31, 2002 and prior years' consolidated balance sheets and statements of changes in shareholders' equity were restated to reflect an increase in additional paid-in capital and a decrease in deferred income tax liability. The results for the year ended December 31, 2002 and prior years included above reflect the restatement. For more information on the restatement, see our consolidated financial statements and related notes included elsewhere in this prospectus supplement and the discussion of the restatement included in our Annual Report on Form 10-K incorporated by reference in this prospectus supplement.
- (2) We reported special items charges of \$5,057 for the six months ended June 30, 2004 related to the shutdown of our zeolites plant in Pasadena, Texas. For the year ended December 31, 2003, we incurred a \$7,503 pre-tax charge associated with a voluntary severance program. Additionally, for the year ended December 31, 2003, we recorded a one-time charge of \$2,546 for real estate held for sale. For the years ended December 31, 2002 and 2001, we recorded \$1,550 and \$2,051, respectively, in special charges related to work force reduction programs at certain of our facilities.
- (3) On January 1, 2003, we implemented SFAS No. 143 Accounting for Asset Retirement Obligations, which addressed financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The cumulative effect of the change in accounting principle resulting from the implementation of this standard was \$2,220.
- (4) The following significant non-recurring income and expense items have been included in the Albemarle pro forma statements of income presented:

| Year Ended        | Six Months Ended | Six Months Ended |
|-------------------|------------------|------------------|
| December 31, 2003 | June 30, 2004    | June 30, 2003    |

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|  | Pre-tax | After-tax | Pre-tax                       | After-tax | Pre-tax     | After-tax |
|--|---------|-----------|-------------------------------|-----------|-------------|-----------|
|  |         |           | (unaudited)<br>(in thousands) |           | (unaudited) |           |
| Albemarle reported special items impacting operating profit                        | \$      | \$        | \$                            | \$        | \$          | \$        |
| Albemarle income tax refunds and related interest                                  |         |           |                               |           |             |           |
| Refinery catalysts business provisions liability additions/reversals activity, net |         |           |                               |           |             |           |
| Refinery catalysts business foreign exchange hedging gains and losses              |         |           |                               |           |             |           |

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- (5) EBITDA, which represents earnings before cumulative effect of a change in accounting principle, net, interest and financing expenses, income taxes, depreciation and amortization, interest and financing expense, income taxes and cumulative effect of a change in accounting principle, net, is a supplemental measure of performance that is not required by, or presented in accordance with, U.S. GAAP. We present EBITDA because it is a basis upon which our management assesses our operations, financial performance and liquidity and we consider it an important supplemental measure of our operations, performance and liquidity. Our management believes EBITDA is more reflective of our operations as it presents investors with information about our operations and, in doing so, provides transparency to investors and enhances period-to-period comparability of operations, financial performance and liquidity. EBITDA should not be considered as an alternative to (1) net income determined in accordance with U.S. GAAP or (2) operating cash flows determined in accordance with U.S. GAAP. Set forth below is a reconciliation of EBITDA, a non-GAAP financial measure, to net income, the most directly comparable financial measure calculated and reported in accordance with U.S. GAAP. Our calculation of EBITDA may not be comparable to the calculation of similarly titled measures reported by other companies.

|  | Pro Forma      |             |              | Historical       |                  |                   |                   |                   |
|--|----------------|-------------|--------------|------------------|------------------|-------------------|-------------------|-------------------|
|  | Six Months     |             | Year Ended   | Six Months       |                  | Year Ended        |                   |                   |
|  | Ended June 30, |             | December 31, | Ended June 30,   |                  | December 31,      |                   |                   |
|  | 2004           | 2003        | 2003         | 2004             | 2003             | 2003              | 2002              | 2001              |
|  | (unaudited)    | (unaudited) |              | (unaudited)      | (unaudited)      |                   |                   |                   |
|  | (in thousands) |             |              |                  |                  |                   |                   |                   |
| Net income   | \$             | \$          | \$           | \$ 34,375        | \$ 45,301        | \$ 71,945         | \$ 73,021         | \$ 68,167         |
| Add:   |                |             |              |                  |                  |                   |                   |                   |
| Depreciation and amortization                              |                |             |              | 42,962           | 40,779           | 84,014            | 80,603            | 77,610            |
| Interest and financing expense                             |                |             |              | 2,918            | 2,594            | 5,376             | 5,070             | 5,536             |
| Income taxes   |                |             |              | 13,811           | 5,492            | 13,890            | 28,086            | 29,029            |
| Cumulative effect of a change in accounting principle, net |                |             |              |                  | 2,220            | 2,220             |                   |                   |
| <b>EBITDA</b>  | <b>\$</b>      | <b>\$</b>   | <b>\$</b>    | <b>\$ 94,066</b> | <b>\$ 96,386</b> | <b>\$ 177,445</b> | <b>\$ 186,780</b> | <b>\$ 180,342</b> |

- (6) For purposes of computing the ratios of earnings to fixed charges, earnings consist of pre-tax income from continuing operations before adjustment for minority interests in consolidated subsidiaries or income or loss from equity investees plus fixed charges and amortization of capitalized interest less interest capitalized and minority interest in pre-tax income of subsidiaries that have not incurred fixed charges. Fixed charges consist of interest expense (before capitalized interest) and a portion of rental expense that we believe to be representative of interest.

**Table of Contents****Summary Historical Combined Financial Information of Akzo Nobel's Refinery Catalysts Business**

The following table sets forth summary historical combined financial information of Akzo Nobel's refinery catalysts business, which we acquired on July 31, 2004, as of and for the three years ended December 31, 2003, 2002 and 2001, which have been derived from the audited combined financial statements of the refinery catalysts business, and as of and for the six months ended June 30, 2004 and 2003, which have been derived from the unaudited combined financial statements of the refinery catalysts business. In the opinion of management, the unaudited combined financial statements have been prepared on the same basis as the audited financial statements and include all adjustments necessary for a fair presentation of the information set forth therein. Interim results are not necessarily indicative of full year results.

The historical combined financial statements of Akzo Nobel's refinery catalysts business contained in this prospectus supplement were prepared in accordance with accounting principles generally accepted in The Netherlands, or Dutch GAAP. There are significant differences between Dutch GAAP and U.S. GAAP. See footnote 23 of the historical combined financial statements Akzo Nobel's refinery catalysts business contained elsewhere in this prospectus supplement for additional information regarding the differences between Dutch GAAP and U.S. GAAP as they relate to such financial statements and for a reconciliation of net income and divisional equity from Dutch GAAP to U.S. GAAP.

You should read the information in this table together with Management's Discussion and Analysis of Financial Condition and Results of Operations of Akzo Nobel's Refinery Catalysts Business and the historical combined financial statements of the refinery catalysts business and related notes contained elsewhere in this prospectus supplement.

|   | Six Months     |             |             | Year Ended   |         |         |         |
|---|----------------|-------------|-------------|--------------|---------|---------|---------|
|   | Ended June 30, |             |             | December 31, |         |         |         |
|   | 2004(1)        | 2004        | 2003        | 2003(1)      | 2003    | 2002    | 2001    |
|   | (unaudited)    | (unaudited) | (unaudited) | (unaudited)  |         |         |         |
|   | (in thousands) |             |             |              |         |         |         |
| <b>Dutch GAAP:</b>  |                |             |             |              |         |         |         |
| <b>Statements of Income Data:</b>                                       |                |             |             |              |         |         |         |
| Net sales   | \$ 234,222     | 192,316     | 179,118     | \$ 423,314   | 347,577 | 378,831 | 365,438 |
| Cost of sales   | 172,044        | 141,263     | 120,780     | 292,045      | 239,794 | 262,281 | 284,932 |
| Gross profit  | 62,178         | 51,053      | 58,338      | 131,269      | 107,783 | 116,550 | 80,506  |
| Selling, general and administrative expenses                            | 29,611         | 24,313      | 22,954      | 58,651       | 48,157  | 52,653  | 47,322  |
| Research and development expenses                                       | 13,648         | 11,206      | 9,797       | 25,271       | 20,750  | 21,218  | 19,890  |
| Operating income  | 18,919         | 15,534      | 25,587      | 47,347       | 38,876  | 42,679  | 13,294  |
| Other income (expense), net   | 4,068          | 3,340       | 2,861       | 8,351        | 6,857   | 4,017   | 2,551   |
| Interest expense, net   | (1,127)        | (925)       | (1,889)     | (4,264)      | (3,501) | (5,499) | (9,847) |
| Income before income taxes and equity results from associated companies | 21,860         | 17,949      | 26,559      | 51,434       | 42,232  | 41,197  | 5,998   |
| Income taxes  | 7,674          | 6,301       | 9,524       | 18,522       | 15,208  | 15,433  | 1,663   |
| Equity results from associated companies                                | 6,085          | 4,996       | 5,419       | 10,596       | 8,700   | 9,068   | 9,366   |
| Net income  | \$ 20,271      | 16,644      | 22,454      | \$ 43,508    | 35,724  | 34,832  | 13,701  |
| <b>Other Financial Data:</b>  |                |             |             |              |         |         |         |

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|  |            |         |         |           |          |          |          |
|--|------------|---------|---------|-----------|----------|----------|----------|
| Net cash provided (used) by operations | \$ (7,512) | (6,168) | 27,159  | \$ 50,058 | 41,102   | 62,320   | 29,314   |
| EBITDA (2)                             | 45,693     | 37,517  | 48,625  | 102,201   | 83,916   | 88,018   | 58,630   |
| Depreciation and amortization          | 16,621     | 13,647  | 14,758  | 35,907    | 29,483   | 32,254   | 33,419   |
| Capital expenditures                   | (8,941)    | (7,341) | (6,036) | (19,243)  | (15,800) | (22,667) | (16,226) |
| <b>U.S. GAAP:</b>                      |            |         |         |           |          |          |          |
| Net income                             | \$ 19,667  | 16,148  | 21,164  | \$ 41,348 | 33,950   | 37,830   | N/A      |
| Divisional equity                      | 285,529    | 234,444 | N/A     | 247,992   | 203,623  | 220,241  | N/A      |

- (1) We converted the amounts in this column from euros into U.S. dollars solely for your convenience at an exchange rate of \$1.2179 = 1.00, the noon buying rate for euros on June 30, 2004. Please note that these convenience translations are not Dutch GAAP or U.S. GAAP and, accordingly, these translated U.S. dollar amounts have not been audited. These translations should not be construed as a representation that the euro amounts represent, or have been or could be converted into, U.S. dollars at that or any other rate. These convenience translations have been made at a rate different from the rates used in the preparation of the Unaudited Pro Forma Combined Financial Information.

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- (2) EBITDA, which represents earnings before depreciation and amortization, income taxes and interest expense, net is a supplemental measure of performance that is not required by, or presented in accordance with, U.S. GAAP or accounting principles generally accepted in The Netherlands, or Dutch GAAP. We present EBITDA because it is a basis upon which our management assesses our operations, financial performance and liquidity and we consider it an important supplemental measure of our operations, performance and liquidity. Our management believes EBITDA is more reflective of our operations as it presents investors with information about our operations and, in doing so, provides transparency to investors and enhances period-to-period comparability of operations, financial performance and liquidity. EBITDA should not be considered as an alternative to (1) net income determined in accordance with U.S. GAAP or Dutch GAAP or (2) operating cash flows determined in accordance with U.S. GAAP or Dutch GAAP. Set forth below is a reconciliation of EBITDA, a non-GAAP financial measure, to net income, the most directly comparable financial measure calculated and reported in accordance with U.S. GAAP or Dutch GAAP. Our calculation of EBITDA may not be comparable to the calculation of similarly titled measures reported by other companies.

|                               | Six Months     |             |             | Year Ended   |        |        |        |
|-------------------------------|----------------|-------------|-------------|--------------|--------|--------|--------|
|                               | Ended June 30, |             |             | December 31, |        |        |        |
|                               | 2004(A)        | 2004        | 2003        | 2003(A)      | 2003   | 2002   | 2001   |
|                               | (unaudited)    | (unaudited) | (unaudited) | (unaudited)  |        |        |        |
|                               | (in thousands) |             |             |              |        |        |        |
| Net income                    | \$ 20,271      | 16,644      | 22,454      | \$ 43,508    | 35,724 | 34,832 | 13,701 |
| Add:                          |                |             |             |              |        |        |        |
| Depreciation and amortization | 16,621         | 13,647      | 14,758      | 35,907       | 29,483 | 32,254 | 33,419 |
| Interest expense, net         | 1,127          | 925         | 1,889       | 4,264        | 3,501  | 5,499  | 9,847  |
| Income taxes                  | 7,674          | 6,301       | 9,524       | 18,522       | 15,208 | 15,433 | 1,663  |
| EBITDA                        | \$ 45,693      | 37,517      | 48,625      | \$ 102,201   | 83,916 | 88,018 | 58,630 |

- (A) We converted the amounts in this column from euros into U.S. dollars solely for your convenience at an exchange rate of \$1.2179 = 1.00, the noon buying rate for euros on June 30, 2004. Please note that these convenience translations are not Dutch GAAP or U.S. GAAP and, accordingly, these translated U.S. dollar amounts have not been audited. These translations should not be construed as a representation that the euro amounts represent, or have been or could be converted into, U.S. dollars at that or any other rate. These convenience translations have been made at a rate different from the rates used in the preparation of the Unaudited Pro Forma Combined Financial Information.

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**RISK FACTORS**

*An investment in our common stock involves risks. You should consider carefully the following risks in addition to the other information contained in this prospectus supplement and the accompanying prospectus, including the documents incorporated by reference, before deciding to purchase any of our common stock.*

**Risks Related to Our Business**

*Our inability to pass through increases in costs and expenses for raw materials and energy, on a timely basis or at all, could have a material adverse effect on the margins of our products.*

In 2003, our raw material and energy costs increased approximately 8% and approximately 25%, respectively, compared to 2002. Raw material costs and energy costs have continued to increase in 2004. The increases are primarily driven by significantly tighter market conditions and major increases in pricing of basic building blocks for our products such as crude oil, chlorine and metals, including molybdenum, which is used in the refinery catalysts business. In 2003, management estimates that molybdenum represented approximately 10% of the cost of goods sold in the refinery catalysts business and from January 2004 until August 2004, the price of molybdenum increased from approximately \$8 to approximately \$18 per pound. We generally attempt to pass changes in the prices of raw materials and energy to our customers, but we may be unable to or be delayed in doing so. Our inability to pass through price increases or any limitation or delay in our passing through price increases could adversely affect our margins.

In addition to raising prices, raw material suppliers may extend lead times or limit supplies. For example, in the aftermath of Hurricane Ivan, certain chlorine producers took actions that limited supplies of chlorine. Constraints on the supply or delivery of critical raw materials could disrupt production and adversely affect the performance of our business.

*We face intense competition from other specialty chemical companies, which places downward pressure on the prices and margins of our products.*

We operate in a highly competitive marketplace, competing against a number of domestic and foreign specialty chemical producers. Competition is based on several key criteria, including product performance and quality, product price, product availability and security of supply, responsiveness of product development in cooperation with customers and customer service. Some of our competitors are larger than we are and have greater financial resources. These competitors may also be able to maintain significantly greater operating and financial flexibility than we do. As a result, these competitors may be better able to withstand changes in conditions within our industry, changes in the prices of raw materials and energy and in general economic conditions. Additionally, competitors' pricing decisions could compel us to decrease our prices, which could affect our margins and profitability adversely. Our ability to maintain or increase our profitability is, and will continue to be, dependent upon our ability to offset decreases in the prices and margins of our products by improving production efficiency and volume, shifting to higher margin chemical products and improving existing products through innovation and research and development. If we are unable to do so or to otherwise maintain our competitive position, we could lose market share to our competitors.

*Downturns in our customers' cyclical industries could adversely affect our sales and profitability.*

Downturns in the businesses that use our specialty chemicals will adversely affect our sales. Many of our customers are in industries, including the electronics, building and construction, and automotive industries, that are cyclical in nature and sensitive to changes in general economic conditions. Historically, downturns in general economic conditions have resulted in diminished product demand, excess manufacturing capacity and lower average selling prices, and we may experience similar problems in the future. A decline in economic conditions in our customers cyclical industries may have a material adverse effect on our sales and profitability.

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*Our results are subject to fluctuation because of irregularities in the demand for our HPC catalysts and certain of our agrichemicals.*

Our HPC catalysts are used by petroleum refiners in their processing units to reduce the quantity of sulfur and other impurities in petroleum products. The effectiveness of HPC catalysts diminishes with use, requiring the HPC catalysts to be replaced, on average, once every one to three years. The sales of our HPC catalysts, therefore, are largely dependent on the useful life cycle of the HPC catalysts in the processing units. Sales of our agrichemicals are also subject to fluctuation as demand varies depending on environmental conditions, such as droughts, which may prevent farming for extended periods.

*Changes in our customers' products can reduce the demand for our specialty chemicals.*

Our specialty chemicals are used for a broad range of applications by our customers. Changes in our customers' products or processes may enable our customers to reduce consumption of the specialty chemicals that we produce or make our specialty chemicals unnecessary. Customers may also find alternative materials or processes that no longer require our products. For example, many of our flame retardants are incorporated into resin systems to enhance the flame retardancy of a particular polymer. Should a customer decide to use a different polymer due to price, performance or other considerations, we may not be able to supply a product that meets the customer's new requirements. Consequently, it is important that we develop or acquire new products to replace the sales of products that mature and decline in use. Our business, results of operations, cash flows and margins could be materially adversely affected if we are unable to manage successfully the maturation of our existing products and the introduction of new products.

*Our research and development efforts may not succeed and our competitors may develop more effective or successful products.*

The specialty chemicals industry is subject to periodic technological change and ongoing product improvements. In order to maintain our margins and remain competitive, we must successfully develop, manufacture and market new or improved products. As a result, we must commit substantial resources each year to research and development. Ongoing investments in research and development for future products could result in higher costs without a proportional increase in revenues. Additionally, for any new product program, there is a risk of technical or market failure in which case we may not be able to develop the new commercial products needed to maintain our competitive position or we may need to commit additional resources to new product development programs. Moreover, new products may have lower margins than the products they replace.

We also expect competition to increase as our competitors develop and introduce new and enhanced products. For example, the Fine Chemicals segment is experiencing increased competition from large-scale producers of pharmaceuticals, particularly from Asian sources. In our Catalysts segment, our petroleum refinery customers are processing crude oil feedstocks of declining quality, while at the same time operating under increasingly stringent regulations requiring the gasoline, diesel and other fuels they produce to contain fewer impurities, including sulfur. As a result, our petroleum refining customers are demanding more effective and efficient catalyst products, and the average life cycle for new catalyst products has declined. As new products enter the market, our products may become obsolete or competitors' products may be marketed more effectively than our products. If we fail to develop new products, maintain or improve our margins with our new products or keep pace with technological developments, our business, financial condition, results of operations and cash flows will suffer.

*Our inability to protect our intellectual property rights could have a material adverse effect on our business, financial condition and results of operations.*

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Protection of our proprietary processes, methods and compounds and other technology is important to our business. We generally rely on patent, trade secret, trademark and copyright laws of the United States and certain other countries in which our products are produced or sold, as well as licenses and nondisclosure and confidentiality agreements, to protect our intellectual property rights. The patent, trade secret, trademark and

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copyright laws of some countries may not protect our intellectual property rights to the same extent as the laws of the United States. Failure to protect our intellectual property rights may result in the loss of valuable proprietary technologies. Additionally, some of our technologies are not covered by any patent or patent application and, even if a patent application has been filed, it may not result in an issued patent. If patents are issued to us, those patents may not provide meaningful protection against competitors or against competitive technologies. We cannot assure you that our intellectual property rights will not be challenged, invalidated, circumvented or rendered unenforceable.

We could face patent infringement claims from our competitors or others alleging that our processes or products infringe on their proprietary technologies. If we are found to be infringing on the proprietary technology of others, we may be liable for damages, and we may be required to change our processes, to redesign our products partially or completely, to pay to use the technology of others or to stop using certain technologies or producing the infringing product entirely. Even if we ultimately prevail in an infringement suit, the existence of the suit could prompt customers to switch to products that are not the subject of infringement suits. We may not prevail in any intellectual property litigation and such litigation may result in significant legal costs or otherwise impede our ability to produce and distribute key products.

We also rely upon unpatented proprietary manufacturing expertise, continuing technological innovation and other trade secrets to develop and maintain our competitive position. While we generally enter into confidentiality agreements with our employees and third parties to protect our intellectual property, we cannot assure you that our confidentiality agreements will not be breached, that they will provide meaningful protection for our trade secrets and proprietary manufacturing expertise or that adequate remedies will be available in the event of an unauthorized use or disclosure of our trade secrets or manufacturing expertise.

### ***Our substantial international operations subject us to risks of doing business in foreign countries, which could adversely affect our business, financial condition and results of operations.***

We conduct a substantial portion of our business outside of the United States. We and our joint ventures currently have 25 production facilities, research and development facilities, and administrative and sales offices located outside the United States, including facilities and offices located in Austria, Belgium, Brazil, France, Germany, Italy, Japan, Jordan, The Netherlands, the People's Republic of China, Saudi Arabia and the United Kingdom. In 2003, more than half of our pro forma net sales were to markets outside the United States. We expect sales from international markets to continue to represent a significant portion of our net sales and the net sales of our joint ventures. Accordingly, our business is subject to risks related to the differing legal, political, social and regulatory requirements and economic conditions of many jurisdictions. Risks inherent in international operations include the following:

agreements may be difficult to enforce and receivables difficult to collect;

foreign customers may have longer payment cycles;

foreign countries may impose additional withholding taxes or otherwise tax our foreign income, or adopt other restrictions on foreign trade or investment, including currency exchange controls;

foreign operations may experience staffing difficulties and labor disputes;

transportation and other shipping costs may increase;

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foreign governments may nationalize private enterprises;

unexpected adverse changes in export duties, quotas and tariffs and difficulties in obtaining export licenses;

intellectual property rights may be more difficult to enforce;

fluctuations in exchange rates may affect product demand and may adversely affect the profitability in U.S. dollars of products and services we provide in international markets where payment for our products and services is made in the local currency;

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general economic conditions in the countries in which we operate could have an adverse effect on our earnings from operations in those countries;

our business and profitability in a particular country could be affected by political or economic repercussions on a domestic, country specific or global level from terrorist activities and the response to such activities;

unexpected adverse changes in foreign laws or regulatory requirements may occur; and

compliance with a variety of foreign laws and regulations may be burdensome.

In addition, certain of our joint ventures operate in high-risk regions of the world such as the Middle East and South America. Unanticipated events, such as geopolitical changes, could result in a write-down of our investment in the effected joint venture. Our success as a global business will depend, in part, upon our ability to succeed in differing legal, regulatory, economic, social and political conditions by developing, implementing and maintaining policies and strategies that are effective in each location where we and our joint ventures do business.

***We are exposed to fluctuations in foreign exchange rates, which may adversely affect our operating results and net income.***

We conduct our business and incur costs in the local currency of most of the countries in which we operate. The financial condition and results of operations of each foreign operating subsidiary and joint venture are reported in the relevant local currency and then translated to U.S. dollars at the applicable currency exchange rate for inclusion in our consolidated financial statements. Changes in exchange rates between these foreign currencies and the U.S. dollar will affect the recorded levels of our assets and liabilities as foreign assets and liabilities that are translated into U.S. dollars for presentation in our financial statements as well as our net sales, cost of goods sold and operating margins and could result in exchange losses. The main foreign currencies for which we have exchange rate fluctuation exposure are the European Union euro, Japanese yen and British pound sterling. Exchange rates between these currencies and the U.S. dollar in recent years have fluctuated significantly and may do so in the future. Significant changes in these foreign currencies relative to the U.S. dollar could also have an adverse effect on our ability to meet interest and principal payments on any foreign currency-denominated debt outstanding. In addition to currency translation risks, we incur currency transaction risks whenever one of our operating subsidiaries or joint ventures enters into either a purchase or a sales transaction using a different currency from the currency in which it receives revenues. Our operating results and net income may be affected by any volatility in currency exchange rates and our ability to manage effectively our currency transaction and translation risks.

***We incur substantial costs in order to comply with extensive environmental, health and safety laws and regulations.***

In the jurisdictions in which we operate, we are subject to numerous federal, state and local environmental, health and safety laws and regulations, including those governing the discharge of pollutants into the air and water, the management and disposal of hazardous substances and wastes and the cleanup of contaminated properties. Ongoing compliance with such laws and regulations is an important consideration for us and we incur substantial capital and operating costs in our compliance efforts. Environmental laws have become increasingly strict in recent years. We expect this trend to continue and anticipate that compliance will continue to require increased capital expenditures and operating costs.

***Violations of environmental, health and safety laws and regulations may subject us to fines, penalties and other liabilities and may require us to change certain business practices.***

If we violate environmental, health and safety laws or regulations, in addition to being required to correct such violations, we can be held liable in administrative, civil or criminal proceedings for substantial fines and other sanctions could be imposed that could disrupt or limit our operations. Liabilities associated with the

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investigation and cleanup of hazardous substances, as well as personal injury, property damages or natural resource damages arising out of such hazardous substances, may be imposed in many situations without regard to violations of laws or regulations or other fault, and may also be imposed jointly and severally (so that a responsible party may be held liable for more than its share of the losses involved, or even the entire loss). Such liabilities may also be imposed on many different entities with a relationship to the hazardous substances at issue, including, for example, entities that formerly owned or operated the property affected and entities that arranged for the disposal of the hazardous substances at the affected property, as well as entities that currently own or operate such property. Such liabilities can be difficult to identify and the extent of any such liabilities can be difficult to predict. We use, and in the past have used, hazardous substances at many of our facilities, and we have in the past, and may in the future, be subject to claims relating to exposure to hazardous materials and the associated liabilities may be material. We also have generated, and continue to generate, hazardous wastes at a number of our facilities. Some of our facilities also have lengthy histories of manufacturing or other activities that have resulted in site contamination. We have also given contractual indemnities for environmental conditions relating to facilities we no longer own or operate. The nature of our business, including historical operations at our current and former facilities, exposes us to risks of liability under these laws and regulations due to the production, storage, use, transportation and sale of materials that can cause contamination or personal injury if released into the environment. Additional information may arise in the future concerning the nature or extent of our liability with respect to identified sites, and additional sites may be identified for which we are alleged to be liable, that could cause us to materially increase our environmental accrual or the upper range of the costs we believe we could reasonably incur for such matters.

***Contractual indemnities may be ineffective in protecting us from environmental liabilities.***

At several of our properties where hazardous substances are known to exist (including some sites where hazardous substances are being investigated or remediated), we believe we are entitled to contractual indemnification from one or more former owners or operators; however, in the event we make a claim, the indemnifier may disagree with us. We recently commenced an arbitration proceeding against Aventis S.A. concerning its obligations with respect to contamination at our Thann, France facility after Aventis refused to accept our demands for indemnification under the contract pursuant to which we acquired the facility. If those who currently or in the future disagree with us about the scope of their indemnity obligations prevail in their interpretation, our accrual and/or our costs for the investigation and cleanup of hazardous substances could increase materially.

***Concern about the impact of some of our products on human health or the environment may lead to regulation, or reaction in our markets independent of regulation, that could reduce or eliminate markets for such products.***

We manufacture a number of products that are or have been the subject of attention by regulatory authorities and environmental interest groups. For example, for many years we have produced methyl bromide, a chemical that is particularly effective as a soil fumigant. In recent years, the market for methyl bromide has changed significantly, driven by the Montreal Protocol of 1991 and related regulation prompted by findings regarding the chemical's potential to deplete the ozone layer. The current regulations contemplate completion of the phase-out of methyl bromide as a fumigant in 2005, although certain aspects of the phase-out have been delayed under implementing regulations that permit the use of methyl bromide on a year-to-year basis until a feasible alternative is available.

In addition, there has been increased scrutiny by regulatory authorities and environmental interest groups of polybrominated diphenylethers, or PBDEs, which are used as flame retardants, in light of concerns about their potential impacts on human health and the environment. We manufacture decabrom-PDE, a type of PBDE compound. In 2003, our net sales of decabrom-PDE were less than 5% of total net sales. Government regulation, if it occurs or studies evaluating the possibility of regulation, even if governmental regulation does not occur, may result in a decline in our net sales of decabrom-PDE.

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*We could be subject to damages based on claims brought against us by our customers or lose customers as a result of the failure of our products to meet certain quality specifications.*

Our products provide important performance attributes to our customers' products. If a product fails to perform in a manner consistent with quality specifications or has a shorter useful life than guaranteed, a customer could seek replacement of the product or damages for costs incurred as a result of the product failing to perform as guaranteed. These risks apply to our refinery catalysts in particular because, in certain instances, we sell our refinery catalysts under agreements that contain limited performance and life cycle guarantees. A successful claim or series of claims against us could have a material adverse effect on our financial condition and results of operations and could result in a loss of one or more customers.

*Our substantial indebtedness could adversely affect our financial health and limit our ability to react to changes in our industry or to implement our strategic initiatives.*

In connection with our recent acquisition of Akzo Nobel's refinery catalysts business, we entered into (1) a new senior credit agreement, consisting of a \$300 million revolving credit facility and a \$450 million five-year term loan facility, and (2) a \$450 million 364-day loan agreement. We used the initial borrowings under the senior credit agreement and the 364-day loan agreement to consummate the acquisition, refinance our then-existing credit agreement and pay fees and expenses in connection therewith. As of September 30, 2004, we had total indebtedness of \$953.2 million and we had also guaranteed \$38.9 million of indebtedness incurred by certain of our joint ventures.

Our substantial indebtedness could have important consequences to you. For example, it could:

require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, research and development efforts and other general corporate purposes;

limit our ability to secure additional financing to implement our strategic initiatives;

increase the amount of our interest expense because most of our borrowings are at variable rates of interest, which, if interest rates increase or our credit ratings decline, will result in higher interest expense;

increase our vulnerability to general adverse economic and industry conditions;

limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

place us at a disadvantage compared to our competitors that have proportionately less debt;

restrict us from making strategic acquisitions, introducing new technologies or otherwise exploiting business opportunities;

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make it more difficult for us to satisfy our obligations with respect to our existing indebtedness; and

limit, along with the financial and other restrictive covenants in our indebtedness, among other things, our ability to borrow additional funds, dispose of assets or pay cash dividends.

In addition, we may be able to incur substantial additional indebtedness in the future. The terms of the senior credit agreement, 364-day loan agreement and the indentures governing the debt securities described in the accompanying prospectus do not prohibit us from incurring substantial additional indebtedness. If new debt is added to our current debt levels, the related risks that we now face could intensify.

***We will need a significant amount of cash to service our indebtedness and our ability to generate cash depends on many factors beyond our control.***

Our ability to generate sufficient cash flow from operations to make scheduled payments on our debt depends on a range of economic, competitive and business factors, many of which are outside our control. Based

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on an average interest rate of 2.82% at September 30, 2004 and outstanding borrowings at that date of \$953.2 million, our annual interest expense would be \$26.9 million. Our business may not generate sufficient cash flow from operations to service our debt obligations, particularly if currently anticipated cost savings and operating improvements are not realized on schedule or at all. If we are unable to service our debt obligations, we may need to refinance all or a portion of our indebtedness on or before maturity, reduce or delay capital expenditures, sell assets or raise additional equity. We may not be able to refinance any of our indebtedness, sell assets or raise additional equity on commercially reasonable terms or at all, which could cause us to default on our obligations and impair our liquidity. Our inability to generate sufficient cash flow to satisfy our debt obligations, or to refinance our obligations on commercially reasonable terms, could have a material adverse effect on our business and financial condition.

### ***Restrictive covenants in our debt instruments may adversely affect our business.***

Our senior credit agreement and 364-day loan agreement contain restrictive covenants. These covenants will constrain our activities and limit our operational and financial flexibility. The failure to comply with the covenants in the senior credit agreement, the 364-day loan agreement and the agreements governing other indebtedness, including indebtedness incurred in the future, could result in an event of default, which, if not cured or waived, could have a material adverse effect on our business, financial condition and results of operations.

### ***A downgrading of the ratings on our debt or an increase in interest rates will cause our debt service obligations to increase.***

Borrowings under our senior credit agreement and 364-day loan agreement bear interest at floating rates. The rates are subject to adjustment based on the ratings of our senior unsecured long-term debt by Standard & Poor's Ratings Services, or S&P, and Moody's Investors Services, or Moody's. S&P has rated our senior unsecured long-term debt as BBB- and Moody's has rated our senior unsecured long-term debt as Baa3. S&P and/or Moody's may, in the future, downgrade our ratings. The downgrading of our ratings or an increase in benchmark interest rates would result in an increase of our interest expense on borrowings under our senior credit agreement and 364-day loan agreement. In addition, the downgrading of our ratings could adversely affect our future ability to obtain funding or materially increase the cost of any additional funding.

### ***Our business is subject to hazards common to chemical businesses, any of which could interrupt our production and adversely affect our results of operations.***

Our business is subject to hazards common to chemical manufacturing, storage, handling and transportation, including explosions, fires, inclement weather, natural disasters, mechanical failure, unscheduled downtime, transportation interruptions, remediation, chemical spills, discharges or releases of toxic or hazardous substances or gases and other risks. These hazards can cause personal injury and loss of life, severe damage to, or destruction of, property and equipment and environmental contamination. In addition, the occurrence of material operating problems at our facilities due to any of these hazards may diminish our ability to meet our output goals. Accordingly, these hazards, and their consequences could have a material adverse effect on our operations as a whole, including our results of operations and cash flows, both during and after the period of operational difficulties.

### ***The insurance that we maintain may not fully cover all potential exposures.***

We maintain property, business interruption and casualty insurance but such insurance may not cover all risks associated with the hazards of our business and is subject to limitations, including deductibles and maximum liabilities covered. We may incur losses beyond the limits, or outside

the coverage, of our insurance

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policies, including liabilities for environmental remediation. In addition, from time to time, various types of insurance for companies in the specialty chemical industry have not been available on commercially acceptable terms or, in some cases, have not been available at all. In the future, we may not be able to obtain coverage at current levels, and our premiums may increase significantly on coverage that we maintain.

*We may not be able to consummate future acquisitions or successfully integrate the refinery catalysts business of Akzo Nobel or future acquisitions into our business, which could result in unanticipated expenses and losses.*

As part of our business growth strategy, we have acquired businesses and entered into joint ventures in the past and intend to pursue acquisitions and joint venture opportunities in the future. Our ability to implement this component of our growth strategy will be limited by our ability to identify appropriate acquisition or joint venture candidates and our financial resources, including available cash and borrowing capacity. The expense incurred in consummating acquisitions or entering into joint ventures, the time it takes to integrate an acquisition or our failure to integrate businesses successfully, could result in unanticipated expenses and losses. Furthermore, we may not be able to realize any of the anticipated benefits from acquisitions or joint ventures.

As described under Business Acquisition of Refinery Catalysts Business, we acquired the refinery catalysts business of Akzo Nobel on July 31, 2004. This acquisition is the largest in our history and successful integration of this business is important to our future.

The process of integrating acquired operations into our existing operations may result in unforeseen operating difficulties and may require significant financial resources that would otherwise be available for the ongoing development or expansion of existing operations. Some of the risks associated with the integration of acquisitions include:

potential disruption of our ongoing business and distraction of management;

unforeseen claims and liabilities, including unexpected environmental exposures;

unforeseen adjustments, charges and write-offs;

problems enforcing the indemnification obligations of sellers of businesses or joint venture partners for claims and liabilities;

unexpected losses of customers of, or suppliers to, the acquired business;

difficulty in conforming the acquired business standards, processes, procedures and controls with our operations;

variability in financial information arising from the implementation of purchase price accounting;

inability to coordinate new product and process development;

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loss of senior managers and other critical personnel and problems with new labor unions; and

challenges arising from the increased scope, geographic diversity and complexity of our operations.

***The financial statements for the refinery catalysts business are derived from the accounting records of Akzo Nobel and may not be an accurate reflection of the financial condition or performance of the refinery catalysts business as a separate stand-alone company.***

The financial information for the refinery catalysts business that we acquired from Akzo Nobel included in this prospectus supplement is derived from Akzo Nobel's accounting records and is presented on a "carve-out" basis of the historical operations applicable to the refinery catalysts business as operated by Akzo Nobel. This financial information reflects the assets, liabilities, revenues and expenses that were directly related to the refinery catalyst business as it was operated by Akzo Nobel, including certain dormant assets that we did not acquire. Additionally, this financial information includes allocations for various expenses, including corporate

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administrative and indirect expenses, as well as certain assets and liabilities historically maintained by Akzo Nobel and not recorded in the accounts of the refinery catalysts business. This financial information does not necessarily reflect what the results of operations, financial position and cash flows would have been if the refinery catalysts business had been operated as a separate stand-alone company during the periods presented or what our results of operations, financial position or cash flows would have been had we operated this business during the periods presented or what they will be in the future.

*We are not required to assess the effectiveness of the internal accounting controls of the refinery catalysts business until 2005.*

Section 404 of the Sarbanes-Oxley Act of 2002 and the rules of the SEC promulgated thereunder require issuer annual reports to contain a report of management's assessment of the effectiveness of internal controls over financial reporting and an attestation of the issuer's independent auditor as to that management report. For our company, the first management internal controls report, as well as the first auditor attestation of that report, will be required to be included starting in our Annual Report Form 10-K for the fiscal year ended December 31, 2004. The SEC has clarified that the staff will not object if management's Section 404 report does not cover the internal controls of companies or businesses acquired during the fiscal year of the report where it is not possible for management to conduct a timely assessment following the consummation of the acquisition. Based on the staff's position, we intend to exclude the refinery catalysts business from our Section 404 certification for 2004. Therefore, we will not be required to determine the effectiveness of the internal accounting controls for the refinery catalysts business until we complete our assessment for 2005.

*We may be unable to achieve, or may be delayed in achieving, our cost-reduction goals.*

We have put in place workplace initiatives throughout our businesses in an effort to reduce operating expenses and increase organizational efficiency. To achieve these goals, we have reduced our workforce, and we are attempting to streamline and further automate processing, consolidate manufacturing processes and reduce general and administrative expenses. We expect to continue to implement programs intended to achieve cost savings and improve operational results. If we are unable to achieve, or if we meet any unexpected delays in achieving, these goals, our results of operations and cash flows may be adversely affected. Additionally, even if we achieve our operational goals, we may not receive the expected financial benefits of our initiatives, or the costs of implementing these cost-reduction measures, including any related reduction in workforce charges or write-down of assets, could exceed the benefits of these initiatives.

*We may incur significant charges in the event we close all or part of a manufacturing plant or facility.*

We periodically assess our manufacturing operations in order to manufacture and distribute our products in the most efficient manner. Based on our assessments, we may make capital improvements to modernize certain units, move manufacturing or distribution capabilities from one plant or facility to another plant or facility, discontinue manufacturing or distributing certain products or close all or part of a manufacturing plant or facility. We also have shared services agreements at several of our plants and if such agreements are terminated or revised, we would assess and potentially adjust our manufacturing operations. The closure of all or part of a manufacturing plant or facility could result in future charges which could be significant.

*If we are unable to retain key personnel or attract new skilled personnel, it could have an adverse effect on our business.*

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The unanticipated departure of any key member of our management team could have an adverse effect on our business. In addition, because of the specialized and technical nature of our business, our future performance is dependent on the continued service of, and on our ability to attract and retain, qualified management, scientific, technical, marketing and support personnel. Competition for such personnel is intense, and we may be unable to continue to attract or retain such personnel.

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*Some of our employees are unionized, represented by workers councils or are employed subject to local laws that are less favorable to employers than the laws of the United States.*

As of September 30, 2004, we had approximately 3,700 employees. Approximately 20% of our 2,100 U.S. employees are unionized. Two of our collective bargaining agreements expire in 2005 and one expires in 2007. In addition, a large number of our employees are employed in countries in which employment laws provide greater bargaining or other rights to employees than the laws of the United States. Such employment rights require us to work collaboratively with the legal representatives of the employees to effect any changes to labor arrangements. For example, most of our employees in Europe are represented by workers councils that must approve any changes in conditions of employment, including salaries and benefits and staff changes, and may impede efforts to restructure our workforce. Although we believe that we have a good working relationship with our employees, a strike, work stoppage or slowdown by our employees or significant dispute with our employees could result in a significant disruption of our operations or higher ongoing labor costs.

*Our joint ventures may not operate according to their business plans if our partners fail to fulfill their obligations, which may adversely affect our results of operations and may force us to dedicate additional resources to these joint ventures.*

We currently participate in a number of joint ventures and may enter into additional joint ventures in the future. The nature of a joint venture requires us to share control with unaffiliated third parties. If our joint venture partners do not fulfill their obligations, the effected joint venture may not be able to operate according to its business plan. In that case, our results of operations may be adversely affected and we may be required to increase the level of our commitment to the joint venture. Also, differences in views among joint venture participants may result in delayed decisions or failures to agree on major issues. If these differences cause the joint ventures to deviate from their business plans, our results of operations could be adversely affected.

*Although our pension plans are currently adequately funded, events could occur that would require us to make significant contributions to the plans and reduce the cash available for our business.*

We have several defined benefit pension plans around the world, including in the United States, The Netherlands, Germany, Japan and Belgium, covering most of our employees. The U.S. plans represent approximately 80% of the total liabilities of the plans worldwide. We are required to make cash contributions to our pension plans to the extent necessary to comply with minimum funding requirements imposed by the various countries' benefit and tax laws. The amount of any such required contributions will be determined annually based on an actuarial valuation of the plans as performed by the plans' actuaries.

During 2003, we contributed \$11.3 million in cash to our U.S. defined benefit pension plans, of which \$10.0 million was voluntary. With this contribution, our U.S. defined benefit pension plans in aggregate were approximately 128% funded on a U.S. Internal Revenue Service funding basis as of December 31, 2003 and, as a result, there are no minimum required cash contributions to the U.S. pension plans in 2004. However, the actual amount of contributions made subsequent to 2003 will depend upon asset returns, then-current interest rates, and a number of other factors. The amount we may elect or be required to contribute to our pension plans in the future may increase significantly. Specifically, if year-end accumulated obligations exceed assets, we may elect to make a voluntary contribution, over and above the minimum required, in order to avoid additional minimum liability charges to our balance sheet and consequent reductions to shareholders' equity. These contributions could be substantial and would reduce the cash available for our business.

*The occurrence or threat of extraordinary events, including domestic and international terrorist attacks, may disrupt our operations and decrease demand for our products.*

Chemical-related assets may be at greater risk of future terrorist attacks than other possible targets in the United States and throughout the world. Federal legislation is under consideration that could impose significant new site security requirements specifically on chemical manufacturing facilities which may increase our over-head expenses. New federal regulations have already been adopted to increase the security of the transportation of hazardous chemicals in the United States.

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The occurrence of extraordinary events, including future terrorist attacks and the outbreak or escalation of hostilities, cannot be predicted, and their occurrence can be expected to continue to affect negatively the economy in general, and specifically the markets for our products. The resulting damage from a direct attack on our assets or assets used by us could include loss of life and property damage. In addition, available insurance coverage may not be sufficient to cover all of the damage incurred or, if available, may be prohibitively expensive.

### **Risks Related to Our Common Stock**

***Because a significant portion of our operations is conducted through our subsidiaries and joint ventures, our ability to service our debt and pay dividends to holders of our common stock is largely dependent on our receipt of distributions or other payments from our subsidiaries and joint ventures.***

A significant portion of our operations is conducted through our subsidiaries and joint ventures. As a result, our ability to service our debt and pay dividends to holders of our common stock is largely dependent on the earnings of our subsidiaries and joint ventures and the payment of those earnings to us in the form of dividends, loans or advances and through repayment of loans or advances from us. Payments to us by our subsidiaries and joint ventures will be contingent upon our subsidiaries' or joint ventures' earnings and other business considerations and may be subject to statutory or contractual restrictions. In addition, there may be significant tax and other legal restrictions on the ability of non-U.S. subsidiaries or joint ventures to remit money to us.

***The interests of our principal shareholders may conflict with your interests, and they could act in a manner detrimental to you.***

As of September 30, 2004, Floyd D. Gottwald, Jr., the Vice Chairman of our board of directors and Chairman of the Executive Committee of our board of directors, and his sons, William M. Gottwald, the Chairman of our board of directors, John D. Gottwald, a member of our board of directors, and James T. Gottwald, beneficially owned approximately 9.1 million shares, or 21.9%, of the outstanding shares of our common stock. John D. Gottwald and certain entities controlled by the Gottwalds are selling million shares of our common stock in this offering and may sell up to an aggregate of million shares of our common stock in one or more additional offerings under applicable prospectus supplements. Assuming that all of these shares are sold, the Gottwalds will continue to own approximately 7.5 million shares beneficially, or % of the outstanding shares of our common stock. By virtue of their stock ownership, the Gottwalds have the power to influence the outcome of matters submitted to shareholders for approval, including the election of directors, the approval of mergers and other business combination transactions and the amendment of our amended and restated articles of incorporation or amended bylaws. The interests of the Gottwalds may not coincide with the interests of our other securityholders, and they could take actions that advance their own interests to the detriment of our other securityholders.

***The price of our common stock may fluctuate significantly, and you could lose all or part of your investment.***

Volatility in the market price of our common stock may prevent you from being able to sell your shares at or above the price you paid for your shares. The market price of our common stock could fluctuate significantly for various reasons, which include the following:

our quarterly or annual earnings or those of other companies in our industry;

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changes to our dividend policy or restrictions on our ability to declare and pay dividends;

the public's reaction to our press releases, our other public announcements and our filings with the SEC;

changes in earnings estimates or recommendations by research analysts who track our common stock, the stock of other specialty chemical companies or the stock of companies in our primary end-markets;

changes in U.S. and global economic conditions, financial markets or specialty chemical industry;

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primary sales of common stock by us or secondary sales of our common stock by our principal shareholders and our directors and executive officers; and

the other factors described in **Risk Factors** in this prospectus supplement.

***We may be restricted from paying cash dividends on our common stock in the future.***

We currently declare and pay quarterly cash dividends on our common stock. The declaration and payment of dividends is subject to the discretion of our board of directors and depends upon various factors, including our financial condition, earnings, cash requirements, legal requirements and other factors deemed relevant by our board of directors. Furthermore, we will be permitted under the terms of our senior credit agreement, 364-day loan agreement and the indentures governing the debt securities described in the accompanying prospectus to incur additional indebtedness that may restrict or prohibit the payment of dividends. We cannot assure you that the agreements governing our future indebtedness will permit us to pay dividends on our common stock.

***Future sales of our common stock in the public market could lower our stock price.***

We and members of the Gottwald family, including the selling shareholders named in this prospectus supplement, may sell additional shares of common stock in subsequent public offerings. We may also issue additional shares of common stock to finance future acquisitions. Any of the shares offered by this and other prospectus supplements generally will be freely tradeable without further restriction or further registration under the federal securities laws, unless purchased by an affiliate as that term is defined in Rule 144 under the Securities Act of 1933. We cannot predict the size of future issuances of our common stock, if any, or the effect that future issuances and sales of shares of our common stock will have on the market price for our common stock. Sales of substantial amounts of our common stock by us, including shares issued in connection with an acquisition, or by members of the Gottwald family, or the perception that such sales could occur, may adversely affect prevailing market prices for our common stock.

***Certain provisions of Virginia law and our amended and restated articles of incorporation and amended bylaws could make it more difficult for our shareholders to remove our board of directors and management.***

Certain provisions of Virginia law, the state in which we are incorporated, and our amended and restated articles of incorporation and amended bylaws could make it more difficult for our shareholders to remove our board of directors or management. These provisions include:

a provision allowing our board of directors to issue preferred stock with rights senior to those of the common stock without any vote or action by the holders of our common stock. The issuance of preferred stock could adversely affect the rights and powers, including voting rights, of the holders of common stock;

a provision allowing the removal of directors only for cause;

the requirement that shareholders provide advance notice when nominating our directors or submitting other shareholder proposals; and

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the inability of shareholders to convene a special shareholders meeting without the chairman of the board, the chief executive officer or a majority of the board of directors first calling the meeting.

These and other provisions may also have the effect of discouraging a change of control transaction.

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**USE OF PROCEEDS**

The net proceeds to Albemarle from the sale of \_\_\_\_\_ shares of our common stock in this offering are estimated to be approximately \$ \_\_\_\_\_ million (approximately \$ \_\_\_\_\_ million if the underwriters' over-allotment option is exercised in full) after deducting the underwriting discount and estimated offering expenses. We will not receive any of the proceeds from the sale of shares of our common stock by the selling shareholders.

We expect to use all of the net proceeds that we receive to retire a corresponding portion of the indebtedness that we incurred under our 364-day loan agreement to finance our acquisition of Akzo Nobel's refinery catalysts business. As of September 30, 2004, we had \$450 million of indebtedness outstanding under our 364-day loan agreement. Our borrowings under the 364-day loan agreement bear interest at floating rates based on an average London interbank offered rate, or LIBOR, for deposits in the relevant currency plus 1.0% and mature on July 28, 2005. As of September 30, 2004, borrowings under the 364-day loan agreement were accruing interest at the rate of 2.69% per annum.

Affiliates of Bear, Stearns & Co. Inc., UBS Securities LLC and Banc of America Securities LLC are lenders under our 364-day loan agreement. It is expected that these affiliates will receive a portion of the proceeds from the offering used to repay a portion of the borrowings outstanding under our 364-day loan agreement.

**Table of Contents****PRICE RANGE OF COMMON STOCK AND DIVIDENDS**

Our common stock trades on the New York Stock Exchange, or the NYSE, under the symbol ALB. The following table sets forth on a per share basis the high and low sales prices for our common stock for the periods indicated as reported on the NYSE composite transactions reporting system and the dividends paid per share on our common stock.

|   | <b>Common Stock Price Range</b> |            | <b>Dividends Paid Per<br/>Share of Common Stock</b> |
|---|---------------------------------|------------|---|
|   | <b>High</b>                     | <b>Low</b> |   |
| <b>2002</b>                               |                                 |            |   |
| First Quarter                             | \$ 27.73                        | \$ 21.90   | \$ 0.13   |
| Second Quarter                            | 33.00                           | 26.67      | 0.13  |
| Third Quarter                             | 31.95                           | 24.80      | 0.14  |
| Fourth Quarter                            | 31.36                           | 23.60      | 0.14  |
| <b>2003</b>                               |                                 |            |   |
| First Quarter                             | \$ 29.88                        | \$ 22.10   | \$ 0.14   |
| Second Quarter                            | 28.62                           | 23.72      | 0.14  |
| Third Quarter                             | 29.22                           | 25.99      | 0.14  |
| Fourth Quarter                            | 30.70                           | 25.63      | 0.145   |
| <b>2004</b>                               |                                 |            |   |
| First Quarter                             | \$ 30.75                        | \$ 27.20   | \$ 0.145  |
| Second Quarter                            | 31.85                           | 26.97      | 0.145   |
| Third Quarter                             | 35.39                           | 29.50      | 0.145   |
| Fourth Quarter (through October 12, 2004) | 35.99                           | 34.03      |   |

On October 12, 2004, the last reported sale price of our common stock on the NYSE was \$34.40 per share. As of September 30, 2004, there were approximately 4,890 holders of record of our common stock.

**DIVIDEND POLICY**

We have declared and paid cash dividends on our common stock without interruption since 1994. The declaration and payment of dividends is subject to the discretion of our board of directors. Future dividends will depend on various factors, including our financial condition, earnings, cash requirements, legal requirements and other factors deemed relevant by our board of directors.

**Table of Contents****CAPITALIZATION**

The table below shows our cash and cash equivalents and capitalization as of June 30, 2004:

on an actual basis;

on a pro forma basis to give effect to our acquisition of Akzo Nobel's refinery catalysts business, the application of the borrowings incurred under our new senior credit agreement and 364-day loan agreement in connection with the acquisition, the concurrent refinancing of borrowings under our then-existing credit agreement and the payment of related fees and expenses; and

on a pro forma as adjusted basis also to give effect to the sale of the \_\_\_\_\_ shares of our common stock offered by this prospectus supplement at a public offering price of \$ \_\_\_\_\_ per share, assuming no exercise of the underwriters' over-allotment option, and the application of the proceeds as described in Use of Proceeds.

You should read the information in this table together with Unaudited Pro Forma Combined Financial Information, Selected Historical Consolidated Financial Information of Albemarle, Management's Discussions and Analysis of Financial Condition and Results of Operations of Albemarle and our historical consolidated financial statements and the related notes included elsewhere in this prospectus supplement.

|   | As of June 30, 2004 |                              |  |
|---|---------------------|------------------------------|--|
|   | Actual              | Pro Forma<br>for Acquisition | Pro Forma<br>as Adjusted<br>for Offering |
|   | (in thousands)      |                              |  |
| <b>Cash and cash equivalents</b>                    | \$ 38,653           | \$ 73,071                    | \$ _____                                 |
| <b>Short-term debt</b>                              |                     |                              |  |
| 364-day loan (1)                                    | \$ _____            | \$ 450,000                   | \$ _____                                 |
| Current maturities of long-term debt                | 44                  | 45,044                       | _____                                    |
| Total short-term debt                               | 44                  | 495,044                      | _____                                    |
| <b>Long-term debt</b>                               |                     |                              |  |
| Senior Credit Agreement Revolving loan facility (1) |                     | 69,062                       |  |
| Senior Credit Agreement Term loan (1)               |                     | 405,000                      |  |
| Variable rate bank loans                            | 160,000             |                              |  |
| Industrial revenue bonds                            | 11,000              | 11,000                       |  |
| Foreign borrowings                                  | 4,618               | 4,618                        |  |
| Other debt  | 868                 | 868                          |  |
| Total long-term debt                                | 176,486             | 490,548                      | _____                                    |
| Total debt  | 176,530             | 985,592                      | _____                                    |
| <b>Shareholders' equity:</b>                        |                     |                              |  |
|   | 416                 | 416                          |  |

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Common stock, \$.01 par value (authorized 150,000,000), 41,553,392 and issued and outstanding

|  |            |              |       |
|--|------------|--------------|-------|
| Additional paid-in capital             | 6,906      | 6,906        |       |
| Accumulated other comprehensive income | 19,912     | 19,912       |       |
| Retained earnings                      | 627,742    | 614,400      |       |
|  | <hr/>      | <hr/>        | <hr/> |
| Total shareholders equity              | 654,976    | 641,634      |       |
|  | <hr/>      | <hr/>        | <hr/> |
| Total capitalization                   | \$ 831,506 | \$ 1,627,226 | \$    |
|  | <hr/>      | <hr/>        | <hr/> |

- (1) On July 29, 2004, in connection with our recent acquisition of Akzo Nobel's refinery catalysts business, we entered into (a) a new senior credit agreement, consisting of a \$300 million revolving credit facility and a \$450 million five-year term loan facility, and (b) a \$450 million 364-day loan agreement. We used the initial borrowings under the senior credit agreement and the 364-day loan agreement to consummate the acquisition, refinance our then-existing credit agreement and to pay related fees and expenses incurred in connection therewith.

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**UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION**

The following unaudited pro forma combined financial statements are based on our historical consolidated financial statements and the historical combined financial statements of Akzo Nobel's refinery catalysts business, which we acquired on July 31, 2004, as of and for the year ended December 31, 2003 and the six months ended June 30, 2004 and 2003 included elsewhere in this prospectus supplement. The unaudited pro forma combined financial statements should be read in conjunction with our audited consolidated financial statements and related notes for the year ended December 31, 2003, our unaudited condensed consolidated financial statements and related notes for the six months ended June 30, 2004 and 2003, the audited combined financial statements and related notes of the refinery catalysts business for the year ended December 31, 2003 and the unaudited condensed combined financial statements and related notes of the refinery catalysts business for the six months ended June 30, 2004 and 2003, each included elsewhere in this prospectus supplement.

The unaudited pro forma combined financial statements give effect to (1) the acquisition of the refinery catalysts business, (2) the financing of the purchase price through borrowings of approximately \$510 million under our senior credit agreement and of \$450 million under our 364-day loan agreement, including amounts borrowed to refinance approximately \$233 million outstanding under our then-existing credit agreement and to pay related fees and expenses and (3) the completion of this offering and the application of the net proceeds therefrom as described in Use of Proceeds.

The unaudited pro forma combined financial statements give effect to the above transactions as if they had occurred on January 1, 2003, in the case of the unaudited pro forma combined statements of income, and at June 30, 2004, in the case of the unaudited pro forma combined balance sheet. The acquisition of the refinery catalysts business has been accounted for as a purchase in conformity with Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations. The total cost of the acquisition has been allocated to the preliminary estimates of assets acquired and liabilities assumed based on their respective estimated fair values as of July 31, 2004. The excess of the purchase price over the preliminary fair values of the net assets acquired has been allocated to goodwill. The preliminary allocation of the purchase price is subject to adjustment until it is finalized, which is expected to occur no later than the second quarter of 2005. Accordingly, the final purchase price allocation and the resulting effect on income from operations may differ from the pro forma amounts included in this prospectus supplement. The unaudited pro forma combined financial statements do not give effect to any working capital purchase price adjustment provided for in the sale agreement, the amount of which has not yet been finalized. The unaudited pro forma combined financial statements presented below do not reflect any anticipated operating efficiencies or cost savings from the integration of the refinery catalysts business into our business. The unaudited pro forma combined statements of income do not include the cumulative effect of the change in accounting resulting from our adoption of SFAS No. 143, Accounting for Asset Retirement Obligation in 2003.

The unaudited pro forma combined financial statements reflect pro forma adjustments that are described in the accompanying notes and are based on available information and certain assumptions our management believes are reasonable, but are subject to change. We have made, in the opinion of our management, all adjustments that are necessary to present fairly the unaudited pro forma combined financial information. The unaudited pro forma combined financial statements do not purport to represent what our results of operations or financial position actually would have been had the acquisition and related transactions occurred on the dates indicated or to project our financial position as of any future date or our results of operations for any future period.

**Table of Contents****ALBEMARLE CORPORATION****UNAUDITED PRO FORMA COMBINED BALANCE SHEET**

As of June 30, 2004

(in thousands)

|   | Albemarle<br>Corporation (1) | Refinery<br>Catalysts<br>U.S. GAAP(2) | Pro Forma<br>Acquisition<br>Adjustments(3) |   | Albemarle<br>Pro Forma for<br>Acquisition(4) | Pro Forma<br>Offering<br>Adjustments | Albemarle<br>Pro<br>Forma<br>for Acquisition<br>and Offering |
|---|------------------------------|---------------------------------------|--|---|--|--------------------------------------|--|
| <b>ASSETS</b>                                     |                              |                                       |  |   |  |                                      |  |
| Cash and cash equivalents                         | \$ 38,653                    | \$ 1,046                              | \$ 33,372                                  | A | \$ 73,071                                    | \$                                   | \$   |
| Accounts receivable, net                          | 238,668                      | 89,956                                |  |   | 328,624                                      |                                      |  |
| Inventories                                       | 191,814                      | 85,955                                | 18,354                                     | B | 296,123                                      |                                      |  |
| Other current assets                              | 13,523                       | 8,710                                 | 8,027                                      | C | 30,260                                       |                                      |  |
| <b>Total current assets</b>                       | <b>482,658</b>               | <b>185,667</b>                        | <b>59,753</b>                              |   | <b>728,078</b>                               |                                      |  |
| Net property, plant and equipment                 | 509,867                      | 158,744                               | 221,257                                    | D | 889,868                                      |                                      |  |
| Other assets and deferred charges                 | 267,920                      | 35,717                                | 131,844                                    | E | 435,481                                      |                                      |  |
| Goodwill, net                                     | 36,488                       | 1,871                                 | 102,015                                    | F | 140,374                                      |                                      |  |
| Other intangible assets, net                      | 84,148                       | 3,886                                 | 136,741                                    | G | 224,775                                      |                                      |  |
| <b>Total assets</b>                               | <b>\$ 1,381,081</b>          | <b>\$ 385,885</b>                     | <b>\$ 651,610</b>                          |   | <b>\$ 2,418,576</b>                          | <b>\$</b>                            | <b>\$</b>  |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>        |                              |                                       |  |   |  |                                      |  |
| Short-term debt                                   | \$                           |                                       | \$ 450,000                                 | H | \$ 450,000                                   | \$                                   | \$   |
| Current maturities of long-term debt              | 44                           |                                       | 45,000                                     | I | 45,044                                       |                                      |  |
| Other current liabilities                         | 237,206                      | 72,172                                | (615)                                      | J | 308,763                                      |                                      |  |
| <b>Total current liabilities</b>                  | <b>\$ 237,250</b>            | <b>\$ 72,172</b>                      | <b>\$ 494,385</b>                          |   | <b>\$ 803,807</b>                            | <b>\$</b>                            | <b>\$</b>  |
| Long-term debt                                    | 176,486                      |                                       | 314,062                                    | K | 490,548                                      |                                      |  |
| Other non-current liabilities                     | 178,039                      | 6,882                                 | 64,508                                     | L | 249,429                                      |                                      |  |
| Deferred income taxes                             | 134,330                      | 23,153                                | 75,675                                     | M | 233,158                                      |                                      |  |
| Shareholders' equity:                             |                              |                                       |  |   |  |                                      |  |
| Common stock                                      | 416                          |                                       |  |   | 416  |                                      |  |
| Additional paid-in capital                        | 6,906                        |                                       |  |   | 6,906  |                                      |  |
| Accumulated other comprehensive income            | 19,912                       |                                       |  |   | 19,912                                       |                                      |  |
| Retained earnings                                 | 627,742                      |                                       | (13,342)                                   | N | 614,400                                      |                                      |  |
| Akzo Nobel divisional equity                      |                              | 283,678                               | (283,678)                                  | O |  |                                      |  |
| <b>Total shareholders' equity</b>                 | <b>654,976</b>               | <b>283,678</b>                        | <b>(297,020)</b>                           |   | <b>641,634</b>                               |                                      |  |
| <b>Total liabilities and shareholders' equity</b> | <b>\$ 1,381,081</b>          | <b>\$ 385,885</b>                     | <b>\$ 651,610</b>                          |   | <b>\$ 2,418,576</b>                          | <b>\$</b>                            | <b>\$</b>  |



**Table of Contents****ALBEMARLE CORPORATION****NOTES TO UNAUDITED PRO FORMA COMBINED BALANCE SHEET****As of June 30, 2004****(in thousands)**

- (1) This column represents the unaudited historical consolidated balance sheet of Albemarle Corporation as of June 30, 2004.
- (2) This column represents the unaudited June 30, 2004 historical balance sheet of the refinery catalysts business reflected on a U.S. GAAP basis and translated to U.S. dollars for pro forma purposes using the June 30, 2004 U.S. dollars to euros exchange rate of \$1.2179 to 1.00 used by management of the refinery catalysts business for the purpose of converting U.S. dollar amounts to euros in connection with the preparation of the euro-denominated financial statements of the refinery catalysts business. Such translation should not be construed as a representation that the euro amounts represent, or have been or could be converted into, U.S. dollars at that or any other rate.
- (3) The amounts in this column represent the adjustments necessary to give pro forma effect to the acquisition of the refinery catalysts business as if the acquisition had taken place on June 30, 2004. For this purpose, the historical refinery catalysts business June 30, 2004 balance sheet amounts have been removed in their entirety and replaced with preliminary allocations of the purchase price, which is expected to be finalized within one year of the acquisition date and may differ from the amounts presented in these pro forma financial statements. These adjustments are described below:

| <u>Note</u> | <u>Amount</u> | <u>Description</u>  |
|-------------|---------------|---|
| A           | \$ 33,372     | To record acquired cash as part of the refinery catalysts business acquisition  |
| B           | \$ 18,354     | Relates to preliminary inventory step-up purchase accounting adjustment associated with finished goods and work in process inventories of the refinery catalysts business acquired in the acquisition               |
| C           | \$ (8,710)    | To reverse historical other current assets of the refinery catalysts business   |
|             | 5,000         | To record preliminary asset value for prepaid transition services agreement for general and administrative services to be provided by Akzo Nobel for a period of 12 months after the July 31, 2004 acquisition date |
|             | 2,057         | To record note receivable from 50% owned investment in associated company at estimated fair value   |
|             | 9,680         | To record estimated receivable from Akzo Nobel in connection with transition pension benefits pursuant to terms provided in the sale agreement  |
|             | \$ 8,027      |   |
| D           | \$ (158,744)  | Reversal of recorded values of historical property, plant and equipment of the refinery catalysts business at June 30, 2004   |
|             | 380,001       | To reflect estimated fair values of property, plant and equipment of the refinery catalysts business at June 30, 2004   |
|             | \$ 221,257    |   |

|   |                   |  |
|---|-------------------|--|
| E |                   | Reversal of recorded values of historical other assets and deferred charges of the refinery catalysts business at June 30, 2004  |
|   | \$ (35,717)       |  |
|   | 98,306            | To reflect estimated fair values of refinery catalysts business investments in associated companies as of June 30, 2004  |
|   | 62,194            | To reflect estimated fair value of acquired pension assets from Akzo Nobel to be transferred to Albemarle's pension plan in The Netherlands pursuant to the sale agreement   |
|   | 7,636             | To record estimated deferred financing costs associated with Albemarle's new credit facilities entered into in connection with the refinery catalysts business acquisition   |
|   | (575)             | To record pro forma adjustment for write-off of deferred loan costs associated with Albemarle legacy credit facilities in connection with refinancing activities transacted resulting from the refinery catalysts business acquisition |
|   | <u>\$ 131,844</u> |  |

**Table of Contents****ALBEMARLE CORPORATION****NOTES TO UNAUDITED PRO FORMA COMBINED BALANCE SHEET (Continued)****As of June 30, 2004****(in thousands)**

| <u>Note</u>                     | <u>Amount</u>     | <u>Description</u>   |  |                  |                  |                    |                   |                     |         |           |           |                        |       |         |                                 |        |          |            |        |          |  |                   |  |
|---------------------------------|-------------------|--|--|------------------|------------------|--------------------|-------------------|---------------------|---------|-----------|-----------|------------------------|-------|---------|---------------------------------|--------|----------|------------|--------|----------|--|-------------------|--|
| F                               | \$ (1,871)        | To reverse recorded value of historical goodwill of the refinery catalysts business at June 30, 2004   |  |                  |                  |                    |                   |                     |         |           |           |                        |       |         |                                 |        |          |            |        |          |  |                   |  |
|                                 | 103,886           | To record estimated goodwill associated with net deferred income tax liabilities recorded in connection with the refinery catalysts business acquisition book and tax basis differences  |  |                  |                  |                    |                   |                     |         |           |           |                        |       |         |                                 |        |          |            |        |          |  |                   |  |
|                                 | <u>\$ 102,015</u> |  |  |                  |                  |                    |                   |                     |         |           |           |                        |       |         |                                 |        |          |            |        |          |  |                   |  |
| G                               | \$ (3,886)        | Reversal of recorded values of historical other intangibles of the refinery catalysts business at June 30, 2004  |  |                  |                  |                    |                   |                     |         |           |           |                        |       |         |                                 |        |          |            |        |          |  |                   |  |
|                                 | 140,627           | To reflect estimated fair values of Albemarle's acquired identifiable intangible assets in connection with the sale agreement, detailed as follows:  |  |                  |                  |                    |                   |                     |         |           |           |                        |       |         |                                 |        |          |            |        |          |  |                   |  |
|                                 |                   | <table border="1"> <thead> <tr> <th></th> <th style="text-align: center;"><u>Estimated</u></th> <th style="text-align: center;"><u>Estimated</u></th> </tr> <tr> <th style="text-align: center;"><u>Description</u></th> <th style="text-align: center;"><u>Fair Value</u></th> <th style="text-align: center;"><u>Useful Lives</u></th> </tr> </thead> <tbody> <tr> <td>patents</td> <td style="text-align: right;">\$ 41,137</td> <td style="text-align: center;">8.5 years</td> </tr> <tr> <td>non-compete agreements</td> <td style="text-align: right;">6,645</td> <td style="text-align: center;">7 years</td> </tr> <tr> <td>customer list and relationships</td> <td style="text-align: right;">23,832</td> <td style="text-align: center;">20 years</td> </tr> <tr> <td>trade name</td> <td style="text-align: right;">69,013</td> <td style="text-align: center;">30 years</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>\$ 140,627</u></td> <td></td> </tr> </tbody> </table> |  | <u>Estimated</u> | <u>Estimated</u> | <u>Description</u> | <u>Fair Value</u> | <u>Useful Lives</u> | patents | \$ 41,137 | 8.5 years | non-compete agreements | 6,645 | 7 years | customer list and relationships | 23,832 | 20 years | trade name | 69,013 | 30 years |  | <u>\$ 140,627</u> |  |
|                                 | <u>Estimated</u>  | <u>Estimated</u>   |  |                  |                  |                    |                   |                     |         |           |           |                        |       |         |                                 |        |          |            |        |          |  |                   |  |
| <u>Description</u>              | <u>Fair Value</u> | <u>Useful Lives</u>  |  |                  |                  |                    |                   |                     |         |           |           |                        |       |         |                                 |        |          |            |        |          |  |                   |  |
| patents                         | \$ 41,137         | 8.5 years  |  |                  |                  |                    |                   |                     |         |           |           |                        |       |         |                                 |        |          |            |        |          |  |                   |  |
| non-compete agreements          | 6,645             | 7 years  |  |                  |                  |                    |                   |                     |         |           |           |                        |       |         |                                 |        |          |            |        |          |  |                   |  |
| customer list and relationships | 23,832            | 20 years   |  |                  |                  |                    |                   |                     |         |           |           |                        |       |         |                                 |        |          |            |        |          |  |                   |  |
| trade name                      | 69,013            | 30 years   |  |                  |                  |                    |                   |                     |         |           |           |                        |       |         |                                 |        |          |            |        |          |  |                   |  |
|                                 | <u>\$ 140,627</u> |  |  |                  |                  |                    |                   |                     |         |           |           |                        |       |         |                                 |        |          |            |        |          |  |                   |  |
|                                 | <u>\$ 136,741</u> |  |  |                  |                  |                    |                   |                     |         |           |           |                        |       |         |                                 |        |          |            |        |          |  |                   |  |
| H                               | \$ 450,000        | To reflect pro forma short-term bridge financing debt balance entered into by Albemarle as part of the refinery catalysts business acquisition   |  |                  |                  |                    |                   |                     |         |           |           |                        |       |         |                                 |        |          |            |        |          |  |                   |  |
| I                               | \$ 45,000         | To reflect current maturities of long-term debt consisting of \$45,000 of fixed term borrowings associated with the acquisition of the refinery catalysts business   |  |                  |                  |                    |                   |                     |         |           |           |                        |       |         |                                 |        |          |            |        |          |  |                   |  |
| J                               | \$ (72,172)       | To reverse recorded values of June 30, 2004 historical current liabilities of the refinery catalysts business  |  |                  |                  |                    |                   |                     |         |           |           |                        |       |         |                                 |        |          |            |        |          |  |                   |  |
|                                 | 56,732            | To record estimated fair values of current liabilities to be assumed by Albemarle as part of acquisition of the refinery catalysts business  |  |                  |                  |                    |                   |                     |         |           |           |                        |       |         |                                 |        |          |            |        |          |  |                   |  |
|                                 | 5,058             | To record short-term deferred income tax liabilities relating to book/tax basis differences arising from purchase accounting for the refinery catalysts business acquisition (recorded to goodwill)  |  |                  |                  |                    |                   |                     |         |           |           |                        |       |         |                                 |        |          |            |        |          |  |                   |  |

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|                   |   |
|-------------------|---|
| 15,712            | To record Albemarle's liability in connection with euro hedge contract losses associated with hedge contracts entered into by Albemarle related to the acquisition of the refinery catalysts business                   |
| (5,945)           | To record decreases in current income taxes payable for pro forma tax benefits associated with the \$15,712 euro hedge contract loss mentioned above and \$575 deferred loan cost write-off referred to in Note E above |
| <u>\$ (615)</u>   |   |
| K \$ (176,486)    | To reverse recorded values of June 30, 2004 historical long-term debt of Albemarle  |
| 473,011           | To reflect pro forma long-term borrowings arising from financing proceeds obtained for cash paid to Akzo Nobel for the refinery catalysts business and refinancing of Albemarle's credit facility                       |
| 9,901             | To reflect pro forma long-term debt incurred for funding estimated capitalizable professional fees incurred by Albemarle in connection with the refinery catalysts business acquisition                                 |
| 7,636             | To record long-term borrowings incurred in connection with deferred financing costs associated with Albemarle's new credit facilities associated with the refinery catalysts business acquisition                       |
| <u>\$ 314,062</u> |   |

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**Table of Contents****ALBEMARLE CORPORATION****NOTES TO UNAUDITED PRO FORMA COMBINED BALANCE SHEET (Continued)****As of June 30, 2004****(in thousands)**

| <b>Note</b> | <b>Amount</b>       | <b>Description</b>   |
|-------------|---------------------|--|
| L           | \$ (6,882)          | To record reversal of recorded values of historical other non-current liabilities of the refinery catalysts business at June 30, 2004  |
|             | 71,390              | To reflect estimated fair values of pension and postretirement liabilities of the refinery catalysts business assumed at closing of the refinery catalysts business acquisition  |
|             | <u>\$ 64,508</u>    |  |
| M           | \$ (23,153)         | To record reversal of recorded values of historical deferred income tax liabilities of the refinery catalysts business at June 30, 2004  |
|             | 98,828              | To record estimated net long-term deferred income tax liabilities for estimated book and tax basis differences associated with the assets acquired and liabilities assumed in connection with the refinery catalysts business acquisition (recorded to goodwill) |
|             | <u>\$ 75,675</u>    |  |
| N           | \$ (3,000)          | To record a charge to retained earnings of acquired in-process research and development associated with the refinery catalysts business acquisition as if the acquisition took place on June 30, 2004  |
|             | (365)               | To record a charge to retained earnings for write-off of deferred loan costs associated with Albemarle existing credit facilities as if these charges were recognized on June 30, 2004, net of income taxes of \$210   |
|             | (9,977)             | To record a charge to retained earnings of euro hedge contract losses associated with the refinery catalysts business acquisition as if these charges were recognized on June 30, 2004, net of income taxes of \$5,735   |
|             | <u>\$ (13,342)</u>  |  |
| O           | <u>\$ (283,678)</u> | To eliminate June 30, 2004 historical Akzo Nobel divisional equity in the refinery catalysts business  |

(4) This column represents the unaudited pro forma combined balance sheet of Albemarle giving effect to the July 31, 2004 acquisition of the refinery catalysts business as if the acquisition occurred on June 30, 2004. These amounts are derived by summing the columns captioned Albemarle Corporation, Refinery Catalysts U.S. GAAP and Pro Forma Acquisition Adjustments.

**Table of Contents****ALBEMARLE CORPORATION****UNAUDITED PRO FORMA COMBINED STATEMENT OF INCOME****For the Year Ended December 31, 2003****(in thousands, except per share data)**

|  | Albemarle                |                                    |   |   |                              |                                      |   |
|--|--------------------------|------------------------------------|---|---|------------------------------|--------------------------------------|---|
|  | Albemarle<br>Corporation | Refinery<br>Catalysts<br>U.S. GAAP | Refinery<br>Catalysts<br>Reclassification | Pro Forma<br>Acquisition<br>Adjustments | Pro Forma<br>for Acquisition | Pro Forma<br>Offering<br>Adjustments | Albemarle<br>Pro Forma<br>for Acquisition<br>and Offering |
|  | (1)                      | (2)                                | (3)                                       | (4)                                     | (5)(6)                       |                                      |   |
| Net sales  | \$ 1,110,237             | \$ 404,950                         | \$  | \$                                      | \$ 1,515,187                 | \$                                   | \$  |
| Cost of goods sold   | 871,727                  | 278,660                            | (6,459)A                                  | (520)B                                  | 1,143,408                    |                                      |   |
| Gross profit   | 238,510                  | 126,290                            | 6,459                                     | 520                                     | 371,779                      |                                      |   |
| Selling, general and administrative expenses   | 117,226                  | 61,827                             |   | (16)C                                   | 179,037                      |                                      |   |
| Research and development expenses  | 18,411                   | 21,365                             |   | (16)D                                   | 39,760                       |                                      |   |
| In-process research and development  |                          |                                    |   | 3,000 E                                 | 3,000                        |                                      |   |
| Special items  | 10,049                   |                                    |   |   | 10,049                       |                                      |   |
| Operating profit   | 92,824                   | 43,098                             | 6,459                                     | (2,448)                                 | 137,933                      |                                      |   |
| Interest and financing expenses  | (5,376)                  | (3,960)                            |   | (21,292)F                               | (30,628)                     |                                      |   |
| Other income (expense), net including minority interest  | 607                      | 15,410                             | (6,459)A                                  | G                                       | 9,558                        |                                      |   |
| Income before income tax and cumulative effect of a change in accounting principle, net              | 88,055                   | 54,548                             |   | (23,740)                                | 118,863                      |                                      |   |
| Income taxes   | 13,890                   | 16,151                             |   | (8,665)H                                | 21,376                       |                                      |   |
| Income before cumulative effect of a change in accounting principle, net                             | \$ 74,165                | \$ 38,397                          | \$  | \$ (15,075)                             | \$ 97,487                    | \$                                   | \$  |
| Basic earnings per share: Income before cumulative effect of a change in accounting principle, net   | \$ 1.79                  |                                    |   |   | \$ 2.36                      |                                      |   |
| Diluted earnings per share: Income before cumulative effect of a change in accounting principle, net | \$ 1.76                  |                                    |   |   | \$ 2.31                      |                                      |   |
| Weighted average shares outstanding basic  | 41,255                   |                                    |   |   | 41,255                       |                                      |   |

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|  |        |        |
|--|--------|--------|
| Weighted average shares<br>outstanding diluted | 42,146 | 42,146 |
|--|--------|--------|

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**Table of Contents****ALBEMARLE CORPORATION****UNAUDITED PRO FORMA COMBINED STATEMENT OF INCOME****For the Six Months Ended June 30, 2004****(in thousands, except per share data)**

|   | Albemarle                |                                    |   |   |                              |                                      |   |
|---|--------------------------|------------------------------------|---|---|------------------------------|--------------------------------------|---|
|   | Albemarle<br>Corporation | Refinery<br>Catalysts<br>U.S. GAAP | Refinery<br>Catalysts<br>Reclassification | Pro Forma<br>Acquisition<br>Adjustments | Pro Forma for<br>Acquisition | Pro Forma<br>Offering<br>Adjustments | Albemarle<br>Pro Forma<br>for Acquisition<br>and Offering |
|   | (1)                      | (2)                                | (3)                                       | (4)                                     | (5)(6)                       |                                      |   |
| Net sales   | \$ 648,768               | \$ 249,025                         | \$  | \$                                      | \$ 897,793                   | \$                                   | \$  |
| Cost of goods sold  | 521,556                  | 179,496                            | (3,255) A                                 | 149 B                                   | 697,946                      |                                      |   |
| Gross profit  | 127,212                  | 69,529                             | 3,255                                     | (149)                                   | 199,847                      |                                      |   |
| Selling, general and<br>administrative expenses   | 63,003                   | 35,536                             |   | 3 C                                     | 98,542                       |                                      |   |
| Research and development<br>expenses  | 9,667                    | 13,212                             |   | 3 D                                     | 22,882                       |                                      |   |
| In-process research and<br>development expense  |                          |                                    |   | E                                       |                              |                                      |   |
| Special items   | 5,057                    |                                    |   |   | 5,057                        |                                      |   |
| Operating profit  | 49,485                   | 20,781                             | 3,255                                     | (155)                                   | 73,366                       |                                      |   |
| Interest and financing expenses   | (2,918)                  | (1,134)                            |   | (11,057)F                               | (15,109)                     |                                      |   |
| Other income (expense), net<br>including minority interest  | 1,619                    | 7,686                              | (3,255)A                                  | (2,864)G                                | 3,186                        |                                      |   |
| Income before income tax and<br>cumulative effect of a change in<br>accounting principle, net                 | 48,186                   | 27,333                             |   | (14,076)                                | 61,443                       |                                      |   |
| Income taxes  | 13,811                   | 7,535                              |   | (5,138)H                                | 16,208                       |                                      |   |
| Income before cumulative effect<br>of a change in accounting<br>principle, net                                | \$ 34,375                | \$ 19,798                          | \$  | \$ (8,938)                              | \$ 45,235                    | \$                                   | \$  |
| Basic earnings per share: Income<br>before cumulative effect of a<br>change in accounting principle,<br>net   | \$ 0.83                  |                                    |   |   | \$ 1.09                      |                                      |   |
| Diluted earnings per share:<br>Income before cumulative effect<br>of a change in accounting<br>principle, net | \$ 0.81                  |                                    |   |   | \$ 1.07                      |                                      |   |
| Weighted average shares<br>outstanding basic  | 41,451                   |                                    |   |   | 41,451                       |                                      |   |

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|  |        |        |
|--|--------|--------|
| Weighted average shares<br>outstanding diluted | 42,241 | 42,241 |
|--|--------|--------|

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**Table of Contents****ALBEMARLE CORPORATION****UNAUDITED PRO FORMA COMBINED STATEMENT OF INCOME****For the Six Months Ended June 30, 2003****(in thousands, except per share data)**

|   | Albemarle                |                                    |   |   |                                 |                                      |   |
|---|--------------------------|------------------------------------|---|---|---------------------------------|--------------------------------------|---|
|   | Albemarle<br>Corporation | Refinery<br>Catalysts<br>U.S. GAAP | Refinery<br>Catalysts<br>Reclassification | Pro Forma<br>Acquisition<br>Adjustments | Pro<br>Forma for<br>Acquisition | Pro Forma<br>Offering<br>Adjustments | Albemarle<br>Pro Forma<br>for Acquisition<br>and Offering |
|   | (1)                      | (2)                                | (3)                                       | (4)                                     | (5)(6)                          |                                      |   |
| Net sales   | \$ 538,562               | \$ 200,767                         | \$  | \$                                      | \$ 739,329                      | \$                                   | \$  |
| Cost of goods sold  | 419,788                  | 135,634                            | (7,835)A                                  | (467)B                                  | 547,120                         |                                      |   |
| Gross profit  | 118,774                  | 65,133                             | 7,835                                     | 467                                     | 192,209                         |                                      |   |
| Selling, general and<br>administrative expenses   | 57,061                   | 28,202                             |   | (13)C                                   | 85,250                          |                                      |   |
| Research and development<br>expenses  | 9,363                    | 9,395                              |   | (13)D                                   | 18,745                          |                                      |   |
| In-process research and<br>development  |                          |                                    |   | 3,000 E                                 | 3,000                           |                                      |   |
| Special items   |                          |                                    |   |   |                                 |                                      |   |
| Operating profit  | 52,350                   | 27,536                             | 7,835                                     | (2,507)                                 | 85,214                          |                                      |   |
| Interest and financing expenses   | (2,594)                  | (2,078)                            |   | (10,721)F                               | (15,393)                        |                                      |   |
| Other income (expense), net<br>including minority interest  | 3,257                    | 7,472                              | (7,835)A                                  | G                                       | 2,894                           |                                      |   |
| Income before income tax and<br>cumulative effect of a change in<br>accounting principle, net               | 53,013                   | 32,930                             |   | (13,228)                                | 72,715                          |                                      |   |
| Income taxes  | 5,492                    | 9,649                              |   | (4,828)H                                | 10,313                          |                                      |   |
| Income before cumulative effect<br>of a change in accounting<br>principle, net                              | \$ 47,521                | \$ 23,281                          | \$  | \$ (8,400)                              | \$ 62,402                       | \$                                   | \$  |
| Basic earnings per share: Income<br>before cumulative effect of a<br>change in accounting principle,<br>net | \$ 1.15                  |                                    |   |   | \$ 1.51                         |                                      |   |
| Diluted earnings per share:<br>Income before cumulative effect  | \$ 1.12                  |                                    |   |   | \$ 1.48                         |                                      |   |

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|   |                             |                             |
|---|-----------------------------|-----------------------------|
| of a change in accounting principle, net    | <u>                    </u> | <u>                    </u> |
| Weighted average shares outstanding basic   | 41,352                      | 41,352                      |
| Weighted average shares outstanding diluted | 42,166                      | 42,166                      |

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**Table of Contents****ALBEMARLE CORPORATION****NOTES TO UNAUDITED PRO FORMA COMBINED STATEMENTS OF INCOME****For the Year Ended December 31, 2003 and Six Months Ended June 30, 2004 and 2003****(in thousands)**

(1) This column represents Albemarle's historical consolidated income statements as reported for the periods presented. Albemarle restated its financial statements for the six months ended June 30, 2003 to move the recognition of revenue of a fourth quarter 2002 transaction from December 31, 2002 results to the first quarter and second quarter of 2003.

(2) This column represents the historical income statements of the refinery catalysts business under U.S. GAAP stated in euros and translated to U.S. dollars for pro forma purposes using estimated average U.S. dollars to euro exchange rates of 1.131, 1.226 and 1.100 to 1 for the income statements of the refinery catalysts business for the 12 months ending December 31, 2003, six months ending June 30, 2004 and June 30, 2003, respectively, which was the exchange rate used by management of the refinery catalysts business for the purpose of converting U.S. dollar amounts to euros in connection with the preparation of the euro-denominated financial statements of the refinery catalysts business. Such translations should not be construed as a representation that the euro amounts represent, or have been or could be converted into, U.S. dollars at that or any other rate.

(3) The adjustments in this column represent the reclassifications necessary to conform the historical refinery catalysts business amounts to the Albemarle statement of income presentation.

| Note | Year Ended<br>December 31,<br>2003 | Six Months<br>Ended<br>June 30,<br>2004 | Six Months<br>Ended<br>June 30,<br>2003 |  |
|------|------------------------------------|---|---|--|
| A    | \$ (6,459)                         | \$ (3,255)                              | \$ (7,835)                              | To reclassify foreign exchange gains and losses from other income to cost of goods sold to conform to Albemarle's application of U.S. GAAP reporting for this item |

**Table of Contents****ALBEMARLE CORPORATION****NOTES TO UNAUDITED PRO FORMA COMBINED STATEMENTS OF INCOME (Continued)****For the Year Ended December 31, 2003 and Six Months Ended June 30, 2004 and 2003****(in thousands)**

(4) This column represents the adjustments necessary to give pro forma effect to the acquisition of the refinery catalysts business as if the acquisition had taken place on January 1, 2003. The majority of these adjustments relate to a preliminary allocation of the acquisition purchase price, which is expected to be finalized within one year of the acquisition date. See description of these adjustments below:

| <b>Note</b> | <b>Year Ended<br/>December 31,<br/>2003</b> | <b>Six Months<br/>Ended<br/>June 30,<br/>2004</b> | <b>Six Months<br/>Ended<br/>June 30,<br/>2003</b> |   |
|-------------|---|---|---|---|
| <b>B</b>    |   |   |   | Represents adjustments to depreciation and amortization expense included in cost of goods sold for differences between estimated fair values assigned to refinery catalysts business tangible assets (average 15 year depreciation lives) and intangible assets (average 15 year amortization lives) versus historical depreciation and amortization amounts reported |
|             | \$ (601)                                    | \$ 110  | \$ (502)  |   |
|             | 81  | 39  | 35  | Represents adjustments to amortization of capitalized interest differences between assumed interest capitalized under pro forma debt interest assumptions described in Note F below versus historical amounts reported  |
|             | \$ (520)                                    | \$ 149  | \$ (467)  |   |

The assumed one-time impact to cost of goods sold of Albemarle's estimated purchase accounting adjustment to step up finished goods and work-in-progress inventories acquired in the refinery catalysts business acquisition of \$18,354 has not been included in the unaudited pro forma combined statements of income presented.

Total pro forma depreciation and amortization expense totaled \$116,727, \$59,803 and \$56,968 for the year ended December 31, 2003, six months ended June 30, 2004 and six months ended June 30, 2003, respectively.

| <b>Note</b> | <b>Year Ended<br/>December 31,<br/>2003</b> | <b>Six Months<br/>Ended<br/>June 30,<br/>2004</b> | <b>Six Months<br/>Ended<br/>June 30,<br/>2003</b> |   |
|-------------|---|---|---|---|
| <b>C</b>    |   |   |   | Represents adjustments to estimated depreciation expense included in selling, general and administrative expense for differences between estimated fair values assigned to refinery catalysts business tangible assets (average 15 year depreciation lives) versus historical depreciation amounts reported |
|             | \$ (16)                                     | \$ 3  | \$ (13)   |   |

|   |                   |                   |                   |  |
|---|-------------------|-------------------|-------------------|--|
|   | <u>          </u> | <u>          </u> | <u>          </u> |  |
| D |                   |                   |                   | Represents adjustments to estimated depreciation expense included in research and development expense for differences between estimated fair values assigned to refinery catalysts business tangible assets (average 15 year depreciation lives) versus historical depreciation amounts reported |
|   | \$ (16)           | \$ 3              | \$ (13)           |  |
|   | <u>          </u> | <u>          </u> | <u>          </u> |  |
| E |                   |                   |                   | To record estimated acquired in-process research and development assumed to be charged to expense immediately upon the January 1, 2003 pro forma effective acquisition date for the periods presented  |
|   | \$ 3,000          | \$                | \$ 3,000          |  |
|   | <u>          </u> | <u>          </u> | <u>          </u> |  |

**Table of Contents****ALBEMARLE CORPORATION****NOTES TO UNAUDITED PRO FORMA COMBINED STATEMENTS OF INCOME (Continued)****For the Year Ended December 31, 2003 and Six Months Ended June 30, 2004 and 2003****(in thousands)****Note**

| <b>F Pro forma interest expense adjustments are detailed as follows:</b> |   |   |   |
|--|---|---|---|
| <b>Year Ended<br/>December 31,<br/>2003</b>                              | <b>Six Months<br/>Ended<br/>June 30,<br/>2004</b> | <b>Six Months<br/>Ended<br/>June 30,<br/>2003</b> |   |
| \$ 3,960   | \$ 1,134  | \$ 2,078  | Reversal of historical net interest and financing expenses of the refinery catalysts business as reported for the periods presented   |
| 5,376  | 2,918   | 2,594   | Reversal of Albemarle historical net interest and financing expenses as reported for the periods presented  |
| 964  | 662   | 428   | Estimated capitalized interest expense associated with the new debt structure   |
| (220)  | (110)   | (110)   | Estimated interest expense associated with Albemarle's existing industrial revenue bond and foreign loans   |
| (1,763)  | (881)   | (881)   | Estimated interest expense associated with the \$300 million revolving credit facility bearing interest at 2.55%  |
| (12,600)   | (6,300)   | (6,300)   | Estimated interest expense associated with the \$450 million 364-day loan agreement at 2.8%, assumed outstanding for entirety of all periods presented  |
| (12,600)   | (6,300)   | (6,300)   | Estimated interest expense associated with the \$450 million five-year term loan facility bearing interest at 2.8%  |
| (3,509)  | (1,755)   | (1,755)   | Amortization of estimated debt issuance costs on new financing (amounts exclude write off of \$575,000 of estimated deferred loan costs associated with Albemarle's previous credit facilities replaced by the debt facilities described above) |
| (150)  | (50)  | (100)   | Additional commitment fees and other recurring costs associated with new financing structure  |
| (750)  | (375)   | (375)   | Reflects commitment fees of 0.25% on the \$300 million new revolver   |
| <u>\$ (21,292)</u>   | <u>\$ (11,057)</u>                                | <u>\$ (10,721)</u>                                | <b>Total</b>  |

Note a 0.125% increase or decrease in the weighted average interest rate applicable to Albemarle's indebtedness outstanding under its new financing structure would impact the estimated pro forma interest expense for the year ended December 31, 2003, six months ended June 30, 2004 and the six months ended June 30, 2003, by the following amounts:

| <b>Year Ended<br/>December 31,<br/>2003</b> | <b>Six Months<br/>Ended<br/>June 30,<br/>2004</b> | <b>Six Months<br/>Ended<br/>June 30,<br/>2003</b> |
|---|---|---|
|---|---|---|

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|      | \$ 1,211  | \$ 606                                  | \$ 606                                  |
|------|---|---|---|
| Note | Year Ended<br>December 31,<br>2003  | Six Months<br>Ended<br>June 30,<br>2004 | Six Months<br>Ended<br>June 30,<br>2003 |
| G    | \$  | \$ (2,864)                              | \$                                      |
|      | Adjustment represents elimination of Albemarle's second-quarter 2004 euro hedging contract gain recorded related to hedge contracts entered into in connection with the refinery catalysts business acquisition |   |   |
| H    | \$ (8,665)  | \$ (5,138)                              | \$ (4,828)                              |
|      | Adjustments represent pro forma income tax impacts of the pro forma adjustments based on the estimated applicable statutory tax rates at 36.5%  |   |   |

(5) This column represents the unaudited pro forma combined statements of income of Albemarle giving effect to the July 31, 2004 acquisition of the refinery catalysts business as if the acquisition occurred on January 1, 2003. These amounts are derived by summing the columns captioned Albemarle Corporation, Refinery Catalysts U.S. GAAP, Refinery Catalysts Reclassification and Pro Forma Acquisition Adjustments.

**Table of Contents****ALBEMARLE CORPORATION****NOTES TO UNAUDITED PRO FORMA COMBINED STATEMENTS OF INCOME (Continued)****For the Year Ended December 31, 2003 and Six Months Ended June 30, 2004 and 2003****(in thousands)**

(6) See the table below detailing the following significant non-recurring (income) and expense items which have been included in the Albemarle unaudited pro forma combined statements of income for the periods presented:

| <b>Year Ended<br/>December 31, 2003</b> |                  | <b>Six Months Ended<br/>June 30, 2004</b> |                  | <b>Six Months Ended<br/>June 30, 2003</b> |                  |  |
|---|------------------|---|------------------|---|------------------|--|
| <b>Pre-tax</b>                          | <b>After-tax</b> | <b>Pre-tax</b>                            | <b>After-tax</b> | <b>Pre-tax</b>                            | <b>After-tax</b> |  |
| \$ 10,049                               | \$ 6,402         | \$ 5,057                                  | \$ 3,216         | \$  | \$               | Albemarle's reported special items impacting operating profit                      |
| 4,308                                   | (13,816)         |   |                  | 4,308                                     | (13,816)         | Albemarle income tax refunds and related interest                                  |
| (44)                                    | (28)             | (444)                                     | (282)            | (2,832)                                   | (1,798)          | Refinery catalysts business provisions liability additions/reversals activity, net |
| (6,459)                                 | (4,102)          | (3,255)                                   | (2,067)          | (7,835)                                   | (4,975)          | Refinery catalysts business foreign exchange hedging gains and losses              |

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**Table of Contents****SELECTED HISTORICAL CONSOLIDATED FINANCIAL INFORMATION OF ALBEMARLE**

The following table sets forth selected historical consolidated financial information as of and for the years ended December 31, 2003, 2002, 2001, 2000 and 1999, which have been derived from our audited consolidated financial statements, and as of and for the six months ended June 30, 2004 and 2003, which have been derived from our unaudited consolidated financial statements. In the opinion of our management, the unaudited consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and include all adjustments necessary for a fair presentation of the information set forth therein. Interim results are not necessarily indicative of full year results.

You should read the information in this table together with Management's Discussion and Analysis of Financial Condition and Results of Operations of Albemarle and our historical consolidated financial statements and the related notes contained elsewhere in this prospectus supplement and the other information contained in the documents incorporated by reference in this prospectus supplement. See Where You Can Find More Information and Documents Incorporated by Reference.

|  | Six Months  |             | Year Ended    |              |            |            |            |
|--|---|-------------|---------------|--------------|------------|------------|------------|
|  | Ended June 30,                                      |             | December 31,  |              |            |            |            |
|  | 2004  | 2003        | 2003          | 2002         | 2001       | 2000       | 1999       |
|  | (unaudited)   | (unaudited) | (restated)(1) |              |            |            |            |
|  | (in thousands, except per share amounts and ratios) |             |               |              |            |            |            |
| <b>Statements of Income Data:</b>                            |   |             |               |              |            |            |            |
| Net sales  | \$ 648,768  | \$ 538,562  | \$ 1,110,237  | \$ 1,007,918 | \$ 942,752 | \$ 941,449 | \$ 865,937 |
| Cost of goods sold   | 521,556   | 419,788     | 871,727       | 775,388      | 721,417    | 669,986    | 608,995    |
| Gross profit   | 127,212   | 118,774     | 238,510       | 232,530      | 221,335    | 271,463    | 256,942    |
| Selling, general and administrative expenses                 | 63,003  | 57,061      | 117,226       | 111,676      | 98,915     | 103,234    | 97,836     |
| Research and development expenses                            | 9,667   | 9,363       | 18,411        | 16,485       | 21,919     | 26,201     | 34,288     |
| Special items (2)  | 5,057   |             | 10,049        | 1,550        | 2,051      | (8,134)    | 10,692     |
| Operating profit   | 49,485  | 52,350      | 92,824        | 102,819      | 98,450     | 150,162    | 114,126    |
| Interest and financing expenses                              | (2,918)   | (2,594)     | (5,376)       | (5,070)      | (5,536)    | (5,998)    | (8,379)    |
| Gain on sale of investment in Albright & Wilson stock, net   |   |             |               |              |            |            | 22,054     |
| Other income, net including minority interest                | 1,619   | 3,257       | 607           | 3,358        | 4,282      | 3,337      | 937        |
| Income before income taxes                                   | 48,186  | 53,013      | 88,055        | 101,107      | 97,196     | 147,501    | 128,738    |
| Income taxes   | 13,811  | 5,492       | 13,890        | 28,086       | 29,029     | 45,725     | 39,909     |
| Income from operations                                       | 34,375  | 47,521      | 74,165        | 73,021       | 68,167     | 101,776    | 88,829     |
| Cumulative effect of change in accounting principle, net (3) |   | (2,220)     | (2,220)       |              |            |            |            |
| Net income   | \$ 34,375   | \$ 45,301   | \$ 71,945     | \$ 73,021    | \$ 68,167  | \$ 101,776 | \$ 88,829  |
| <b>Basic earnings per share:</b>                             |   |             |               |              |            |            |            |
| Income from operations                                       | \$ 0.83   | \$ 1.15     | \$ 1.79       | \$ 1.73      | \$ 1.49    | \$ 2.22    | \$ 1.89    |

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|   |         |         |         |         |         |         |         |  |
|---|---------|---------|---------|---------|---------|---------|---------|--|
| Cumulative effect of a change in accounting principle,<br>net (3) |         |         | (0.05)  | (0.05)  |         |         |         |  |
| Net income  | \$ 0.83 | \$ 1.10 | \$ 1.74 | \$ 1.73 | \$ 1.49 | \$ 2.22 | \$ 1.89 |  |
| <b>Diluted earnings per share:</b>                                |         |         |         |         |         |         |         |  |
| Incoming from operations  | \$ 0.81 | \$ 1.12 | \$ 1.76 | \$ 1.69 | \$ 1.47 | \$ 2.18 | \$ 1.87 |  |
| Cumulative effect of a change in<br>accounting principle, net (3) |         |         | (0.05)  | (0.05)  |         |         |         |  |
| Net income  | \$ 0.81 | \$ 1.07 | \$ 1.71 | \$ 1.69 | \$ 1.47 | \$ 2.18 | \$ 1.87 |  |

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|  | Six Months  |             | Year Ended     |            |            |            |            |
|--|---|-------------|----------------|------------|------------|------------|------------|
|  | Ended June 30,                                      |             | December 31,   |            |            |            |            |
|  | 2004  | 2003        | 2003           | 2002       | 2001       | 2000       | 1999       |
|  | (unaudited)   | (unaudited) | (restated) (1) |            |            |            |            |
|  | (in thousands, except per share amounts and ratios) |             |                |            |            |            |            |
| <b>Other Financial Data:</b>                     |   |             |                |            |            |            |            |
| Net cash provided (used) by operating activities | \$ 85,443   | \$ 85,333   | \$ 150,098     | \$ 144,771 | \$ 143,864 | \$ 155,067 | \$ 164,297 |
| EBITDA (4)                                       | 94,066  | 96,386      | 177,445        | 186,780    | 180,342    | 227,249    | 212,867    |
| Depreciation and amortization                    | 42,962  | 40,779      | 84,014         | 80,603     | 77,610     | 73,570     | 75,750     |
| Capital expenditures                             | 19,634  | 19,278      | 41,058         | 38,382     | 49,903     | 52,248     | 77,569     |
| Ratio of earnings to fixed charges (5)           | 9.4x  | N/A         | 9.2x           | 11.1x      | 10.1x      | 13.6x      | 9.6x       |
| <b>Balance Sheet Data (as of end of period):</b> |   |             |                |            |            |            |            |
| Cash and cash equivalents                        | \$ 38,653   | \$ 61,092   | \$ 35,173      | \$ 47,787  | \$ 30,585  | \$ 19,300  | \$ 48,621  |
| Working capital                                  | 245,408   | 273,995     | 271,298        | 256,481    | 79,824     | 173,038    | 201,246    |
| Total assets                                     | 1,381,081   | 1,262,988   | 1,387,291      | 1,200,398  | 1,138,272  | 981,803    | 954,094    |
| Total debt                                       | 176,530   | 186,458     | 228,579        | 190,628    | 170,215    | 97,980     | 159,760    |
| Total liabilities                                | 726,105   | 660,543     | 751,070        | 626,061    | 538,649(1) | 416,575(1) | 457,209(1) |
| Shareholders' equity                             | 654,976   | 602,445     | 636,221        | 574,337    | 599,623(1) | 565,228(1) | 496,885(1) |

- (1) We restated our financial statements for the year ended December 31, 2002 to move the recognition of revenue of a fourth quarter 2002 transaction from December 31, 2002 results to the first quarter and second quarter of 2003. In addition, the December 31, 2002 and prior years consolidated balance sheets and statements of changes in shareholders' equity were restated to reflect an increase in additional paid-in capital and a decrease in deferred income tax liability. The results for the year ended December 31, 2002 and prior years included above reflect the restatement. For more information on the restatement, see our consolidated financial statements and related notes included elsewhere in this prospectus supplement and the discussion of the restatement included in our Annual Report on Form 10-K incorporated by reference in this prospectus supplement.
- (2) We reported special items charges of \$5,057 for the six months ended June 30, 2004 related to the shutdown of our zeolites plant in Pasadena, Texas. For the year ended December 31, 2003, we incurred a \$7,503 pre-tax charge associated with a voluntary severance program. Additionally, for the year ended December 31, 2003, we recorded a one-time charge of \$2,546 for real estate held for sale. For the years ended December 31, 2002 and 2001, we recorded \$1,550 and \$2,051 in special charges related to work force reduction programs at certain of our facilities.
- (3) On January 1, 2003, we implemented SFAS No. 143 Accounting for Asset Retirement Obligations, which addressed financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The cumulative effect of the change in accounting principle, net of tax, resulting from the implementation of this standard was \$2,220.
- (4) EBITDA, which represents earnings before depreciation and amortization, interest and financing expense, income taxes and cumulative effect of a change in accounting principle, net, is a supplemental measure of performance that is not required by, or presented in accordance with, U.S. GAAP. We present EBITDA because it is a basis upon which our management assesses our operations, financial performance and liquidity and we consider it an important supplemental measure of our operations, and performance and liquidity. Our management believes EBITDA is more reflective of our operations as it presents investors with information about our operations and, in doing so, provides transparency to investors and enhances period-to-period comparability of operations, financial performance and liquidity. EBITDA should not be considered as an alternative to (1) net income determined in accordance with U.S. GAAP or (2) operating cash flows determined in accordance with U.S. GAAP. Set forth below is a reconciliation of EBITDA, a non-GAAP financial measure, to net income, the most directly comparable financial measure calculated and reported in accordance with U.S. GAAP. Our calculation of EBITDA may not be comparable to the calculation of similarly titled measures reported by other companies.

|  | Six Months     |             | Year Ended     |           |           |            |           |
|--|----------------|-------------|----------------|-----------|-----------|------------|-----------|
|  | Ended June 30, |             | December 31,   |           |           |            |           |
|  | 2004           | 2003        | 2003           | 2002      | 2001      | 2000       | 1999      |
|  | (unaudited)    | (unaudited) | (in thousands) |           |           |            |           |
| Net income   | \$ 34,375      | \$ 45,301   | \$ 71,945      | \$ 73,021 | \$ 68,167 | \$ 101,776 | \$ 88,829 |
| Add:   |                |             |                |           |           |            |           |
| Depreciation and amortization                              | 42,962         | 40,779      | 84,014         | 80,603    | 77,610    | 73,750     | 75,750    |
| Interest and financing expense                             | 2,918          | 2,594       | 5,376          | 5,070     | 5,536     | 5,998      | 8,379     |
| Income taxes   | 13,811         | 5,492       | 13,890         | 28,086    | 29,029    | 45,725     | 39,909    |
| Cumulative effect of a change in accounting principle, net |                | 2,220       | 2,220          |           |           |            |           |

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|        |           |           |            |            |            |            |            |
|--------|-----------|-----------|------------|------------|------------|------------|------------|
| EBITDA | \$ 94,066 | \$ 96,386 | \$ 177,445 | \$ 186,780 | \$ 180,342 | \$ 227,249 | \$ 212,867 |
|--------|-----------|-----------|------------|------------|------------|------------|------------|

- (5) For purposes of computing the ratios of earnings to fixed charges, earnings consist of pre-tax income from continuing operations before adjustment for minority interests in consolidated subsidiaries or income or loss from equity investees plus fixed charges and amortization of capitalized interest less interest capitalized and minority interest in pre-tax income of subsidiaries that have not incurred fixed charges. Fixed charges consist of interest expense (before capitalized interest) and a portion of rental expense that we believe to be representative of interest.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF ALBEMARLE**

*The following discussion and analysis of our financial condition and results of operations contains forward-looking statements that are based on our management's current expectations, which are in turn based on assumptions that we believe are reasonable based on our current knowledge of our business and operations. Our actual results may differ materially from those expectations expressed or implied in the forward-looking statements as a result of a number of factors, including those described under the caption "Forward-Looking Statements" and "Risk Factors" and elsewhere in this prospectus supplement. The following discussion should be read together with "Unaudited Pro Forma Combined Financial Information," "Selected Historical Consolidated Financial Information of Albemarle" and our consolidated financial statements and related notes included elsewhere or incorporated by reference in this prospectus supplement.*

**Overview**

We are a leading global developer, manufacturer and marketer of highly-engineered specialty chemicals. Our products and services enhance the value of our customers' end-products by improving performance, providing essential product attributes, lowering cost and simplifying processing. We sell a highly diversified mix of products to a wide range of customers, including manufacturers of consumer electronics, building and construction materials, automotive parts, packaging, pharmaceuticals and agrichemicals, and petroleum refiners. We believe that our commercial and geographic diversity, technical expertise, flexible, low-cost global manufacturing base, strong cash flows and experienced management team enable us to maintain leading market positions in those areas of the specialty chemicals industry in which we operate.

Growth of our Polymer Additives segment is expected to be derived from increasing demand for electrical and electronic equipment, new construction and increasingly stringent fire-safety regulations in many countries around the world. Growth in our Catalysts segment is expected to be driven by increasing demand for petroleum products, generally deteriorating quality of crude oil feedstock and implementation of more stringent fuel quality requirements in many countries around the world as a part of anti-pollution initiatives. The Fine Chemicals segment continues to benefit from the continued rapid pace of innovation and the introduction of new products coupled with a movement by pharmaceutical companies to outsource certain research, product development and manufacturing functions.

***Acquisition of Catalysts Refinery Business***

On July 31, 2004, we acquired the refinery catalysts business of Akzo Nobel N.V. for 615.7 million (approximately \$763 million at applicable exchange rates). We believe that this acquisition significantly enhances our business by giving us a strong new operating segment. Following this acquisition, we transferred our existing polyolefin catalysts business from our Polymer Chemicals segment, which we renamed Polymer Additives, to a newly created Catalysts segment, which also includes the assets we acquired from Akzo Nobel. Our operations are now managed and reported as three operating segments: Polymer Additives; Catalysts; and Fine Chemicals.

Under the terms of the business sale agreement, we acquired two wholly owned subsidiaries of Akzo Nobel (one in the United States and one in The Netherlands), sales, marketing, intellectual property and other assets used in the acquired business, and 50% interests in three different joint ventures: Fábrica Carioca de Catalisadores S.A., a Brazilian joint venture; Nippon Ketjen Co., Ltd., a Japanese joint venture; and Eurecat S.A., a French joint venture (with affiliates in the United States, Saudi Arabia and Italy). As part of the acquisition, we also agreed to assume the liabilities of the two acquired subsidiaries and certain liabilities of Akzo Nobel and its affiliates related to the acquired business. We retained substantially all employees of the acquired business, including all of the incumbent managers.

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In connection with the acquisition, we estimate that we incurred during the third quarter of 2004 certain one-time after-tax costs and expenses, including foreign exchange hedging losses of \$10.0 million on contracts

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executed to hedge the purchase price for the acquired business, additional cost of sales charges of \$10.0 million as a result of inventory write-ups, in-process research and development write-offs of \$2.0 million and unamortized financing cost write-offs of \$0.4 million. We currently estimate that these costs and expenses will result in an aggregate one-time after-tax charge of up to \$22.4 million. In addition, we expect to finalize the acquisition purchase accounting adjustments by the end of the second quarter of 2005.

In connection with the acquisition, we entered into (1) a new senior credit agreement, dated as of July 29, 2004, among Albemarle, Albemarle Catalysts International, L.L.C., a subsidiary of our company, certain of our subsidiaries as guarantors, the lenders parties thereto, Bank of America, N.A., as Administrative Agent, UBS Securities LLC, as Syndication Agent, and The Bank of New York, Fortis (USA) Finance LLC and SunTrust Bank, as Co-Documentation Agents, consisting of a \$300 million revolving credit facility and a \$450 million five-year term loan facility, and (2) a \$450 million 364-day loan agreement, dated as of July 29, 2004, among Albemarle, Albemarle Catalysts International, L.L.C., certain of our subsidiaries as guarantors, the lenders parties thereto, Banc of America Bridge LLC, as Administrative Agent, and UBS Securities LLC, as Syndication Agent. We used the initial borrowings under the new senior credit agreement and the 364-day loan agreement to consummate the acquisition, refinance our then-existing credit agreement and pay related fees and expenses incurred in connection therewith.

## **Outlook**

### *Overview*

With the acquisition of the Akzo Nobel refinery catalysts business, we have added a number of foundation technologies to our portfolio, including HPC and FCC catalysts, as well as new products targeting the fast growing clean fuels catalyst market. Based on first-half 2004 unaudited results, the new Catalyst business is performing well and is poised to participate further in expected growth in the refinery catalysts industry.

We have begun to combine our current polyolefin catalyst business with the acquired refinery catalysts business. Overall, the Catalysts segment is forecasted to generate approximately 30% of our total sales on an annual basis (excluding joint ventures) in 2005.

We continue to experience significant increases in raw material and energy costs, particularly in molybdenum, which impacts the Catalysts segment, and benzene, bisphenol-A and phenol, which primarily impact the Polymer Additives segment. Based on our full year forecast for 2004, we expect that our raw material costs and energy costs will increase approximately 7% and 8%, respectively, compared to 2003. In order to offset these increases, we are seeking price increases in most product areas, and these initiatives are taking effect with various levels of success. In particular, for bromine and bromine derivatives, our price increases are supported by strong global demand for our products. In addition, we began a manufacturing cost reduction program in 2002 targeting \$50 million in savings over three years. We expect that this program will partially offset the impact of raw material and energy cost inflation.

Acquisitions continue to play a key role in our sales growth. Over 40% of the net sales growth experienced in the second quarter of 2004 compared to the second quarter of 2003 was related to acquisitions made in the preceding 12 months.

### *Polymer Additives*

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Polymer Additives sales have increased to record levels for the past four quarters with an average growth rate of close to 9% per quarter. Comparing the second quarter of 2004 to the similar period of 2003, segment revenues and income grew approximately 41% and approximately 45%, respectively. General indicators of market demand continue to show strength. We believe that flame retardants will continue to be the primary growth driver for the balance of the year.

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With the majority of flame retardant assets running at full capacity, we expect to continue to increase production of tetrabrom at our Jordan facility in response to market demand, and we are expanding alumina trihydrate capacity by approximately 10% in Bergheim.

### ***Catalysts***

Catalysts sales have increased approximately 25% in the first half of 2004 compared to the first half of 2003 reflecting higher prices driven by higher metals costs, volume growth in both HPC and FCC catalysts and the effects of currency movements. The inflation of metals costs, most notably molybdenum, is expected to continue to effect margins for HPC catalysts for the balance of 2004. We believe that the demand for HPC catalysts will remain firm. We expect FCC catalysts volumes to remain strong through 2004 as growth in gasoline demand is tracking slightly above expectations.

The major global petroleum refineries continue to prepare for stricter fuel specifications, including the upcoming on-road diesel sulfur specifications that will be implemented in 2006. These stricter specifications are leading to new capital expenditures by petroleum refineries to expand hydroprocessing capability as well as to increased demand for high performance catalysts to be used in existing and new hydroprocessing capacity.

### ***Fine Chemicals***

First half 2004 sales were up 3% compared to last year's levels despite the loss of revenue from the zeolites business, which we exited in January 2004. Revenue from new products is expected to increase compared to 2003. Looking forward, we expect to see increasingly high asset utilizations and margin improvement in the bromine products area, and we believe that underlying trends in Fine Chemistry Services are continuing to improve.

Agrichemicals are expected to experience the normal seasonal downturn in the second half of 2004. During this timeframe we will also experience the impact of unabsorbed factory costs resulting from a plant turnaround in our ibuprofen facility as we install equipment to capture further cost reductions through automation. We also expect continued competitive pricing pressure in ibuprofen as foreign producers attempt to further penetrate the U.S. market. We are expanding our sales efforts in response to this development.

We expect construction of a new chlorine production unit as part of our joint venture's bromine production plant in Jordan to be completed in the fourth quarter of 2004. We believe that this facility, which we expect will have an annual capacity of approximately 25,000 metric tonnes, will lower raw material costs of this joint venture in Jordan.

### ***Financial Condition and Liquidity***

In connection with the acquisition of Akzo Nobel's refinery catalysts business, we entered into (1) a new senior credit agreement, consisting of a \$300 million revolving credit facility and a \$450 million five-year term loan facility, and (2) a \$450 million 364-day loan agreement. We used the initial borrowings under the new senior credit agreement and the 364-day loan agreement to consummate the acquisition, refinance our

then-existing credit agreement and pay fees and expenses incurred in connection therewith.

We intend to use all of the net proceeds from this offering, which are estimated to be approximately \$            million (approximately \$            million if the underwriters' over-allotment option is exercised in full) after deducting the underwriting discount and estimated offering expenses, to retire a portion of the indebtedness that we incurred under our 364-day loan agreement to finance the refinery catalysts acquisition. As of September 30, 2004, we had total indebtedness of \$953.2 million and, as of such date, we had cash and cash equivalents of approximately \$57 million. Assuming the application of all of the net proceeds that we receive from this offering of \$            million (approximately \$            million if the underwriters' over-allotment option is exercised in full), as of September 30, 2004, we would have had \$            million of indebtedness outstanding under our 364-day loan agreement (approximately \$            million if the underwriters' over-allotment option is

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exercised in full) and our total indebtedness would have been approximately \$ million (approximately \$ million if the underwriters over-allotment option is exercised in full).

We intend to repay or refinance the remaining borrowings under our 364-day loan agreement before its maturity with borrowings under our senior credit agreement, proceeds from long-term debt or additional bank financings, or a combination of the foregoing. As of September 30, 2004, we had the ability to borrow an additional \$355.6 million under our various credit agreements.

The following table summarizes our contractual obligations at June 30, 2004 for plant construction, purchases of equipment, unused letters of credit, and various take or pay and throughput agreements. The table does not include any such obligations relating to the refinery catalysts business, which was acquired after June 30, 2004:

|   | 3Q               | 4Q               |                  |                  |                  |                 |                 | There-           |
|---|------------------|------------------|------------------|------------------|------------------|-----------------|-----------------|------------------|
|   | 2004             | 2004             | 2005             | 2006             | 2007             | 2008            | 2009            | after            |
|   | (in thousands)   |                  |                  |                  |                  |                 |                 |                  |
| Take or pay / throughput agreements       | \$ 12,348        | \$ 12,349        | \$ 22,191        | \$ 12,072        | \$ 8,431         | \$ 6,946        | \$ 6,339        | \$ 28,525        |
| Additional investment commitment payments | \$ 1,723         | \$ 133           | \$ 1,020         | \$ 790           | \$ 790           | \$ 30           | \$ 30           | \$ 199           |
| Capital projects                          | \$ 8,755         | \$ 4,235         | \$ 3,362         | \$ 848           | \$ 848           | \$ 2,545        |                 |                  |
| Letters of credit and guarantees          | \$ 19            | \$ 1,232         | \$ 23,463        |                  |                  |                 | \$ 7            | \$ 44            |
| <b>Total</b>                              | <b>\$ 22,845</b> | <b>\$ 17,949</b> | <b>\$ 50,036</b> | <b>\$ 13,710</b> | <b>\$ 10,069</b> | <b>\$ 9,521</b> | <b>\$ 6,376</b> | <b>\$ 28,768</b> |

**Industry Conditions**

We conduct a substantial portion of our business outside of the United States. As a result, our business is subject to economic cycles in different regions of the world. In addition, because many of our customers are in industries, including the consumer electronics, building and construction, and automotive industries, that are cyclical in nature and sensitive to changes in general economic conditions, our results are impacted by the effect on our customers of economic upturns and downturns, as well as our own costs to produce our products. Historically, downturns in general economic conditions have resulted in diminished product demand, excess manufacturing capacity and lower average selling prices.

**Raw Material and Energy Costs**

In 2003, our raw material and energy costs increased approximately 8% and 25%, respectively, compared to 2002. Raw material costs and energy costs have continued to increase in 2004. The increases are primarily driven by significantly tighter market conditions and major increases in pricing of basic building blocks for our products such as crude oil, chlorine and metals, including molybdenum, which is used in the refinery catalysts business. In 2003, management estimates that molybdenum represented approximately 10% of the cost of goods sold in the refinery catalysts business and from January 2004 until August 2004, the price of molybdenum increased from approximately \$8 to approximately \$18 per pound. We generally attempt to pass changes in the prices of raw materials and energy to our customers but we may be unable to or be delayed in doing so. Our inability to pass through price increases or any limitation or delay in our passing through price increases

could adversely affect the margins for our products.

In addition to raising prices, raw material suppliers may extend lead times or limit supplies. For example, in the aftermath of Hurricane Ivan, certain chlorine producers took actions that limited supplies of chlorine. Constraints on the supply or delivery of critical raw materials could disrupt production and adversely affect the performance of our business.

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### *Other Factors Impacting Our Results*

In 2002, we launched a three-year \$50 million manufacturing cost reduction program to reduce our fixed cost base. As of June 30, 2004, we believe that this program has yielded estimated savings of approximately \$22 million. We expect to implement additional cost-saving initiatives focused on achieving operational efficiencies by investing in flexible manufacturing equipment and processes, optimizing process control technologies, reducing fixed costs through the rationalization of manufacturing capacity and the efficient management of capital spending.

### **Historical Results of Operations**

The following discussion and analysis of our financial condition and results of operations covers periods before our acquisition of Akzo Nobel's refinery catalysts business. The disclosure with respect to future periods will include the performance of the acquired business, which is expected to have a significant impact on our overall results of operations. In addition, we restated our financial statements for the year ended December 31, 2002 to move the recognition of revenue of a fourth quarter 2002 transaction from December 31, 2002 results to the first quarter and second quarter of 2003. The results for the year ended December 31, 2002 included and discussed below reflect the restatement. For more information on the restatement, see our consolidated financial statements and related notes included elsewhere in this prospectus supplement and the discussion of the restatement included in our Annual Report on Form 10-K incorporated by reference in this prospectus supplement.

### *Six Months Ended June 30, 2004 Compared to Six Months Ended June 30, 2003*

*Net Sales.* Net sales by operating segment for the six-month periods ended June 30, 2004 and 2003 are as follows:

|                       | <b>Net Sales</b>                     |                   |
|-----------------------|--------------------------------------|-------------------|
|                       | <b>Six Months Ended<br/>June 30,</b> |                   |
|                       | <b>2004</b>                          | <b>2003</b>       |
|                       | <b>(in thousands)</b>                |                   |
| Polymer Chemicals     | \$ 399,675                           | \$ 297,356        |
| Fine Chemicals        | 249,093                              | 241,206           |
| <b>Segment totals</b> | <b>\$ 648,768</b>                    | <b>\$ 538,562</b> |

Net sales for first six months of 2004 of \$648.8 million were up \$110.2 million (20.5%) from the first six months of 2003 net sales of \$538.6 million. Polymer Chemicals' net sales increased \$102.3 million (34.4%) primarily due to higher volumes in flame retardants (\$37.7 million) and catalysts and additives (\$19.4 million), the contributions made by our 2003 acquisitions (\$35.4 million) and the favorable impact of foreign exchange (\$15.0 million) offset, in part, by lower prices (\$5.1 million), primarily in flame retardants. Fine Chemicals' net sales increased \$7.9 million (3.3%) primarily due to the favorable impact of foreign exchange (\$10.5 million), the contributions made by our 2003 bromine fine chemicals acquisition (\$9.2 million), higher volumes in bulk active pharmaceuticals (\$8.6 million) and higher volumes, offset in part by lower

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prices, in fine chemistry services and intermediates (\$0.8 million). The increase in Fine Chemicals net sales was partially offset by an unfavorable sales mix in performance chemicals (\$15.2 million) and lower prices in bulk active pharmaceuticals (\$5.7 million).

*Operating Costs and Expenses.* Cost of goods sold in the first six months of 2004 increased \$101.7 million (24.2%) from the corresponding 2003 period. The increase was primarily due to the impact of our 2003 acquisitions and higher sales volumes in the 2004 period as well as the idling of the zeolite business assets and higher raw material costs. The gross profit margin decreased approximately 240 basis points to 19.6% in the 2004 period from 22.1% for the corresponding period in 2003.

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SG&A and R&D increased \$6.2 million (9.4%) in the first six months of 2004 versus the first six months of 2003 primarily due to higher employee related costs (\$5.2 million), the unfavorable impact of foreign exchange (\$1.7 million), higher SG&A costs related to acquisitions (\$0.9 million), higher outside legal costs (\$0.4 million) as well as higher R&D costs (\$0.3 million) offset, in part, by the benefits of cost reduction efforts and a voluntary separation program implemented in the third quarter of 2003. As a percentage of net sales, SG&A and R&D were 11.2% in 2004 versus 12.3% in the 2003 period.

*Operating Profit.* Operating profit by reportable operating segment for the six-month periods ended June 30, 2004, and 2003 is as follows:

|                              | <b>Operating Profit</b>              |             |
|------------------------------|--------------------------------------|-------------|
|                              | <b>Six Months Ended<br/>June 30,</b> |             |
|                              | <b>2004</b>                          | <b>2003</b> |
|                              | <b>(in thousands)</b>                |             |
| Polymer Chemicals            | \$ 46,264                            | \$ 35,099   |
| Fine Chemicals               | 16,382                               | 27,862      |
| Segment totals               | 62,646                               | 62,961      |
| Corporate and Other Expenses | (13,161)                             | (10,611)    |
| Operating Profit             | \$ 49,485                            | \$ 52,350   |

Six-months 2004 operating profit, including special item charges in the Fine Chemicals segment of \$4.5 million that resulted from the layoff of 53 employees at the zeolite facility at our plant in Pasadena, Texas and their related SFAS No. 88 pension curtailment charge (\$0.9 million) and \$0.6 million for cleanup of the facility, was down \$2.9 million (5.5%) from six months 2003 operating profit. Excluding the effects of the special items, six-months 2004 operating profit increased \$2.2 million (4.2%) from the corresponding 2003 period.

Polymer Chemicals first six months of 2004 segment operating profit increased \$11.2 million (31.8%) from the first six months of 2003. The increase was primarily due to higher shipments in flame retardants (\$14.0 million) and catalysts and additives (\$6.7 million), the overall favorable net effects of foreign exchange (\$5.5 million), offset, in part, by unfavorable raw material costs (\$8.5 million), lower prices (\$5.1 million), primarily in flame retardants, higher SG&A costs related to acquisitions (\$0.9 million) and higher manufacturing and production costs (\$0.6 million).

Fine Chemicals first six months of 2004 segment operating profit, including special item charges of \$4.5 million that resulted from the layoff of 53 employees at the Pasadena plant zeolite facility and their related SFAS No. 88 pension curtailment charge (\$0.9 million) and \$0.6 million for cleanup of the facility, decreased \$11.5 million (41.2%) from the first six months of 2003. Excluding the special items, first six-months 2004 segment operating profit decreased \$6.4 million (23.1%) from the 2003 period primarily due to unfavorable plant utilization and manufacturing costs primarily due to the idling of the zeolite business assets (\$5.8 million), lower prices, offset in part, by higher shipments in bulk active pharmaceuticals (\$4.2 million), and unfavorable sales mix in performance chemicals (\$1.7 million). The decrease was partially offset by higher shipments, offset in part, by lower prices in fine chemistry services and intermediates (\$2.3 million) and higher shipments (\$1.7 million) and prices (\$1.4 million) in agricultural chemicals.

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Corporate and other expenses for the first six months of 2004 increased \$2.6 million (24.0%) from the first six months of 2003 primarily due to higher estimated employee incentive costs.

*Interest and Financing Expenses.* Interest and financing expenses for the first six months of 2004 amounted to \$2.9 million, up slightly from \$2.6 million in the first six months of 2003 due to higher average outstanding debt in the 2004 period.

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*Other Income (Expense), Net Including Minority Interest.* Other income (expense), net for the first six months of 2004 amounted to \$1.6 million, down \$1.6 million from the 2003 corresponding period. The decrease is primarily attributable to the absence of \$4.3 million of interest income from an Internal Revenue Service income tax settlement in the 2003 period, partially offset by foreign exchange hedging gains of \$2.9 million related to our hedging of euros for our acquisition of the refinery catalysts business of Akzo Nobel in the 2004 period.

*Income Taxes.* The first six months of 2004 effective income tax rate was 28.7%, up from 10.4% for the corresponding period in 2003. The significant differences between the U.S. federal statutory income tax rate on pretax income and the effective income tax rate for the six-month periods ended June 30, 2004 and 2003, respectively, are as follows:

|   | % of Income                  |        |
|---|------------------------------|--------|
|   | Before Income Taxes          |        |
|   | Six Months Ended<br>June 30, |        |
|   | 2004                         | 2003   |
| Federal statutory rate                  | 35.0%                        | 35.0%  |
| Revaluation of reserve requirements     |                              | (12.5) |
| State taxes, net of federal tax benefit | 0.5                          | 0.9    |
| Extraterritorial income exclusion       | (2.7)                        | (2.4)  |
| Depletion                               | (1.9)                        | (1.7)  |
| Federal income tax settlement           |                              | (8.4)  |
| Other items, net                        | (2.2)                        | (0.5)  |
| Effective income tax rate               | 28.7%                        | 10.4%  |

*Year Ended December 31, 2003 Compared to Year Ended December 31, 2002 and Year Ended December 31, 2002 Compared to Year Ended December 31, 2001*

*Net Sales.* Net sales by operating segments for the three years ended December 31, are as follows:

|                   | Net Sales      |              |            |
|-------------------|----------------|--------------|------------|
|                   | 2003           | 2002         | 2001       |
|                   | (in thousands) |              |            |
| Polymer Chemicals | \$ 629,856     | \$ 552,042   | \$ 479,373 |
| Fine Chemicals    | 480,381        | 455,876      | 463,379    |
| Segment totals    | \$ 1,110,237   | \$ 1,007,918 | \$ 942,752 |

Net sales for 2003 were \$1,110.2 million, up \$102.3 million (10.2%) from net sales of \$1,007.9 million in 2002. Polymer Chemicals net sales in 2003 increased \$77.8 million (14.1%) due to the favorable impact of foreign exchange (\$30.6 million), the addition of our acquisitions (\$54.9 million), higher shipments in flame retardants (\$13.5 million) and favorable pricing in catalysts and additives (\$3.2 million). The increase was partially offset by lower shipments in catalysts and additives (\$21.9 million) and lower prices in flame retardants (\$2.4 million). Fine Chemicals net sales for 2003 increased \$24.5 million (5.4%) due to the favorable impact of foreign exchange (\$26.0 million), higher shipments in agricultural chemicals (\$8.2 million) and fine chemistry services and intermediates (\$6.1 million) and the addition of our Atofina acquisition (\$1.9 million). The increase was partially offset by unfavorable product mix (\$3.7 million) and prices (\$3.0 million) in performance chemicals, lower shipments (\$6.3 million) and unfavorable pricing (\$0.8 million) in bulk active pharmaceuticals, as well as unfavorable pricing in fine chemistry services and intermediates (\$3.6 million).

Net sales for 2002 amounted to \$1,007.9 million, up \$65.2 million (6.9%), from \$942.7 million in 2001. Polymer Chemicals net sales in 2002 were up \$72.7 million (15.2%) due to higher shipments (\$47.9 million) partially offset by lower pricing (\$15.7 million) in flame retardants and the increase in net sales of \$37.4 million

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resulting from the mid-year 2001 acquisitions of Martinswerk GmbH and the custom and fine chemicals businesses of ChemFirst Inc. and higher shipments (\$7.2 million) offset, in part, by lower pricing (\$3.8 million) in catalysts and additives. Fine Chemicals net sales in 2002 were down \$7.5 million (1.6%) due to lower shipments (\$32.6 million) partially offset by higher pricing (\$1.3 million) in agricultural chemicals and fine chemistry services and intermediates and product mix in performance chemicals (\$5.7 million); offset by an increase in net sales from our mid-year 2001 acquisitions of Martinswerk and ChemFirst businesses (\$28.9 million).

*Operating Costs and Expenses.* Cost of goods sold in 2003 increased \$96.3 million (12.4%) from 2002. The increase was primarily due to operating costs associated with our 2003 acquisitions, the favorable impact of foreign exchange of \$12.7 million as well as the effects of raw material and energy costs of \$24.0 million. This increase is partially offset by the absence of a \$2.6 million charge to costs of sales related to the discontinuance and withdrawal from a water treatment venture in the 2002 period. The gross profit margin decreased approximately 160 basis points to 21.5% for 2003 from 23.1% in 2002. Overall, our average 2003 raw material costs were significantly higher, increasing by \$16.0 million from 2002. Energy costs in 2003 were \$8.0 million higher than in 2002.

Cost of goods sold in 2002 increased \$54.0 million (7.5%) from 2001. The increase was primarily due to operating costs associated with increased shipments over 2001 in flame retardants and our acquisitions of Martinswerk and the ChemFirst businesses, lower pension income as well as a charge of approximately \$2.6 million (\$8.3 million, net of probable insurance recovery of \$5.7 million) related to the discontinuance of product support for and the withdrawal from a water treatment venture. This increase is partially offset by favorable plant utilization and production costs and the favorable effects of foreign exchange transaction gains of approximately \$1.7 million in 2002 versus foreign exchange transaction gains of approximately \$0.5 million in 2001. Gross profit margin decreased to 23.1% in 2002 from 23.5% in 2001. Overall, our average 2002 raw material costs were significantly lower, decreasing by \$26.9 million from 2001. Energy costs in 2002 were \$0.4 million lower than in 2001.

Selling, general and administrative expenses, combined with research and development expenses ( SG&A ) in 2003 increased \$7.5 million (5.8%) from 2002 primarily due to the unfavorable impact of foreign exchange (\$4.4 million), lower pension income (\$2.7 million), higher outside services approximating \$3.0 million and higher SFAS No. 2 research and development costs (\$1.9 million) partially offset by lower employee incentive costs (\$2.8 million) and our overall cost reduction efforts. The 2003 increase in SG&A compares to an increase of \$7.3 million (6.1%) in 2002 from 2001 primarily due to higher employee-related costs as well as a \$3.5 million increase in recurring SG&A associated with our mid-year 2002 acquisitions of Martinswerk and ChemFirst businesses. As a percentage of net sales, SG&A was 12.2% in 2003 versus 12.7% in 2002 and 12.8% in 2001.

*Operating Profit.* Operating profit by operating segments for the three years ended December 31, are as follows:

|                              | Operating Profit |                   |                  |
|------------------------------|------------------|-------------------|------------------|
|                              | 2003             | 2002              | 2001             |
|                              | (in thousands)   |                   |                  |
| Polymer Chemicals            | \$ 70,370        | \$ 64,754         | \$ 60,121        |
| Fine Chemicals               | 48,988           | 60,576            | 61,036           |
| Corporate and Other Expenses | (26,534)         | (22,511)          | (22,707)         |
| <b>Totals</b>                | <b>\$ 92,824</b> | <b>\$ 102,819</b> | <b>\$ 98,450</b> |

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Our operating profit in 2003, including a \$7.5 million voluntary separation charge and a \$2.5 million impairment charge relating to real estate held for sale, decreased \$10.0 million (9.7%) from the 2002 period.

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Higher raw material and energy costs were significant contributors to this decrease. The decrease is partially offset by the favorable net effects of foreign exchange, the impact of our 2003 acquisitions and the absence of a \$2.6 million charge to costs of sales related to the discontinuance and withdrawal from a water treatment venture in the 2002 period.

Our operating profit in 2002 increased \$4.4 million (4.4%) from 2001. Reduced raw material and favorable manufacturing costs and plant utilization, higher shipments in flame retardants as well as the favorable integration of Martinswerk contributed to this increase. The increase was partially offset by lower pricing, lower shipments in Fine Chemicals agricultural chemicals and fine chemistry services and intermediates product lines, a charge of approximately \$2.6 million related to the discontinuance of product support for and the withdrawal from a water treatment venture and a charge of \$1.5 million related to workforce reductions. SG&A in 2002 increased \$7.3 million (6.1%) from 2001 primarily due to higher employee-related costs as well as a \$3.5 million increase in recurring SG&A associated with the mid-year 2001 acquisitions.

Polymer Chemicals operating profit for 2003, including a \$2.9 million allocation charge related to a voluntary severance program, increased \$5.6 million (8.7%) from 2002. Excluding the above charge, 2003 operating profit increased \$8.5 million primarily due to the favorable net effects of foreign exchange (\$10.4 million), the favorable impact of our acquisitions (\$9.8 million), lower production costs (\$3.9 million) and a 2002 period reclassification from corporate and other expenses (\$2.0 million) offset, in part, by higher raw material and energy costs (\$10.1 million) and lower shipments in catalysts and additives (\$7.2 million) and flame retardants (\$1.0 million).

Polymer Chemicals operating results for 2002 increased \$4.6 million (7.7%) versus 2001, primarily due to higher shipments in flame retardants (\$15.9 million), which includes the impact of the acquisition of Martinswerk and favorable raw material costs (\$13.2 million). The increase was partially offset by lower pricing (\$21.1 million) primarily in flame retardants and a first quarter 2002 reclassification of bad debt expense from corporate and other expenses (\$2.0 million).

Fine Chemicals operating profit for 2003, including a \$1.8 million allocation charge related to a voluntary severance program, decreased \$11.6 million (19.1%) from 2002. Excluding the above charge, 2003 operating profit decreased \$9.8 million (16.1%) primarily due to higher raw material and energy costs (\$13.9 million), unfavorable manufacturing costs (\$7.8 million), lower prices (\$3.0 million) and product mix (\$2.5 million) in performance chemicals, and lower prices in fine chemistry services and intermediates (\$3.6 million) as well as bulk active pharmaceuticals (\$0.8 million). This decrease was partially offset by higher shipments in fine chemistry services and intermediates (\$7.4 million), agricultural chemicals (\$5.7 million), and bulk active pharmaceuticals (\$3.0 million), the absence of a \$2.6 million charge to costs of sales related to the discontinuance and withdrawal from a water treatment venture in the 2002 period and the favorable net effects of foreign exchange (\$3.1 million).

Fine Chemicals operating results for 2002 decreased \$0.5 million (0.8%) versus 2001 primarily due to lower pricing (\$13.7 million) primarily in performance chemicals, lower shipments (\$10.9 million) primarily in agricultural chemicals and fine chemistry services and intermediates, and a charge of approximately \$2.6 million (\$8.3 million, net of probable insurance recovery of \$5.7 million) related to the discontinuance of product support for and the withdrawal from a water treatment venture. The decrease was partially offset by favorable raw material (\$13.7 million) and manufacturing costs (\$12.8 million), primarily due to increased production in the detergent builders zeolites product line.

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Corporate and other expenses for 2003 increased \$4.0 million (17.9%) from 2002, primarily due to the following adjustments recorded in the respective periods. Excluding the adjustments, corporate and other expenses were down approximately \$1.7 million in 2003 due primarily to lower employee incentive costs and our overall cost reduction efforts.

|   | <b>Corporate and Other Expenses</b> |                  |                                 |
|---|-------------------------------------|------------------|---------------------------------|
|   | <b>2003</b>                         | <b>2002</b>      | <b>Increase/<br/>(Decrease)</b> |
|   | (in thousands)                      |                  |                                 |
| Expenses for the years ended December 31                                    | \$ 26,534                           | \$ 22,510        | \$ 4,024                        |
| 2003 voluntary severance program  | (2,758)                             |                  | (2,758)                         |
| Impairment charge on real estate held for sale                              | (2,546)                             |                  | (2,546)                         |
| Reclassification of bad debt reserve to polymer chemicals segment           |                                     | 2,000            | (2,000)                         |
| 2002 workforce reduction  |                                     | (1,550)          | 1,550                           |
| <b>Net change excluding 2002 adjustment and voluntary severance program</b> | <b>\$ 21,230</b>                    | <b>\$ 22,960</b> | <b>\$ (1,730)</b>               |

Corporate and other expenses in 2002 decreased \$0.2 million (0.9%) versus 2001. This decrease is attributable to a first quarter 2002 reclassification of bad debt expense to the Polymer Chemicals segment operating profit (\$2.0 million) partially offset by a higher employee incentive provision and a charge of \$1.5 million related to workforce reductions in 2002.

*Interest and Financing Expenses.* Interest and financing expenses for 2003 increased \$0.3 million from \$5.1 million in 2002 due primarily to higher commitment fees under our then-existing credit agreement offset, in part, by lower average interest rates on higher average outstanding long term debt. Interest and financing expenses for 2002 were impacted by an overall lower average interest rate for the year versus 2001 partially offset by higher average debt outstanding during 2002. The higher debt in 2002 reflected the impact of the two acquisitions during 2001 as well as the repurchase of 4,000,000 common shares in February 2002.

*Other Income, Net Including Minority Interest.* Other income, net including minority interest for 2003 amounted to \$0.6 million, down \$2.7 million from 2002 primarily due to higher operating losses on joint venture investments offset, in part, by an increase in interest on income tax settlements (\$0.7 million) in 2003 versus 2002. Other income, net including minority interest decreased to \$3.4 million in 2002 from \$4.3 million in 2001, primarily due to the minority interest of \$2.1 million in our majority-owned subsidiary, Stannica LLC, partially offset by interest received in the amount of \$2.0 million related to a favorable income tax settlement in 2002. See Note 1, Summary of Significant Accounting Policies Investments of the notes to our consolidated financial statements included elsewhere in this prospectus supplement.

*Income Taxes.* Income taxes in 2003 decreased \$14.2 million from 2002. The 2003 period includes the favorable benefit of \$7.5 million related to the revaluation of reserve requirements as the Internal Revenue Service closed audits related to tax years 1998 and 1999 as well as the impact of an IRS income tax settlement related to tax years 1996 and 1997 received in the amount of \$4.5 million. Income taxes in 2002 were relatively unchanged compared to 2001. Income taxes in 2002 included an IRS settlement in the amount of \$2.5 million offset by higher pre-tax income in 2002. The effective tax rate for 2003 was 15.8%, which was down from 27.8% in 2002 and 29.9% in 2001. See Note 13, Income Taxes of the notes to our consolidated financial statements included elsewhere in this prospectus supplement, for details of changes in effective income tax rates.

**Summary of Critical Accounting Policies**

*Estimates and Assumptions*

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Listed below are the estimates and assumptions that we consider to be significant in the preparation of the financial statements.

*Allowance for Doubtful Accounts* We estimate losses for uncollectible accounts based on the aging of receivables and the evaluation of the likelihood of success in collecting the receivables.

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*Depreciation* Book depreciation is estimated based upon internal engineering studies, which are conducted periodically. Engineering and manufacturing, with the advice of specific product management, review each project to make sure that assets to be capitalized are depreciated based upon the estimated product life and/or individual asset life, whichever is less.

*Inventory Obsolescence* Inventories are viewed on a monthly basis to determine age, movement and turnover. Reserves are setup periodically based upon estimates to adjust inventory values in line with their net realizable value.