

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

WASHINGTON, D. C. 20549

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**FORM 10-Q**

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

For the quarterly period ended September 30, 2006

OR

**.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-32190

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**NEWMARKET CORPORATION**

(Exact name of registrant as specified in its charter)

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**VIRGINIA**  
(State or other jurisdiction of  
incorporation or organization)  
**330 SOUTH FOURTH STREET**

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

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

(Zip Code)

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Number of shares of common stock, without par value, outstanding as of September 30, 2006: 17,272,259.

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NEWMARKET CORPORATION

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

(In thousands, except per share amounts)

(Unaudited)

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

See accompanying notes to the condensed consolidated financial statements.

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

(In thousands, except share amount)

(Unaudited)

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

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### Shareholders' equity:

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

See accompanying notes to the condensed consolidated financial statements.

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

(In thousands)

(Unaudited)

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

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

See accompanying notes to the condensed consolidated financial statements.



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**NEWMARKET CORPORATION AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

1. **Financial Statement Presentation**

In the opinion of management, the accompanying condensed consolidated financial statements of NewMarket Corporation and Subsidiaries contain all necessary adjustments for the fair presentation of, in all material respects, our consolidated financial position as of September 30, 2006, as well as our consolidated results of operations for the three-months and nine-months ended September 30, 2006 and September 30, 2005 and our consolidated cash flows for the nine-months ended September 30, 2006 and September 30, 2005. The financial statements are subject to normal year-end adjustments and do not include comprehensive footnotes. All adjustments are of a normal, recurring nature, unless otherwise disclosed. These financial statements should be read in conjunction with the consolidated financial statements and related notes included in the NewMarket Corporation Annual Report on Form 10-K for the fiscal year ended December 31, 2005 (2005 Annual Report), as filed with the Securities and Exchange Commission (SEC). The results of operations for the three-month and nine-month periods ended September 30, 2006 are not necessarily indicative of the results to be expected for the full year ending December 31, 2006. The December 31, 2005 condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

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

At both September 30, 2006 and December 31, 2005, we had a book overdraft for some of our disbursement cash accounts. A book overdraft represents transactions that have not cleared the bank accounts at the end of the reporting period. We transfer cash on an as-needed basis to fund these items as they clear the bank in subsequent periods.

Cash dividends declared for the nine-months ended September 30, 2006 totaled 37.5 cents per share including a dividend of 12.5 cents per share declared on February 23, 2006 and paid April 3, 2006; a dividend of 12.5 cents per share declared on April 27, 2006 and paid on July 3, 2006; and a dividend of 12.5 cents per share declared on July 20, 2006 and paid on October 2, 2006. There were no dividends declared or paid for the nine-months ended September 30, 2005.

2. **Asset Retirement Obligations**

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

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|  | September 30<br>2006  | December 31<br>2005 |
|--|-----------------------|---------------------|
|  | <i>(in thousands)</i> |                     |
| Asset retirement obligation, beginning of period | \$ 10,386             | \$ 10,268           |
| Accretion expense                                | 526                   | 761                 |
| Liabilities incurred                             |                       | 675                 |
| Liabilities settled                              | (3,308)               | (3,736)             |
| Changes in expected cash flows and timing        | (810)                 | 2,292               |
| Foreign currency impact                          | 168                   | 126                 |
| Asset retirement obligation, end of period       | \$ 6,962              | \$ 10,386           |

**3. Stock-Based Compensation**

On May 27, 2004, at the Ethyl Corporation (Ethyl) annual meeting, Ethyl shareholders approved the 2004 Incentive Compensation and Stock Plan (the Plan). In connection with the holding company formation, NewMarket assumed all of Ethyl's rights, liabilities, and obligations under the Plan. Any employee of our company or an affiliate or a person who is a member of our board of directors or the board of directors of an affiliate is eligible to participate in the Plan if the Bonus, Salary and Stock Option Committee of our Board of Directors (the Administrator), in its sole discretion, determines that such person has contributed significantly or can be expected to contribute significantly to the profits or growth of our company or its affiliates (each, a participant). Under the terms of the Plan, we may grant a participant stock awards, incentive awards, options (which may be either incentive stock options or nonqualified stock options), or stock appreciation rights (SARs), which may be granted with a related option. Stock options entitle the participant to purchase a specified number of shares of our common stock at a price that is fixed by the Administrator at the time the option is granted; provided, however, that the price cannot be less than the shares' fair market value on the date of grant. The maximum period in which an option may be exercised is fixed by the Administrator at the time the option is granted but, in the case of an incentive stock option, cannot exceed ten years.

The maximum aggregate number of shares of our common stock that may be issued under the Plan is 1,500,000. No participant may be granted or awarded in any calendar year options or SARs covering more than 200,000 shares of our common stock in the aggregate. For purposes of this limitation and the individual limitation on the grant of options, an option and corresponding SAR are treated as a single award.

Some previously granted options become exercisable when the market price of our common stock reaches specified levels or when our earnings meet designated objectives. Other options become exercisable over a stated period of time. These previously granted outstanding options were awarded under Ethyl's 1982 Stock Option Plan, which terminated in March 2004, and pursuant to which no further options may be granted.

A summary of NewMarket's stock options outstanding is presented below in whole shares.

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|                                   | Shares    | Weighted- Average<br>Exercise Price | Weighted- Average<br>Remaining<br>Contractual Term in Years | Aggregate Intrinsic<br>Value<br>(in thousands) |
|-----------------------------------|-----------|-------------------------------------|---|--|
| Outstanding at January 1, 2006    | 379,200   | \$ 9.63                             |   |  |
| Exercised                         | (190,700) | 4.35                                |   | \$ 7,485                                       |
| Outstanding at September 30, 2006 | 188,500   | \$ 14.97                            | 3.83  | \$ 8,142                                       |
| Exercisable at September 30, 2006 | 138,500   | \$ 4.35                             | 5.14  | \$ 7,453                                       |

We have 50,000 options outstanding to purchase shares of our common stock at an exercise price of \$44.375 per share. Each of these options includes an associated SAR. At September 30, 2006, none of these options are vested or exercisable. These options will become 100% vested and exercisable on November 13, 2006 and will expire on December 13, 2006. We also have outstanding 138,500 options to purchase shares of our common stock at an exercise price of \$4.35 per share. None of these options include an associated SAR. These options are fully vested and exercisable at September 30, 2006. All but 20,000 of the \$4.35 options will expire on September 28, 2011. The remaining 20,000 options will expire on October 10, 2012.

On January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS 123R), using the modified prospective application. SFAS 123R requires that the cost from share-based payment transactions be recognized in the financial statements and be determined using a fair-value-based measurement method. We use an option-pricing model similar to Black-Scholes to estimate the fair-value of options. This standard primarily applies to all awards granted or modified after January 1, 2006, as well as non-vested awards.

We have neither granted nor modified any awards since January 1, 2006. We recorded compensation costs of \$455 thousand during the three-months ended September 30, 2006 and \$689 thousand during the nine-months ended September 30, 2006 related to our stock options. We recognized a tax benefit on the \$4.35 options of \$739 thousand for the three-months ended September 30, 2006 and \$1.4 million for the nine-months ended September 30, 2006.

Prior to adoption of SFAS 123R, we accounted for our stock-based compensation plan using the intrinsic-value method. Under this method, we did not record compensation cost for stock options unless the quoted market price of the stock at grant date or other measurement date exceeded the amount the employee must pay to exercise the stock option. Compensation cost for restricted stock grants, if issued, was recognized over the vesting period. The following table illustrates the effect on net income and earnings per share as if we had applied the fair-value method of accounting for the stock-based compensation plan during the three-months and nine-months ended September 30, 2005.

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|   | Three Months Ended<br>September 30,<br>2005     | Nine Months Ended<br>September 30,<br>2005 |
|---|---|--|
|   | <i>(in thousands, except per share amounts)</i> |  |
| Net income, as reported   | \$ 13,401                                       | \$ 31,230                                  |
| Less: Total stock-based employee compensation expense determined under the fair-value based method, net of related tax effect |   | (23)                                       |
| Net income, pro forma   | \$ 13,401                                       | \$ 31,207                                  |
| Earnings per share:   |   |  |
| Basic, as reported  | \$ 0.79   | \$ 1.84                                    |
| Basic, pro forma  | \$ 0.79   | \$ 1.83                                    |
| Diluted, as reported  | \$ 0.77   | \$ 1.80                                    |
| Diluted, pro forma  | \$ 0.77   | \$ 1.80                                    |

4. **Segment Information**

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

**Net Sales by Segment***(in millions)*

|                        | Three Months Ended<br>September 30 |          | Nine Months<br>Ended<br>September 30 |          |
|------------------------|------------------------------------|----------|--------------------------------------|----------|
|                        | 2006                               | 2005     | 2006                                 | 2005     |
| Petroleum additives    | \$ 323.9                           | \$ 267.4 | \$ 948.4                             | \$ 773.6 |
| Tetraethyl lead        | 1.2                                | 3.5      | 8.7                                  | 8.3      |
| Consolidated net sales | \$ 325.1                           | \$ 270.9 | \$ 957.1                             | \$ 781.9 |

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

|  | Three Months Ended<br>September 30 |         | Nine Months Ended<br>September 30 |         |
|--|------------------------------------|---------|-----------------------------------|---------|
|  | 2006                               | 2005    | 2006                              | 2005    |
| Petroleum additives (a)                        | \$ 30.4                            | \$ 16.8 | \$ 83.2                           | \$ 42.4 |
| Tetraethyl lead (b)                            |                                    | 5.5     | 2.5                               | 19.2    |
| Contract manufacturing and other               | 0.9                                | 0.2     | 3.2                               | 1.8     |
| Segment operating profit                       | 31.3                               | 22.5    | 88.9                              | 63.4    |
| Corporate, general, and administrative expense | (3.9)                              | (3.6)   | (9.8)                             | (9.8)   |
| Special items (c)                              | 5.3                                | 2.9     | 8.6                               | 2.9     |
| Interest expense                               | (3.9)                              | (4.1)   | (11.7)                            | (12.9)  |
| Other income (expense), net (d)                | 1.0                                |         | 6.7                               | (0.2)   |
| Income before income taxes                     | \$ 29.8                            | \$ 17.7 | \$ 82.7                           | \$ 43.4 |

Certain prior period amounts have been reclassified to conform to the current presentation. There was no impact on net income in any period as a result of such reclassifications.

- (a) The petroleum additives segment for the three-months and nine-months ended September 30, 2006 included a gain of \$2.6 million associated with a legal settlement related to transportation charges. The after-tax gain amounted to \$1.6 million.
- (b) The tetraethyl lead segment for the nine-months ended September 30, 2005 included a gain of \$3.9 million associated with the insurance settlement related to premises asbestos liabilities. The after-tax gain amounted to \$2.5 million.
- (c) Special items for both third quarter and nine months 2006 included a \$5.3 million gain (\$3.3 million after tax) related to an earn-out agreement for certain pharmaceutical intellectual property that we sold in 1994. Nine-months 2006 also includes a \$3.3 million gain (\$2.0 million after tax) on the sale of property. The 2005 special item for both 2005 periods of \$2.9 million (\$1.8 million after tax) was a gain on the sale of corporate property.
- (d) Other income (expense), net for nine-months 2006 included a \$4.4 million gain (\$2.9 million after tax) for interest on an income tax settlement.

**Table of Contents****Depreciation and Amortization***(in millions)*

|                                     | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |             |
|-------------------------------------|---------------------------|-------------|--------------------------|-------------|
|                                     | <b>September 30</b>       |             | <b>September 30</b>      |             |
|                                     | <b>2006</b>               | <b>2005</b> | <b>2006</b>              | <b>2005</b> |
| Petroleum additives                 | \$ 5.5                    | \$ 6.1      | \$ 17.0                  | \$ 19.6     |
| Tetraethyl lead                     | 1.4                       | 1.7         | 4.1                      | 5.1         |
| Other long-lived assets             | 0.4                       | 0.4         | 1.1                      | 1.1         |
| Total depreciation and amortization | \$ 7.3                    | \$ 8.2      | \$ 22.2                  | \$ 25.8     |

**5. Pension and Postretirement Plans**

During the nine-months ended September 30, 2006, we made contributions of approximately \$5.5 million for domestic pension plans and approximately \$2.1 million for domestic postretirement plans. We expect to make total contributions in 2006 of at least \$7 million for our domestic pension plans and approximately \$3 million for our domestic postretirement plans.

We made contributions of approximately \$5.4 million for our foreign pension plans and approximately \$75 thousand for a foreign postretirement plan during the nine-months ended September 30, 2006. During 2006, we expect to make total contributions of at least \$7 million to our foreign pension plans and \$100 thousand to our foreign postretirement plan.

With the recent changes to the future funding requirements of defined benefit plans, we are evaluating the possibility of increasing the 2006 contributions.

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

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|                                    | <b>Domestic<br/>Pension Benefits</b> |             |                          |             |
|------------------------------------|--------------------------------------|-------------|--------------------------|-------------|
|                                    | <b>Three Months Ended</b>            |             | <b>Nine Months Ended</b> |             |
|                                    | <b>September 30</b>                  |             | <b>September 30</b>      |             |
|                                    | <b>2006</b>                          | <b>2005</b> | <b>2006</b>              | <b>2005</b> |
|                                    | <i>(in thousands)</i>                |             |                          |             |
| Service cost                       | <b>\$ 1,105</b>                      | \$ 1,368    | <b>\$ 3,970</b>          | \$ 4,103    |
| Interest cost                      | <b>1,542</b>                         | 1,353       | <b>4,657</b>             | 4,309       |
| Expected return on plan assets     | <b>(1,526)</b>                       | (1,496)     | <b>(4,654)</b>           | (4,489)     |
| Amortization of prior service cost | <b>10</b>                            | 200         | <b>237</b>               | 600         |
| Amortization of net loss           | <b>526</b>                           | 506         | <b>1,826</b>             | 1,518       |
|                                    | <b>\$ 1,657</b>                      | \$ 1,931    | <b>\$ 6,036</b>          | \$ 6,041    |

|                                    | <b>Domestic<br/>Postretirement Benefits</b> |             |                          |             |
|------------------------------------|---|-------------|--------------------------|-------------|
|                                    | <b>Three Months Ended</b>                   |             |                          |             |
|                                    | <b>September 30</b>                         |             | <b>Nine Months Ended</b> |             |
|                                    | <b>2006</b>                                 | <b>2005</b> | <b>2006</b>              | <b>2005</b> |
|                                    | <i>(in thousands)</i>                       |             |                          |             |
| Service cost                       | <b>\$ 410</b>                               | \$ 340      | <b>\$ 1,229</b>          | \$ 1,021    |
| Interest cost                      | <b>958</b>                                  | 927         | <b>2,874</b>             | 2,781       |
| Expected return on plan assets     | <b>(471)</b>                                | (485)       | <b>(1,412)</b>           | (1,456)     |
| Amortization of prior service cost | <b>(6)</b>                                  | (8)         | <b>(16)</b>              | (22)        |
|                                    | <b>\$ 891</b>                               | \$ 774      | <b>\$ 2,675</b>          | \$ 2,324    |

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|                                    | Foreign<br>Pension Benefits        |                 |                                   |                 |
|------------------------------------|------------------------------------|-----------------|-----------------------------------|-----------------|
|                                    | Three Months Ended<br>September 30 |                 | Nine Months Ended<br>September 30 |                 |
|                                    | 2006                               | 2005            | 2006                              | 2005            |
|                                    | <i>(in thousands)</i>              |                 |                                   |                 |
| Service cost                       | \$ 676                             | \$ 508          | \$ 1,975                          | \$ 1,577        |
| Interest cost                      | 1,102                              | 1,027           | 3,216                             | 3,198           |
| Expected return on plan assets     | (1,005)                            | (839)           | (2,933)                           | (2,601)         |
| Amortization of prior service cost | 83                                 | 77              | 242                               | 239             |
| Amortization of transition asset   | (9)                                | (12)            | (26)                              | (35)            |
| Amortization of net loss           | 384                                | 367             | 1,120                             | 1,146           |
|                                    | <b>\$ 1,231</b>                    | <b>\$ 1,128</b> | <b>\$ 3,594</b>                   | <b>\$ 3,524</b> |

|                                    | Foreign<br>Postretirement Benefits |                      |
|------------------------------------|------------------------------------|----------------------|
|                                    | Three Months Ended                 | Nine Months Ended    |
|                                    | 2006                               | September 30<br>2006 |
|                                    | <i>(in thousands)</i>              |                      |
| Service cost                       | \$ 4                               | \$ 13                |
| Interest cost                      | 29                                 | 85                   |
| Expected return on plan assets     | 16                                 | 49                   |
| Amortization of prior service cost | 14                                 | 40                   |
|                                    | <b>\$ 63</b>                       | <b>\$ 187</b>        |

During June 2006, we amended our domestic salaried pension plan. The amendment changes the factors for determining early retirement benefits so that the early retirement benefit payable at all ages is actuarially equivalent to the normal retirement benefit payable at age 65. Previously, the early retirement factors resulted in a more favorable retirement benefit at ages prior to 65. The amendment was effective August 1, 2006 and resulted in a remeasurement of the domestic salaried plan and the domestic non-qualified plan. The remeasurement resulted in lower pension expense, as well as lower actuarial liabilities for the salaried and non-qualified plans. The impact on the 2006 annual pension expense of the remeasurement will be a decrease of approximately \$1.1 million from the expected 2006 pension expense prior to the amendment. The projected benefit obligation decreased approximately \$11.7 million, while the accumulated benefit obligation decreased approximately \$4.2 million due to the amendment.

#### 6. Earnings Per Share

Basic and diluted earnings per share are calculated as shown in the table below. Options are not included in the computation of diluted earnings per share when the option exercise price exceeds the average market price of the common stock, as the impact on earnings per share would be anti-dilutive.



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At both September 30, 2006 and September 30, 2005, there were outstanding options to purchase 50,000 shares of NewMarket common stock at an exercise price of \$44.375 per share. For the three-months and nine-months ended September 30, 2005, these options were not included in the computation of diluted earnings per share due to their anti-dilutive impact. These options have been included in the calculation of diluted earnings per share since the three-months ended June 30, 2006 as they are no longer anti-dilutive.

|  | Three Months<br>Ended<br>September 30    |           | Nine Months Ended<br>September 30 |           |
|--|--|-----------|-----------------------------------|-----------|
|  | 2006                                     | 2005      | 2006                              | 2005      |
|  | (in thousands, except per share amounts) |           |                                   |           |
| <b>Basic earnings per share</b>                      |  |           |                                   |           |
| Numerator:   |  |           |                                   |           |
| Net income, as reported                              | \$ 18,921                                | \$ 13,401 | \$ 53,062                         | \$ 31,230 |
| Denominator:   |  |           |                                   |           |
| Average number of shares of common stock outstanding | 17,257                                   | 17,042    | 17,204                            | 17,013    |
| Basic earnings per share                             | \$ 1.10                                  | \$ .79    | \$ 3.08                           | \$ 1.84   |
| <b>Diluted earnings per share</b>                    |  |           |                                   |           |
| Numerator:   |  |           |                                   |           |
| Net income, as reported                              | \$ 18,921                                | \$ 13,401 | \$ 53,062                         | \$ 31,230 |
| Denominator:   |  |           |                                   |           |
| Average number of shares of common stock outstanding | 17,257                                   | 17,042    | 17,204                            | 17,013    |
| Shares issuable upon exercise of stock options       | 152                                      | 275       | 201                               | 299       |
| Total shares   | 17,409                                   | 17,317    | 17,405                            | 17,312    |
| Diluted earnings per share                           | \$ 1.09                                  | \$ .77    | \$ 3.05                           | \$ 1.80   |

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

The following table provides certain information related to our intangible assets.

|  | September 30 2006     |                          | December 31 2005      |                          |
|--|-----------------------|--------------------------|-----------------------|--------------------------|
|  | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| <i>(in thousands)</i>                  |                       |                          |                       |                          |
| <b>Amortizing intangible assets</b>    |                       |                          |                       |                          |
| Formulas                               | \$ 85,910             | \$ 43,299                | \$ 85,910             | \$ 39,905                |
| Contracts                              | 40,873                | 40,873                   | 40,873                | 40,873                   |
|  | \$ 126,783            | \$ 84,172                | \$ 126,783            | \$ 80,778                |
| <b>Nonamortizing intangible assets</b> |                       |                          |                       |                          |
| Minimum pension liabilities            | \$ 4,006              |                          | \$ 3,869              |                          |
| <b>Aggregate amortization expense</b>  |                       | \$ 3,394                 |                       | \$ 5,364                 |

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

|        |          |
|--------|----------|
| • 2006 | \$ 4,524 |
| • 2007 | \$ 4,524 |
| • 2008 | \$ 4,524 |
| • 2009 | \$ 4,524 |
| • 2010 | \$ 4,524 |

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

8. Long-term Debt

Long-term debt consisted of the following:

|                                      | September 30 2006 | December 31 2005 |
|--------------------------------------|-------------------|------------------|
| <i>(in thousands)</i>                |                   |                  |
| Senior notes                         | \$ 150,000        | \$ 150,000       |
| Capital lease obligations            | 3,346             | 3,829            |
|                                      | 153,346           | 153,829          |
| Current maturities of long-term debt | (671)             | (640)            |
|                                      | \$ 152,675        | \$ 153,189       |

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### **9. Contractual Commitments and Contingencies**

There have been no significant changes in our contractual commitments from those reported in our 2005 Annual Report.

#### **Litigation**

We are involved in legal proceedings that are incidental to our business and include administrative or judicial actions seeking remediation under environmental laws, such as Superfund.

These proceedings include certain product liability cases. The only product liability case of potential consequence in which we are involved is TEL-related. In that case, Ethyl was served as a defendant in a case filed in the Circuit Court for Baltimore City, Maryland, in September 1999. Smith, et al. v. Lead Industries Association, Inc., et al., alleged personal injuries for seven children from lead exposure arising from lead paint and dust from tailpipe emissions due to leaded gasoline. The court dismissed Ethyl and some other defendants from the case in February 2002 and granted summary judgment to other defendants in November 2002. The plaintiffs appealed both decisions, but did not appeal the dismissal of Ethyl as a defendant. After the Court of Appeals of Maryland dismissed the appeal and remanded the case to the trial court, the trial court entered orders severing certain claims, and the plaintiffs have again appealed the dismissal of the severed claims. If such claims are further pursued against Ethyl, we believe Ethyl has strong defenses and will vigorously defend any such claims.

In December 2005, Afton Chemical Corporation (Afton), a wholly-owned subsidiary, was sued by a competitor, Infineum International Ltd. and Infineum USA L.P., in federal court in Delaware. The suit alleges patent infringement of one patent in connection with some lubricant additive packages. Afton believes it has strong defenses and intends to vigorously defend the lawsuit.

Ethyl recently filed a request for arbitration against a subsidiary of Innospec, Inc. (Innospec). This arbitration is related to a long-standing supply agreement that requires the Innospec subsidiary to supply Ethyl with TEL for resale by Ethyl in the United States (the U.S. Supply Agreement). The request was filed pursuant to the rules of the London Court of International Arbitration. Ethyl filed this request because it believes that Innospec has violated the U.S. Supply Agreement by attempting to increase the price it charges Ethyl for TEL in the United States in a manner not in accordance with the contract. As such, we have not recorded an accrual of these costs. The difference in prices that Innospec is claiming is approximately \$1.7 million for product supplied through September 30, 2006. We are confident in our position and believe we will prevail. Regardless of the outcome, we do not believe the TEL dispute will have a material effect on the financial condition or results of operations of NewMarket. However, with TEL segment operating profit at such a low level, a relatively small increase in cost may be material to TEL segment results.

After the commencement of the above arbitration, Ethyl received three requests for arbitration filed by three subsidiaries of Innospec. The Innospec requests were filed pursuant to the rules of the London Court of International Arbitration and allegedly pursuant to long-standing marketing and supply agreements between Ethyl or its subsidiaries and subsidiaries of Innospec for the sale of TEL outside of the United States. Innospec is claiming the right to terminate the agreements. Although these marketing and supply agreements relate only to TEL, Innospec contends that the agreements impose certain duties that were breached by the sales and marketing in Iraq and South Africa of methylcyclopentadienyl manganese tricarbonyl (MMT<sup>®</sup>) by affiliates of Ethyl. Ethyl will vigorously defend the cases and believes it will ultimately prevail in these arbitrations.

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### **Environmental**

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

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

During late 2003, one of the other PRPs for the Sauget Area 2 Site declared bankruptcy. The performance of this PRP and its related entities is uncertain. We have not yet determined what, if any, impact this may have on us.

At a former TEL plant site located in the state of Louisiana, we have substantially completed environmental remediation and will be monitoring the site for an extended period. The accrual for this site was \$8.5 million at September 30, 2006 and \$8.6 million at December 31, 2005. We based these amounts on the best estimate of future costs discounted at approximately 3% in both 2006 and 2005. We incorporated an inflation factor in determining the discount rate. The remaining environmental liabilities are not discounted. At a plant site in Houston, Texas, we have an accrual of \$7.1 million for environmental remediation, dismantling, and decontamination at September 30, 2006 and \$7.5 million at December 31, 2005. Included in this amount for both periods is \$3 million for ground site remediation.

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

Our accruals for environmental remediation were approximately \$21.5 million at September 30, 2006 and \$22.9 million at December 31, 2005. In addition to the accruals for environmental remediation, we also have accruals for dismantling and decommissioning costs of approximately \$4.3 million at September 30, 2006 and \$6.9 million at December 31, 2005.

### **Other**

During the second quarter 2005, we entered into an agreement with The Travelers Indemnity Company (Travelers) resolving certain long standing issues regarding our coverage for certain premises asbestos claims. In addition, our agreement with Travelers provides a procedure for allocating defense and indemnity costs with respect to certain future premises asbestos claims. The lawsuit we had previously filed against Travelers in the Southern District of Texas was dismissed.

We also settled our outstanding receivable from Albemarle Corporation (Albemarle) for certain premises asbestos liability obligations. As a result of the insurance settlement described above, the outstanding amount owed to us by Albemarle was adjusted to \$1.4 million, compared to \$4 million at year-end 2004. Albemarle paid us \$1.4 million in the third-quarter of 2005.

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These settlements resulted in an aggregate gain of \$3.9 million, which is included as a special item for the nine-months ended September 30, 2005. The net gain represents amounts paid to us to settle historical claims in excess of the receivables we carried on our financial statements from both Travelers and Albemarle in the aggregate.

10. Comprehensive Income and Accumulated Other Comprehensive Loss

The components of comprehensive income consist of the following:

|  | Three Months Ended<br>September 30 |           | Nine Months Ended<br>September 30 |           |
|--|------------------------------------|-----------|-----------------------------------|-----------|
|  | 2006                               | 2005      | 2006                              | 2005      |
|  | <i>(in thousands)</i>              |           |                                   |           |
| Net income                                       | \$ 18,921                          | \$ 13,401 | \$ 53,062                         | \$ 31,230 |
| Other comprehensive income (loss), net of tax    |                                    |           |                                   |           |
| Unrealized loss on marketable equity securities  |                                    | (20)      | (19)                              | (123)     |
| Unrealized gain (loss) on derivative instruments | 63                                 | (239)     | 13                                | 1,215     |
| Foreign currency translation adjustments         | 1,248                              | (820)     | 3,783                             | (5,793)   |
| Other comprehensive income (loss)                | 1,311                              | (1,079)   | 3,777                             | (4,701)   |
| Comprehensive income                             | \$ 20,232                          | \$ 12,322 | \$ 56,839                         | \$ 26,529 |

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

|   | September 30<br>2006  | December 31<br>2005 |
|---|-----------------------|---------------------|
|   | <i>(in thousands)</i> |                     |
| Unrealized gain on marketable equity securities | \$ 13                 | \$ 19               |
| Unrealized gain on derivative instruments       | 13                    |                     |
| Minimum pension liability adjustment            | (18,313)              | (18,313)            |
| Foreign currency translation adjustments        | (8,434)               | (12,217)            |
| Accumulated other comprehensive loss            | \$ (26,734)           | \$ (30,511)         |

11. Special Items

Special items income of \$7.8 million for the third-quarter 2006 and \$11.1 million for nine-months 2006 includes a \$5.3 million gain related to a payment under an earn-out agreement for certain pharmaceutical intellectual property that we sold in 1994, as well as a \$2.6 million gain associated with a legal settlement related to transportation charges. Nine-months 2006 also includes a \$3.3 million gain on the sale of property.

Special items income of \$2.9 million for the third-quarter 2005 and \$6.7 million for nine-months 2005 includes a gain of \$2.9 million on the sale of corporate property. Nine-months 2005 also includes \$3.9 million for a gain associated with the insurance settlement related to premises asbestos liabilities.

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**12. Recently Issued Accounting Pronouncements**

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans – An Amendment of FASB Statements No. 87, 88, 106, and 132(R)* (SFAS 158). This standard requires an employer that is a business entity that sponsors one or more single employer benefit plans to (a) recognize the funded status (defined as the difference between the fair value of plan assets and the benefit obligation) of a benefit plan in the statement of financial position; (b) recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost; (c) measure defined benefit plan assets and obligations as of the date of the employer's fiscal year end; and (d) disclose in the notes to the financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition asset or obligation. The standard is effective for fiscal years ending after December 15, 2006. The actual effect of the standard is dependent upon the fair value of plan assets at December 31, 2006, as well as certain other assumptions determined at December 31, 2006. On a before tax basis, we estimate that intangible assets will decrease approximately \$4 million and total liabilities will increase approximately \$55 million to \$65 million. Total shareholders' equity will decrease approximately \$37 million to \$44 million on an after-tax basis. These amounts do not consider the impact of additional funding of the benefit plans, if any, in the fourth quarter 2006. We do not expect the adoption of SFAS 158 to have an effect on our compliance with the covenants governing our outstanding debt.

In September 2006, the FASB issued Statement of Financial Accounting Standard No. 157, *Fair Value Measurements* (SFAS 157). The standard defines fair value, outlines a framework for measuring fair value, and details the required disclosures about fair value measurements. The standard is effective for years beginning after November 15, 2007. We are evaluating the impact of SFAS 157.

In June 2006, the FASB issued Financial Interpretation 48, *Accounting for Uncertainty in Income Taxes* – an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with Financial Accounting Statement No. 109, *Accounting for Income Taxes*. The interpretation is effective for fiscal years beginning after December 15, 2006. We are evaluating the impact of this interpretation, but do not expect FIN 48 to have a material impact on our financial statements.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108). SAB 108 clarifies the SEC staff's beliefs regarding the process of quantifying financial statement misstatements and is effective for fiscal years ending after November 15, 2006. We do not expect SAB 108 to have a material impact on our financial statements.

**Table of Contents****13. Consolidating Financial Information**

We have outstanding \$150 million aggregate principal amount of 8.875% senior notes due 2010. The senior notes are fully and unconditionally guaranteed by certain of our subsidiaries (Guarantor Subsidiaries) on a joint and several unsecured senior basis. The Guarantor Subsidiaries include all of our existing and future wholly-owned domestic restricted subsidiaries and certain of our existing wholly-owned foreign subsidiaries. The Guarantor Subsidiaries and the subsidiaries that do not guarantee the senior notes (the Non-Guarantor Subsidiaries) are wholly owned by NewMarket Corporation (the Parent Company). The Guarantor Subsidiaries consist of the following:

**Domestic Subsidiaries**

|                                    |                                      |
|------------------------------------|--------------------------------------|
| Ethyl Corporation                  | Afton Chemical Corporation           |
| Ethyl Asia Pacific LLC             | Afton Chemical Asia Pacific LLC      |
| Ethyl Canada Holdings, Inc.        | Afton Chemical Canada Holdings, Inc. |
| Ethyl Export Corporation           | Afton Chemical Japan Holdings, Inc.  |
| Ethyl Interamerica Corporation     | Afton Chemical Additives Corporation |
| Ethyl Ventures, Inc.               | NewMarket Services Corporation       |
| Interamerica Terminals Corporation | The Edwin Cooper Corporation         |
| Afton Chemical Intangibles LLC     | Old Town LLC                         |

**Foreign Subsidiaries**

|                           |   |
|---------------------------|---|
| Ethyl Europe S.P.R.L.     | Afton Chemical S.P.R.L.                   |
| Ethyl Administration GmbH | Afton Chemical Industria de Aditivos Ltda |
| Ethyl Services GmbH       |   |

We conduct all of our business and derive all of our income from our subsidiaries. Therefore, our ability to make payments on the senior notes or other obligations is dependent on the earnings and the distribution of funds from our subsidiaries. There are no restrictions on the ability of any of our domestic subsidiaries to transfer funds to the Parent Company. We are currently able to transfer funds from our foreign subsidiaries, although certain conditions may arise occasionally that may restrict these transfers.

The following sets forth the condensed consolidating statements of income for the three-months and nine-months ended September 30, 2006 and September 30, 2005, condensed consolidating balance sheets as of September 30, 2006 and December 31, 2005, and condensed consolidating statements of cash flows for the nine-months ended September 30, 2006 and September 30, 2005 for the Parent Company, the Guarantor Subsidiaries and Non-Guarantor Subsidiaries. The financial information is based on our understanding of the SEC's interpretation and application of Rule 3-10 of SEC Regulation S-X.

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

**Table of Contents****NewMarket Corporation and Subsidiaries****Condensed Consolidating Statements of Income****Three Months Ended September 30, 2006**

(in thousands)

|   | <b>Parent</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Total<br/>Consolidating<br/>Adjustments</b> | <b>Consolidated</b> |
|---|---------------|-----------------------------------|---------------------------------------|--|---------------------|
| Net sales   | \$            | \$ 249,712                        | \$ 153,332                            | \$ (77,925)                                    | \$ 325,119          |
| Cost of goods sold  |               | 200,978                           | 135,127                               | (77,150)                                       | 258,955             |
| Gross profit  |               | 48,734                            | 18,205                                | (775)  | 66,164              |
| Operating profit from TEL marketing agreements services                 |               | 458                               | 2,780                                 |  | 3,238               |
| Intercompany service fee income (expense) from TEL marketing agreements |               | 2,720                             | (2,720)                               |  |                     |
| Selling, general, and administrative expenses                           | 1,422         | 19,387                            | 6,985                                 |  | 27,794              |
| Research, development, and testing expenses                             |               | 13,046                            | 3,536                                 |  | 16,582              |
| Special items income  | 5,274         | 2,569                             |                                       |  | 7,843               |
| Operating profit  | 3,852         | 22,048                            | 7,744                                 | (775)  | 32,869              |
| Interest and financing expenses   | 3,893         | (24)                              | 48                                    |  | 3,917               |
| Other income (expense), net   | 883           | (193)                             | 169                                   |  | 859                 |
| Income before income taxes and equity income of subsidiaries            | 842           | 21,879                            | 7,865                                 | (775)  | 29,811              |
| Income tax (benefit) expense  | (26)          | 8,758                             | 2,444                                 | (286)  | 10,890              |
| Equity income of subsidiaries   | 18,053        |                                   |                                       | (18,053)                                       |                     |
| Net income  | \$ 18,921     | \$ 13,121                         | \$ 5,421                              | \$ (18,542)                                    | \$ 18,921           |



**Table of Contents****NewMarket Corporation and Subsidiaries****Condensed Consolidating Statements of Income****Three Months Ended September 30, 2005**

(in thousands)

|   | <b>Parent</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Total<br/>Consolidating<br/>Adjustments</b> | <b>Consolidated</b> |
|---|---------------|-----------------------------------|---------------------------------------|--|---------------------|
| Net sales   | \$            | \$ 191,881                        | \$ 133,820                            | \$ (54,769)                                    | \$ 270,932          |
| Cost of goods sold  | 342           | 163,945                           | 108,891                               | (55,417)                                       | 217,761             |
| Gross (loss) profit   | (342)         | 27,936                            | 24,929                                | 648  | 53,171              |
| Operating profit from TEL marketing agreements services                 |               | 692                               | 5,660                                 |  | 6,352               |
| Intercompany service fee income (expense) from TEL marketing agreements |               | 5,473                             | (5,473)                               |  |                     |
| Selling, general, and administrative expenses                           | 1,013         | 12,096                            | 11,858                                |  | 24,967              |
| Research, development, and testing expenses                             |               | 12,578                            | 3,341                                 |  | 15,919              |
| Special items income  |               | 2,878                             |                                       |  | 2,878               |
| Operating (loss) profit   | (1,355)       | 12,305                            | 9,917                                 | 648  | 21,515              |
| Interest and financing expenses   | 4,117         | 21                                |                                       |  | 4,138               |
| Other income, net   | 294           | 20                                | 58                                    |  | 372                 |
| (Loss) income before income taxes and equity income of subsidiaries     | (5,178)       | 12,304                            | 9,975                                 | 648  | 17,749              |
| Income tax expense (benefit)  | 4,010         | (3,462)                           | 3,553                                 | 247  | 4,348               |
| Equity income of subsidiaries   | 22,589        |                                   |                                       | (22,589)                                       |                     |
| Net income  | \$ 13,401     | \$ 15,766                         | \$ 6,422                              | \$ (22,188)                                    | \$ 13,401           |

**Table of Contents****NewMarket Corporation and Subsidiaries****Condensed Consolidating Statements of Income****Nine Months Ended September 30, 2006**

(in thousands)

|   | <b>Parent</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Total<br/>Consolidating<br/>Adjustments</b> | <b>Consolidated</b> |
|---|---------------|-----------------------------------|---------------------------------------|--|---------------------|
| Net sales   | \$            | \$ 732,746                        | \$ 456,821                            | \$ (232,432)                                   | \$ 957,135          |
| Cost of goods sold  |               | 583,819                           | 404,877                               | (231,430)                                      | 757,266             |
| Gross profit  |               | 148,927                           | 51,944                                | (1,002)  | 199,869             |
| Operating (loss) profit from TEL marketing agreements services          |               | (690)                             | 7,116                                 |  | 6,426               |
| Intercompany service fee income (expense) from TEL marketing agreements |               | 6,983                             | (6,983)                               |  |                     |
| Selling, general, and administrative expenses                           | 3,585         | 57,539                            | 18,136                                |  | 79,260              |
| Research, development, and testing expenses                             |               | 39,133                            | 11,131                                |  | 50,264              |
| Special items income  | 5,274         | 5,819                             |                                       |  | 11,093              |
| Operating profit  | 1,689         | 64,367                            | 22,810                                | (1,002)  | 87,864              |
| Interest and financing expenses   | 11,677        | (65)                              | 77                                    |  | 11,689              |
| Other income (expense), net   | 6,220         | (270)                             | 552                                   |  | 6,502               |
| (Loss) income before income taxes and equity income of subsidiaries     | (3,768)       | 64,162                            | 23,285                                | (1,002)  | 82,677              |
| Income tax (benefit) expense  | (1,538)       | 24,163                            | 7,365                                 | (375)  | 29,615              |
| Equity income of subsidiaries   | 55,292        |                                   |                                       | (55,292)                                       |                     |
| Net income  | \$ 53,062     | \$ 39,999                         | \$ 15,920                             | \$ (55,919)                                    | \$ 53,062           |

**Table of Contents****NewMarket Corporation and Subsidiaries****Condensed Consolidating Statements of Income****Nine Months Ended September 30, 2005**

(in thousands)

|   | <b>Parent</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Total<br/>Consolidating<br/>Adjustments</b> | <b>Consolidated</b> |
|---|---------------|-----------------------------------|---------------------------------------|--|---------------------|
| Net sales   | \$            | \$ 561,720                        | \$ 390,713                            | \$ (170,545)                                   | \$ 781,888          |
| Cost of goods sold  | 1,022         | 483,530                           | 320,959                               | (172,068)                                      | 633,443             |
| Gross (loss) profit   | (1,022)       | 78,190                            | 69,754                                | 1,523  | 148,445             |
| Operating profit from TEL marketing agreements services                 |               | 5,443                             | 14,186                                |  | 19,629              |
| Intercompany service fee income (expense) from TEL marketing agreements |               | 13,600                            | (13,600)                              |  |                     |
| Selling, general, and administrative expenses                           | 4,254         | 32,664                            | 34,311                                |  | 71,229              |
| Research, development, and testing expenses                             |               | 37,168                            | 10,828                                |  | 47,996              |
| Special items income  |               | 6,746                             |                                       |  | 6,746               |
| Operating (loss) profit   | (5,276)       | 34,147                            | 25,201                                | 1,523  | 55,595              |
| Interest and financing expenses   | 12,807        | 113                               |                                       |  | 12,920              |
| Other income, net   | 432           | 165                               | 146                                   |  | 743                 |
| (Loss) income before income taxes and equity income of subsidiaries     | (17,651)      | 34,199                            | 25,347                                | 1,523  | 43,418              |
| Income tax (benefit) expense  | (1,302)       | 3,754                             | 9,163                                 | 573  | 12,188              |
| Equity income of subsidiaries   | 47,579        |                                   |                                       | (47,579)                                       |                     |
| Net income  | \$ 31,230     | \$ 30,445                         | \$ 16,184                             | \$ (46,629)                                    | \$ 31,230           |

**Table of Contents****NewMarket Corporation and Subsidiaries****Condensed Consolidating Balance Sheets****September 30, 2006**

(in thousands)

|  | <b>Total</b>      |                                   |                                       |                                      |                     |
|--|-------------------|-----------------------------------|---------------------------------------|--------------------------------------|---------------------|
|  | <b>Parent</b>     | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Consolidating<br/>Adjustments</b> | <b>Consolidated</b> |
| <b>ASSETS</b>                                |                   |                                   |                                       |                                      |                     |
| Cash and cash equivalents                    | \$ 42,894         | \$ 18,089                         | \$ 25,687                             | \$                                   | \$ 86,670           |
| Restricted cash                              | 240               |                                   |                                       |                                      | 240                 |
| Trade and other accounts receivable, net     | 2,310             | 93,468                            | 95,015                                |                                      | 190,793             |
| Amounts due from affiliated companies        |                   | 178,212                           | 33,347                                | (211,559)                            |                     |
| Inventories                                  |                   | 100,339                           | 88,145                                | (7,718)                              | 180,766             |
| Deferred income taxes                        | 1,575             | 4,716                             | (1,163)                               | 2,945                                | 8,073               |
| Prepaid expenses                             | 2,408             | 3,727                             | 928                                   |                                      | 7,063               |
| <b>Total current assets</b>                  | <b>49,427</b>     | <b>398,551</b>                    | <b>241,959</b>                        | <b>(216,332)</b>                     | <b>473,605</b>      |
| Property, plant and equipment, at cost       |                   | 687,353                           | 55,240                                |                                      | 742,593             |
| Less accumulated depreciation & amortization |                   | 537,562                           | 50,116                                |                                      | 587,678             |
| <b>Net property, plant and equipment</b>     |                   | <b>149,791</b>                    | <b>5,124</b>                          |                                      | <b>154,915</b>      |
| Investment in consolidated subsidiaries      | 533,499           |                                   |                                       | (533,499)                            |                     |
| Prepaid pension cost                         | 15,425            |                                   | 2,238                                 |                                      | 17,663              |
| Deferred income taxes                        | 16,232            | 10,420                            | (6,861)                               |                                      | 19,791              |
| Other assets and deferred charges            | 6,460             | 27,303                            | 6,224                                 |                                      | 39,987              |
| Intangibles, net of amortization             | 729               | 44,153                            | 1,735                                 |                                      | 46,617              |
| <b>Total assets</b>                          | <b>\$ 621,772</b> | <b>\$ 630,218</b>                 | <b>\$ 250,419</b>                     | <b>\$ (749,831)</b>                  | <b>\$ 752,578</b>   |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                   |                                   |                                       |                                      |                     |
| Accounts payable                             | \$ 4              | \$ 57,106                         | \$ 26,139                             | \$                                   | \$ 83,249           |
| Accrued expenses                             | 11,861            | 40,186                            | 7,776                                 |                                      | 59,823              |
| Dividends payable                            | 2,167             |                                   |                                       |                                      | 2,167               |
| Book overdraft                               | 2                 | 4,264                             |                                       |                                      | 4,266               |
| Amounts due to affiliated companies          | 81,128            | 32,896                            | 97,535                                | (211,559)                            |                     |
| Long-term debt, current portion              |                   | 671                               |                                       |                                      | 671                 |
| Income taxes payable                         | (3,820)           | 15,543                            | 2,582                                 |                                      | 14,305              |
| <b>Total current liabilities</b>             | <b>91,342</b>     | <b>150,666</b>                    | <b>134,032</b>                        | <b>(211,559)</b>                     | <b>164,481</b>      |
| Long-term debt                               | 150,000           | 2,675                             |                                       |                                      | 152,675             |
| Other noncurrent liabilities                 | 61,786            | 41,936                            | 13,056                                |                                      | 116,778             |
| <b>Total liabilities</b>                     | <b>303,128</b>    | <b>195,277</b>                    | <b>147,088</b>                        | <b>(211,559)</b>                     | <b>433,934</b>      |
| <b>Shareholders' equity:</b>                 |                   |                                   |                                       |                                      |                     |

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|  |                   |                   |                   |                     |                   |
|--|-------------------|-------------------|-------------------|---------------------|-------------------|
| Common stock and paid-in capital                 | 87,379            | 273,418           | 40,718            | (314,136)           | 87,379            |
| Accumulated other comprehensive loss             | (26,734)          | (15,440)          | (7,011)           | 22,451              | (26,734)          |
| Retained earnings                                | 257,999           | 176,963           | 69,624            | (246,587)           | 257,999           |
| <b>Total shareholders equity</b>                 | <b>318,644</b>    | <b>434,941</b>    | <b>103,331</b>    | <b>(538,272)</b>    | <b>318,644</b>    |
| <b>Total liabilities and shareholders equity</b> | <b>\$ 621,772</b> | <b>\$ 630,218</b> | <b>\$ 250,419</b> | <b>\$ (749,831)</b> | <b>\$ 752,578</b> |

**Table of Contents****NewMarket Corporation and Subsidiaries****Condensed Consolidating Balance Sheets****December 31, 2005**

(in thousands)

|  | Parent            | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Total<br>Consolidating<br>Adjustments | Consolidated      |
|--|-------------------|---------------------------|-------------------------------|---------------------------------------|-------------------|
| <b>ASSETS</b>                                |                   |                           |                               |                                       |                   |
| Cash and cash equivalents                    | \$ 26,973         | \$ 10,532                 | \$ 18,908                     | \$                                    | \$ 56,413         |
| Restricted cash                              | 917               | 502                       |                               |                                       | 1,419             |
| Trade and other accounts receivable, net     | 2,663             | 92,209                    | 94,588                        |                                       | 189,460           |
| Amounts due from affiliated companies        |                   | 197,268                   | 31,590                        | (228,858)                             |                   |
| Inventories                                  |                   | 84,601                    | 74,114                        | (6,716)                               | 151,999           |
| Deferred income taxes                        | 1,128             | 4,701                     | 890                           | 2,570                                 | 9,289             |
| Prepaid expenses                             | 129               | 2,173                     | 817                           |                                       | 3,119             |
| <b>Total current assets</b>                  | <b>31,810</b>     | <b>391,986</b>            | <b>220,907</b>                | <b>(233,004)</b>                      | <b>411,699</b>    |
| Property, plant and equipment, at cost       |                   | 697,881                   | 67,064                        |                                       | 764,945           |
| Less accumulated depreciation & amortization |                   | 548,477                   | 62,462                        |                                       | 610,939           |
| Net property, plant and equipment            |                   | 149,404                   | 4,602                         |                                       | 154,006           |
| Investment in consolidated subsidiaries      | 507,668           |                           |                               | (507,668)                             |                   |
| Prepaid pension cost                         | 16,233            |                           | 2,083                         |                                       | 18,316            |
| Deferred income taxes                        | 16,180            | 10,348                    | (3,371)                       |                                       | 23,157            |
| Other assets and deferred charges            | 7,483             | 29,978                    | 7,019                         |                                       | 44,480            |
| Intangibles, net of amortization             | 729               | 47,547                    | 1,598                         |                                       | 49,874            |
| <b>Total assets</b>                          | <b>\$ 580,103</b> | <b>\$ 629,263</b>         | <b>\$ 232,838</b>             | <b>\$ (740,672)</b>                   | <b>\$ 701,532</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                   |                           |                               |                                       |                   |
| Accounts payable                             | \$ 12             | \$ 55,939                 | \$ 32,399                     | \$                                    | \$ 88,350         |
| Accrued expenses                             | 5,561             | 44,360                    | 8,926                         |                                       | 58,847            |
| Book overdraft                               | 10                | 4,212                     |                               |                                       | 4,222             |
| Amounts due to affiliated companies          | 105,559           | 32,008                    | 91,291                        | (228,858)                             |                   |
| Long-term debt, current portion              |                   | 640                       |                               |                                       | 640               |
| Income taxes payable                         | (9,166)           | 22,717                    | 1,177                         |                                       | 14,728            |
| <b>Total current liabilities</b>             | <b>101,976</b>    | <b>159,876</b>            | <b>133,793</b>                | <b>(228,858)</b>                      | <b>166,787</b>    |
| Long-term debt                               | 150,000           | 3,189                     |                               |                                       | 153,189           |
| Other noncurrent liabilities                 | 62,067            | 39,183                    | 14,246                        |                                       | 115,496           |
| <b>Total liabilities</b>                     | <b>314,043</b>    | <b>202,248</b>            | <b>148,039</b>                | <b>(228,858)</b>                      | <b>435,472</b>    |
| Shareholders' equity:                        |                   |                           |                               |                                       |                   |
| Common stock and paid-in capital             | 85,162            | 272,217                   | 40,718                        | (312,935)                             | 85,162            |
| Accumulated other comprehensive loss         | (30,511)          | (16,577)                  | (9,669)                       | 26,246                                | (30,511)          |

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|   |                   |                   |                   |                     |                   |
|---|-------------------|-------------------|-------------------|---------------------|-------------------|
| Retained earnings                                 | 211,409           | 171,375           | 53,750            | (225,125)           | 211,409           |
| Total shareholders' equity                        | 266,060           | 427,015           | 84,799            | (511,814)           | 266,060           |
| <b>Total liabilities and shareholders' equity</b> | <b>\$ 580,103</b> | <b>\$ 629,263</b> | <b>\$ 232,838</b> | <b>\$ (740,672)</b> | <b>\$ 701,532</b> |

**Table of Contents****NewMarket Corporation and Subsidiaries****Condensed Consolidating Statements of Cash Flows****Nine Months Ended September 30, 2006**

(in thousands)

|   | Parent    | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Total<br>Consolidating<br>Adjustments | Consolidated |
|---|-----------|---------------------------|-------------------------------|---------------------------------------|--------------|
| <b>Cash provided from operating activities</b>            | \$ 1,260  | \$ 29,080                 | \$ 12,685                     | \$                                    | \$ 43,025    |
| <b>Cash flows from investing activities</b>               |           |                           |                               |                                       |              |
| Capital expenditures                                      |           | (13,427)                  | (963)                         |                                       | (14,390)     |
| Proceeds from pharmaceutical earn-out agreement           | 5,274     |                           |                               |                                       | 5,274        |
| Proceeds from sale of property                            |           | 3,408                     |                               |                                       | 3,408        |
| Increase in intercompany loans                            | (5,775)   |                           |                               | 5,775                                 |              |
| Cash dividends from subsidiaries                          | 19,425    |                           |                               | (19,425)                              |              |
| Other, net  |           | 90                        |                               |                                       | 90           |
| Cash provided from (used in) investing activities         | 18,924    | (9,929)                   | (963)                         | (13,650)                              | (5,618)      |
| <b>Cash flows from financing activities</b>               |           |                           |                               |                                       |              |
| Change in book overdraft                                  | (8)       | 52                        |                               |                                       | 44           |
| Financing from affiliated companies                       |           | 5,775                     |                               | (5,775)                               |              |
| Dividends   | (6,472)   | (19,425)                  |                               | 19,425                                | (6,472)      |
| Excess tax benefits from stock-based payment arrangements | 1,387     |                           |                               |                                       | 1,387        |
| Proceeds from exercise of stock options                   | 830       |                           |                               |                                       | 830          |
| Payment of capital leases                                 |           | (483)                     |                               |                                       | (483)        |
| Cash used in financing activities                         | (4,263)   | (14,081)                  |                               | 13,650                                | (4,694)      |
| Effect of foreign exchange on cash and cash equivalents   |           | 2,487                     | (4,943)                       |                                       | (2,456)      |
| <b>Increase in cash and cash equivalents</b>              | 15,921    | 7,557                     | 6,779                         |                                       | 30,257       |
| <b>Cash and cash equivalents at beginning of year</b>     | 26,973    | 10,532                    | 18,908                        |                                       | 56,413       |
| <b>Cash and cash equivalents at end of period</b>         | \$ 42,894 | \$ 18,089                 | \$ 25,687                     | \$                                    | \$ 86,670    |



**Table of Contents****NewMarket Corporation and Subsidiaries****Condensed Consolidating Statements of Cash Flows****Nine Months Ended September 30, 2005**

(in thousands)

|  | <b>Parent</b>   | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Total<br/>Consolidating<br/>Adjustments</b> | <b>Consolidated</b> |
|--|-----------------|-----------------------------------|---------------------------------------|--|---------------------|
| <b>Cash (used in) provided from operating activities</b> | \$ (4,721)      | \$ 57,928                         | \$ 659                                | \$   | \$ 53,866           |
| <b>Cash flows from investing activities</b>              |                 |                                   |                                       |  |                     |
| Capital expenditures                                     |                 | (12,640)                          | (1,109)                               |  | (13,749)            |
| Increase in intercompany loans                           | (5,700)         |                                   |                                       | 5,700  |                     |
| Cash dividends from subsidiaries                         | 40,125          |                                   |                                       | (40,125)                                       |                     |
| Proceeds from sale of corporate property                 |                 | 4,244                             |                                       |  | 4,244               |
| <b>Cash provided from (used in) investing activities</b> | <b>34,425</b>   | <b>(8,396)</b>                    | <b>(1,109)</b>                        | <b>(34,425)</b>                                | <b>(9,505)</b>      |
| <b>Cash flows from financing activities</b>              |                 |                                   |                                       |  |                     |
| Borrowings under revolving credit agreement              | (30,000)        |                                   |                                       |  | (30,000)            |
| Change in book overdraft                                 |                 | (354)                             |                                       |  | (354)               |
| Financing from affiliated companies                      |                 | 5,700                             |                                       | (5,700)  |                     |
| Dividends  |                 | (40,125)                          |                                       | 40,125   |                     |
| Proceeds from exercise of stock options                  | 353             |                                   |                                       |  | 353                 |
| Payment of capital leases                                |                 | (453)                             |                                       |  | (453)               |
| <b>Cash used in financing activities</b>                 | <b>(29,647)</b> | <b>(35,232)</b>                   |                                       | <b>34,425</b>                                  | <b>(30,454)</b>     |
| Effect of foreign exchange on cash and cash equivalents  |                 | 338                               | (2,718)                               |  | (2,380)             |
| <b>Increase (decrease) in cash and cash equivalents</b>  | <b>57</b>       | <b>14,638</b>                     | <b>(3,168)</b>                        |  | <b>11,527</b>       |
| <b>Cash and cash equivalents at beginning of year</b>    | <b>51</b>       | <b>8,587</b>                      | <b>20,140</b>                         |  | <b>28,778</b>       |
| <b>Cash and cash equivalents at end of period</b>        | <b>\$ 108</b>   | <b>\$ 23,225</b>                  | <b>\$ 16,972</b>                      | <b>\$</b>                                      | <b>\$ 40,305</b>    |

**14. Subsequent Event**

On October 24, 2006, our Board of Directors declared a quarterly dividend in the amount of 12.5 cents per share on our common stock. The dividend is payable January 1, 2007 to shareholders of record at the close of business on December 15, 2006.

Effective October 31, 2006, Afton has purchased for \$10 million and certain future contingent consideration, substantially all of the assets used in the production of MMT<sup>®</sup> from Albemarle. Albemarle will continue to operate the MMT<sup>®</sup> production facility for the benefit of Afton pursuant to the terms of an Amended and Restated Supply Agreement dated October 31, 2006.

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**ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Forward-Looking Statements**

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

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

These factors include, but are not limited to, timing of sales orders, gain or loss of significant customers, competition from other manufacturers, resolution of environmental liabilities, changes in the demand for our products, significant changes in new product introduction, increases in product cost, the impact of fluctuations in foreign exchange rates on reported results of operations, changes in various markets, geopolitical risks in certain of the countries in which we conduct business, and the impact of consolidation of the petroleum additives industry and other factors detailed from time to time in the reports we file with the SEC, including the risk factors in Item 1A, Risk Factors, in the 2005 Annual Report which we incorporate the same herein by reference. Readers are urged to review and consider carefully the disclosure we make in our filings with the SEC.

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

**Overview**

Nine-months 2006 continues to reflect improvements in net sales, as well as operating profit, across all petroleum additives product lines as compared to nine-months 2005. We supply our customers with a diverse portfolio of products to meet their business needs and we believe this is reflected in our results. While the petroleum additives industry has experienced escalating raw material costs in 2006, we have been able to recover these costs through improved pricing and the introduction of more cost-effective products. Our production facilities are operating at high levels and we are selling a product mix with higher margins. As expected, the TEL segment results are lower than last year.

Our balance sheet remains strong at September 30, 2006. Our working capital position is higher than at December 31, 2005 and we continue to have no outstanding bank debt.

**Table of Contents****Results of Operations****Net Sales**

Our consolidated net sales for the third-quarter 2006 amounted to \$325.1 million, representing an increase of 20% from the 2005 level of \$270.9 million. Nine-months 2006 consolidated net sales were \$957.1 million as compared to \$781.9 million for nine-months 2005, representing an increase of 22%. The table below shows our consolidated net sales by segment.

**Net Sales by Segment**

(in millions)

|                        | Three Months Ended<br>September 30 |          | Nine Months Ended<br>September 30 |          |
|------------------------|------------------------------------|----------|-----------------------------------|----------|
|                        | 2006                               | 2005     | 2006                              | 2005     |
| Petroleum additives    | \$ 323.9                           | \$ 267.4 | \$ 948.4                          | \$ 773.6 |
| Tetraethyl lead        | 1.2                                | 3.5      | 8.7                               | 8.3      |
| Consolidated net sales | \$ 325.1                           | \$ 270.9 | \$ 957.1                          | \$ 781.9 |

**Petroleum Additives Segment**

Petroleum additives net sales in the third-quarter 2006 of \$323.9 million were up \$56.5 million, or approximately 21%, from \$267.4 million in the third-quarter 2005. Total shipments for the third-quarter 2006 were flat compared to third-quarter 2005. While the mix of products sold contributed to the increase in net sales, higher selling prices was the predominant factor in the increase in net sales between the two third-quarter periods.

The nine-months 2006 petroleum additives net sales of \$948.4 million were \$174.8 million, or 23%, higher than the 2005 nine-months net sales of \$773.6 million. Total petroleum additives shipments were up approximately 3% for nine-months 2006 compared to the same 2005 period. The increase in shipments was across all major product lines. The increase in net sales was predominantly the result of higher selling prices, with higher shipments and a favorable mix of products sold also contributing to the increase.

The approximate components of the petroleum additives increase in net sales of \$56.5 million between the two third-quarter periods and \$174.8 million between the two nine-months periods are shown below (in millions):

|   | Third<br>Quarter | Nine<br>Months |
|---|------------------|----------------|
| Period ended September 30, 2005                                       | \$ 267.4         | \$ 773.6       |
| Change in shipments and product mix                                   | 16.8             | 63.5           |
| Changes in selling prices, net of unfavorable foreign currency impact | 39.7             | 111.3          |
| Period ended September 30, 2006                                       | \$ 323.9         | \$ 948.4       |

**Tetraethyl Lead Segment**

Most of the TEL marketing activity is through marketing agreements with Innospec, under which we do not record the sales transactions. Therefore, the TEL net sales shown in the table above are those made by our wholly-owned subsidiary, Ethyl, in areas not covered by the Innospec marketing agreements. The sales made in areas not covered by the Innospec marketing agreements are minor compared to the TEL sales made through the Innospec marketing



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agreements. The TEL net sales for the third-quarter 2006 were lower than the same 2005 period. Nine-months 2006 and nine-months 2005 were essentially unchanged. These fluctuations represent normal fluctuations in shipping patterns, as well as some price increases.

**Segment Operating Profit**

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

The table below reports operating profit by segment for the three-months and nine-months ended September 30, 2006 and September 30, 2005. The Contract manufacturing and other classification in the table below primarily represents certain manufacturing operations that Ethyl provides to Afton. Certain prior period amounts have been reclassified to conform to the current presentation.

**Segment Operating Profit**

(in millions)

|                                  | Three Months Ended<br>September 30 |         | Nine Months Ended<br>September 30 |         |
|----------------------------------|------------------------------------|---------|-----------------------------------|---------|
|                                  | 2006                               | 2005    | 2006                              | 2005    |
| Petroleum additives              | \$ 30.4                            | \$ 16.8 | \$ 83.2                           | \$ 42.4 |
| Tetraethyl lead                  | \$                                 | \$ 5.5  | \$ 2.5                            | \$ 19.2 |
| Contract manufacturing and other | \$ 0.9                             | \$ 0.2  | \$ 3.2                            | \$ 1.8  |

**Petroleum Additives Segment**

*Third-quarter 2006 vs. Third-quarter 2005* - Petroleum additives showed a significant improvement in operating profit when comparing the 2006 and 2005 third-quarter periods. The third-quarter 2006 operating profit was \$30.4 million as compared to \$16.8 million for third-quarter 2005. The 2006 period includes a gain of \$2.6 million associated with a legal settlement related to transportation charges.

Net sales were approximately 21% higher, while total shipments were essentially unchanged when comparing third-quarter 2006 and third-quarter 2005. The higher operating profit resulted from several factors. Our production facilities are operating at high rates and we are selling more efficient product formulations. These improved product formulations lower both our cost, as well as our customers' costs. In addition to improved pricing, we are selling a product mix with higher profit margins. The improved pricing of products has contributed to the recovery of margins which were depressed due to increases in raw material costs.

Selling, general, and administrative (SG&A) expenses were \$2.0 million higher when comparing the two third-quarter periods. The increase was primarily the result of higher professional fees, as

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well as higher personnel-related costs. In addition, research, development, and testing (R&D) expenses increased \$1.0 million from the third-quarter 2005. As a percentage of net sales, SG&A expenses combined with R&D expenses, decreased from 13.5% for the third-quarter 2005 to 12.1% for the same period this year. This decrease reflects higher sales, partially offset by the increase in combined SG&A and R&D expenses.

Nine-months 2006 vs. Nine-months 2005 - Continuing the trend from the first half of the year, petroleum additives also reported a significant improvement in operating profit for the nine-months 2006 as compared to nine-months 2005. The nine-months 2006 operating profit was \$83.2 million, while nine-months 2005 was \$42.4 million. The nine-months 2006 period includes a gain of \$2.6 million associated with a legal settlement related to transportation charges. The increase in operating profit was across all product lines reflecting improved net sales and profit margins. Net sales were approximately 23% higher than nine-months 2005 reflecting improved pricing, as well as an increase of approximately 3% in product shipments.

While raw material costs have escalated in 2006, we have been able to implement certain price increases. These price increases have enabled us to mostly restore our margins that have been under pressure since the significant increase in raw material costs began in mid-2004. In addition, as outlined in the third-quarter discussion above, our production facilities are operating at high rates and we are selling a product mix with higher margins. We have also recognized additional improvements in operating profit through the introduction of more cost effective products into the marketplace.

SG&A expenses were \$6.4 million higher for the nine-months 2006 as compared to the nine-months 2005. Similar to the third-quarter 2006, the increase primarily resulted from higher professional fees and personnel-related costs. R&D expenses also increased \$3.0 million when comparing the two nine-month periods. As a percentage of net sales, SG&A expenses combined with R&D expenses, decreased from 13.7% for nine-months 2005 to 12.1% for nine-months 2006. This decrease reflects higher sales, partially offset by the increase in combined SG&A and R&D expenses.

## TEL Segment

Results of our TEL segment include the operating profit contribution from our marketing agreements with Innospec, as well as certain TEL operations not included in the Innospec marketing agreements.

The operating profit from our marketing agreements for the third-quarter 2006 was \$3.2 million, which was \$3.1 million lower than the third-quarter last year. Nine-months 2006 operating profit from the marketing agreements was \$6.4 million as compared to nine-months 2005 of \$19.6 million. The 2006 periods reflect improved pricing over 2005; however, this was more than offset by a decrease in volumes of 56% for the third-quarter 2006 and 64% for the nine-months 2006 when compared to the same 2005 periods. The TEL market continues to decline as customers discontinue use of the product. Amortization of the prepayment for services was approximately \$300 thousand lower for the third-quarter 2006 as compared to third-quarter 2005 and approximately \$1 million lower for nine-months 2006 compared to nine-months 2005. These reductions in amortization reflect the declining balance method of amortization.

Other TEL operations not included in the marketing agreements were \$2.4 million lower when comparing third-quarter 2006 to third-quarter 2005 and \$3.5 million lower when comparing nine-months 2006 to the same 2005 period. Nine-months 2005 results include a special item of \$3.9

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million for insurance settlement gains related to our premises asbestos liabilities. The other TEL operations results for both the third-quarter and nine-months periods include charges for environmental sites, as well as premises asbestos reserves. The third-quarter 2006 reflects slightly higher environmental charges when compared to third-quarter 2005. The nine-months 2006 period includes lower environmental charges when compared to the same period in 2005. In addition, both the third-quarter 2005 and nine-months 2005 reflected lower expenses for premises asbestos charges. The decrease in asbestos charges for the nine-months 2005 is primarily due to the favorable impact of the 2005 change in the expected future insurance reimbursements.

Ethyl recently filed a request for arbitration against a subsidiary of Innospec. This arbitration is related to a long-standing supply agreement that requires the Innospec subsidiary to supply Ethyl with TEL for resale by Ethyl in the United States (the U.S. Supply Agreement). The request was filed pursuant to the rules of the London Court of International Arbitration. Ethyl filed this request because it believes that Innospec has violated the U.S. Supply Agreement by attempting to increase the price it charges Ethyl for TEL in the United States in a manner not in accordance with the contract. As such, we have not recorded an accrual of these costs. The difference in prices that Innospec is claiming is approximately \$1.7 million for product supplied through September 30, 2006. We are confident in our position and believe we will prevail. Regardless of the outcome, we do not believe the TEL dispute will have a material effect on the financial condition or results of operations of NewMarket. However, with TEL segment operating profit at such a low level, a relatively small increase in cost may be material to TEL segment results.

After the commencement of the above arbitration, Ethyl received three requests for arbitration filed by three subsidiaries of Innospec. The Innospec requests were filed pursuant to the rules of the London Court of International Arbitration and allegedly pursuant to long-standing marketing and supply agreements between Ethyl or its subsidiaries and subsidiaries of Innospec for the sale of TEL outside of the United States. Innospec is claiming the right to terminate the agreements. Although these marketing and supply agreements relate only to TEL, Innospec contends that the agreements impose certain duties that were breached by the sales and marketing in Iraq and South Africa of MMT<sup>®</sup> by affiliates of Ethyl. Ethyl will vigorously defend the cases and believes it will ultimately prevail in these arbitrations.

TEL shipments and earnings in 2006 will be significantly lower than last year.

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

## **Special Items Income**

Special items income of \$7.8 million for the third-quarter 2006 and \$11.1 million for nine-months 2006 includes a \$5.3 million gain related to a payment under an earn-out agreement for certain pharmaceutical intellectual property that we sold in 1994, as well as a \$2.6 million gain associated with a legal settlement related to transportation charges. Nine-months 2006 also includes a \$3.3 million gain on the sale of property.

Special items income of \$2.9 million for the third-quarter 2005 and \$6.7 million for nine-months 2005 includes a gain of \$2.9 million on the sale of corporate property. Nine-months 2005 includes \$3.9 million for a gain associated with the insurance settlement related to premises asbestos liabilities.

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### **Interest and Financing Expenses**

Third-quarter 2006 interest and financing expenses were \$3.9 million, while third-quarter 2005 interest and financing expenses were \$4.1 million. Nine-months 2006 interest and financing expenses amounted to \$11.7 million and nine-months 2005 interest and financing expenses totaled to \$12.9 million. The decrease resulted primarily from lower debt during both 2006 periods as compared to the same 2005 periods. We had no drawn bank debt under our revolving credit facility during the first nine-months of 2006. Fees and amortization of financing costs were substantially unchanged between the periods.

### **Other Income, Net**

Other income, net was \$900 thousand income for the third-quarter 2006 compared to \$400 thousand income for the third-quarter 2005. The nine-months 2006 amount was \$6.5 million, while nine-months 2005 was \$700 thousand. Nine-months 2006 includes a \$4.4 million gain on interest income on an income tax settlement. Other income, net for the third-quarter 2006 and the 2005 periods were comprised of a number of individually immaterial items.

### **Income Taxes**

Income taxes were \$10.9 million for the third-quarter 2006 and \$4.3 million for the third-quarter 2005. The effective tax rate was 36.5% for the third-quarter 2006 and 24.5% for the third-quarter 2005. The effective tax rate for 2005 includes the benefit of a research and development credit, which is not reflected in the 2006 effective rate as, to date, the credit has not been extended beyond 2005 by the U.S. Congress. The 2005 effective tax rate also includes a favorable impact of about \$1.1 million from the settlement of certain tax years with the Internal Revenue Service. The increase in income before income taxes from 2005 to 2006 resulted in an increase of \$3.0 million in income taxes in the third-quarter 2006, while the increase in the effective tax rate between 2005 and 2006 resulted in the additional increase in tax expense of \$3.6 million.

Nine-months 2006 income taxes were \$29.6 million with an effective tax rate of 35.8%. The income taxes for nine-months 2005 were \$12.2 million with an effective tax rate of 28.1%. As in the third-quarter, the effective tax rate for 2005 includes the benefit of a research and development credit, which is not reflected in the 2006 effective rate for the reason explained above, as well as a favorable impact of \$1.1 million from the settlement of certain tax years. The increase in income before income taxes from 2005 to 2006 resulted in an increase of \$11.0 million in income taxes for nine-months 2006, while the increase in the effective tax rate between 2005 and 2006 resulted in the additional increase in tax expense of \$6.4 million.

Our deferred taxes are in a net asset position. Based on our current projections, we believe that we will recover the full benefit of our deferred tax assets.

### **Net Income**

Our net income for the third-quarter 2006 was \$18.9 million or \$1.09 per diluted share. This compares to net income for third-quarter 2005 of \$13.4 million or \$0.77 per diluted share. Nine-months 2006 net income was \$53.1 million, or \$3.05 per diluted share, as compared to \$31.2 million, or \$1.80 per diluted share, for nine-months 2005.

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

Cash and cash equivalents at September 30, 2006 were \$86.7 million, which was an increase of \$30.3 million since December 31, 2005 and included a \$2.5 million negative impact from foreign currency translation. Cash flows from operating activities for the nine-months 2006 were \$43.0 million. We also realized cash flows of \$3.4 million from the sale of corporate property and \$5.3 million from a payment under an earn-out agreement related to our pharmaceuticals business, which



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we sold in 1994. We used these cash flows to fund capital expenditures of \$14.4 million and fund dividends on our common stock of \$6.5 million. Included in the 2006 cash flows from operating activities were collections of \$4.2 million related to the 2004 environmental insurance settlement discussed below and \$2.3 million from a legal settlement related to transportation charges. Cash flows from operating activities for the 2006 period also included an increase in working capital requirements, which are discussed more fully under Working Capital. We expect that cash from operations, together with borrowing available under our senior credit facility, will continue to be sufficient to cover our operating expenses and planned capital expenditures for the foreseeable future.

The terms of the 2004 environmental insurance settlement provide for a total payment of \$15.6 million. In addition to the \$4.2 million received in the first quarter 2006, we also received \$3.7 million in 2005 and \$7.7 million during 2004.

**Cash**

We had restricted cash of \$200 thousand at September 30, 2006 and \$1.4 million at December 31, 2005. In addition, at September 30, 2006, we also had restricted funds of \$1.1 million recorded as a long-term asset in other assets. Of these total restricted cash and funds, \$800 thousand at September 30, 2006 and \$900 thousand at December 31, 2005 was cash received from Metropolitan Life Insurance Company (Metropolitan) during 2005 and 2003. The funds from Metropolitan are used to reduce the employee portion of retiree health benefits costs. The remaining \$500 thousand of restricted cash and funds at September 30, 2006 represents monies related to the issuance of a European bank guarantee.

**Debt**

Our debt position is substantially unchanged since December 31, 2005. We have outstanding senior notes in the aggregate principal amount of \$150 million that bear interest at a fixed rate of 8.875% and are due in 2010. The senior notes are callable on or after May 1, 2007.

We also have a \$100 million revolving credit facility that bears interest at variable rates and is for general corporate purposes. The revolving credit facility matures on June 18, 2009 and also includes a sub-facility for letters of credit. There were no borrowings outstanding at September 30, 2006 under the revolving credit facility. At September 30, 2006, we had outstanding letters of credit of \$3.6 million, resulting in the unused portion of the revolver amounting to \$96.4 million.

Both the senior notes and the revolving credit facility contain covenants, representation, and events of default that management considers typical of credit agreements of this nature. We were in compliance with these covenants as of both September 30, 2006 and December 31, 2005.

We had total long-term debt, including the current portion, of \$153.3 million at September 30, 2006, representing a decrease of approximately \$500 thousand in our total debt since December 31, 2005. The decrease resulted from payments on capital leases.

As a percentage of total capitalization (total long-term debt and shareholders' equity), our total debt decreased from 36.6% at the end of 2005 to 32.5% at September 30, 2006. The lower percentage was primarily the result of the increase in shareholders' equity, which was due to net income. Normally, we repay any outstanding long-term debt with cash from operations and with proceeds from occasional sales of business units, plant sites, or other assets.

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### **Capital Expenditures**

We funded capital expenditures of \$14.4 million through September 30, 2006, and we estimate our total capital spending during 2006 will be approximately \$20 million. We expect to continue to finance capital spending through cash provided from operations.

### **Working Capital**

We had working capital at September 30, 2006, of \$309.1 million, resulting in a current ratio of 2.88 to 1. At December 31, 2005, working capital was \$244.9 million and the current ratio was 2.47 to 1. The increase in working capital primarily reflects higher cash and inventories. The increase in inventories results from higher costs, as well as an increase in volumes due to increased customer demands.

### **Critical Accounting Policies**

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

This report, as well as the 2005 Annual Report, includes a discussion of our accounting principles, as well as methods and estimates used in the preparation of our financial statements. We believe these discussions and financial statements fairly represent the financial position and operating results of our company in all material respects. The purpose of this portion of our discussion is to further emphasize some of the more critical areas where a significant change in facts and circumstances in our operating and financial environment might cause a change in reported financial results.

As discussed in the 2005 Annual Report, we have made certain prepayments related to our TEL marketing agreements. The unamortized total at September 30, 2006 for these prepayments is \$9.4 million. We are amortizing these costs on an accelerated basis using a declining balance method over the life of the contracts. We believe this is the appropriate methodology and time period for this amortization based on the facts and circumstances of our TEL operations and the estimated product life of TEL. The customer base of TEL is significantly concentrated in a few countries and when conditions change that cause a shorter product life or other restrictions outside of our control, the amortization period is adjusted accordingly. Any adjustment to the amortization period would impact earnings, but would have no effect on cash flows. We continue to keep our accounting for these prepayments current with the business conditions.

We also have certain identifiable intangibles amounting to \$42.6 million at September 30, 2006. These intangibles relate to our petroleum additives business and are being amortized over periods with up to 9 1/2 years of remaining life. We continue to assess the market related to these intangibles, as well as their specific values, and believe the amortization periods and values are appropriate. We also evaluate these intangibles for any potential impairment when significant events or circumstances occur that might impair the value of these assets. These evaluations continue to support the value at which these identifiable intangibles are carried on our financial statements. However, if conditions were to deteriorate substantially in this market, it could possibly cause a reduction in the periods of this amortization charge or could possibly result in a noncash write-off of a portion of the intangibles carrying value. A reduction in the amortization period would have no cash effect. While we do not anticipate such a change in the market conditions, this disclosure is provided to enhance the understanding of the factors involved.

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We have made disclosure of our environmental issues in Part I, Item 1 of the 2005 Annual Report, as well as in the Notes to Consolidated Financial Statements included in the 2005 Annual Report. We have made additional disclosures in Part I, Item 1 of this Form 10-Q. We believe our environmental accruals are appropriate for the exposures and regulatory guidelines under which we currently operate. While we currently do not anticipate significant changes to the many factors that could impact our environmental requirements, we continue to keep our accruals consistent with these requirements as they change.

Also, as noted in the discussion of Legal Proceedings in Part II, Item 1 of this Quarterly Report on Form 10-Q and Part I, Item 3 of the 2005 Annual Report, while it is not possible to predict or determine the outcome of any legal proceeding, it is our opinion, based on our current knowledge, that we will not experience materially adverse effects on our results of operations or financial condition as a result of any pending or threatened proceeding.

We use significant assumptions to record the impact of the pension and postretirement plans in the financial statements. These assumptions include the discount rate, expected long-term rate of return, rate of compensation increase, and health care cost trend rate. A change in any one of these assumptions could result in significantly different results for the plans. We develop these assumptions after considering advice from a major global actuarial consulting firm. Information is provided on the pension and postretirement plans in Note 19 of the 2005 Annual Report. In addition, further disclosure on the impact of changes in these assumptions is provided in the Financial Position and Liquidity section of Part I, Item 7 of the 2005 Annual Report.

## **Recently Issued Accounting Pronouncements**

In September 2006, the FASB issued Statement of Financial Accounting Standard No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - An Amendment of FASB Statements No. 87, 88, 106, and 132(R)* (SFAS 158). This standard requires an employer that is a business entity that sponsors one or more single employer benefit plans to (a) recognize the funded status (defined as the difference between the fair value of plan assets and the benefit obligation) of a benefit plan in the statement of financial position; (b) recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost; (c) measure defined benefit plan assets and obligations as of the date of the employer's fiscal year end; and (d) disclose in the notes to the financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition asset or obligation. The standard is effective for fiscal years ending after December 15, 2006. The actual effect of the standard is dependent upon the fair value of plan assets at December 31, 2006, as well as certain other assumptions determined at December 31, 2006. On a before tax basis, we estimate that intangible assets will decrease approximately \$4 million and total liabilities will increase approximately \$55 million to \$65 million. Total shareholders' equity will decrease approximately \$37 million to \$44 million on an after-tax basis. These amounts do not consider the impact of additional funding of the benefit plans, if any, in the fourth quarter 2006. We do not expect the adoption of SFAS 158 to have an effect on our compliance with the covenants governing our outstanding debt.

In September 2006, the FASB issued Statement of Financial Accounting Standard No. 157, *Fair Value Measurements* (SFAS 157). The standard defines fair value, outlines a framework for measuring fair value, and details the required disclosures about fair value measurements. The standard is effective for years beginning after November 15, 2007. We are evaluating the impact of SFAS 157.

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In June 2006, the FASB issued Financial Interpretation 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with Financial Accounting Statement No. 109, Accounting for Income Taxes. The interpretation is effective for fiscal years beginning after December 15, 2006. We are evaluating the impact of this interpretation, but do not expect FIN 48 to have a material impact on our financial statements.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108). SAB 108 clarifies the SEC staff's beliefs regarding the process of quantifying financial statement misstatements and is effective for fiscal years ending after November 15, 2006. We do not expect SAB 108 to have a material impact on our financial statements.

## **Outlook**

### **Petroleum Additives**

The petroleum additives segment has posted excellent earnings results during the first three quarters of this year. The year-to-date performance is \$20.6 million ahead of the entire year of 2005. Almost all of the volume gains were in the first quarter, with volumes in the second and third quarters being essentially flat when compared to last year. We believe the outlook for this business remains strong. Our plants are running at very high levels and the overall industry supply/demand balance remains tight. We continue to work with our customers to develop and deliver cost effective solutions for their marketplace and believe that strategy is working.

### **TEL**

TEL operating profit dropped significantly for the first nine-months of 2006, as shipments were down over 60% from the same period of 2005. This segment will experience significantly lower operating profit this year and will become a less significant contributor to the overall performance of the company. The reduction in operating profit is a function of lower demand around the world for TEL.

### **Cash Flows**

We have no outstanding bank debt and our senior notes are not callable until May 1, 2007. We expect to build cash on our balance sheet while we investigate alternative uses of that cash, including possible acquisitions. The amount of cash we will be able to accumulate this year will depend, to a large degree, on the working capital needs of the petroleum additives business. Our cash flow through nine-months included the funding of \$27 million of working capital.

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

Except for foreign currency risk, as discussed below, there have been no significant changes in our market risk from the information provided in the 2005 Annual Report.

During the second quarter 2006, we entered into \$15.4 million of Euro-denominated forward contracts to minimize currency exposure from expected cash flows from foreign operations. The contracts have maturity dates in 2006 and 2007. At September 30, 2006, there were \$10.3 million remaining of these Euro-denominated contracts. With other variables held constant, a hypothetical 10% adverse change in the September 30, 2006 forward Euro rates would have resulted in a decrease of about \$1.0 million in the value of the contracts.

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**ITEM 4. Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures*

We maintain a system of internal control over financial reporting to provide reasonable, but not absolute, assurance of the reliability of the financial records and the protection of assets. Our controls and procedures include written policies and procedures, careful selection and training of qualified personnel, and an internal audit program. We use a third-party firm, separate from our independent registered public accounting firm, to assist with internal audit services.

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

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

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

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

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

There has been no change in our internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act, during the quarter ended September 30, 2006, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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**PART II Other Information**

**ITEM 1. Legal Proceedings**

We are involved in legal proceedings that are incidental to our business and include administrative or judicial actions seeking remediation under environmental laws, such as Superfund.

In December 2005, Afton Chemical Corporation (Afton), a wholly-owned subsidiary, was sued by a competitor, Infineum International Ltd. and Infineum USA L.P., in federal court in Delaware. The suit alleges patent infringement of one patent in connection with some lubricant additive packages. Afton believes it has strong defenses and intends to vigorously defend the lawsuit.

Ethyl recently filed a request for arbitration against a subsidiary of Innospec. This arbitration is related to a long-standing supply agreement that requires the Innospec subsidiary to supply Ethyl with TEL for resale by Ethyl in the United States (the U.S. Supply Agreement). The request was filed pursuant to the rules of the London Court of International Arbitration. Ethyl filed this request because it believes that Innospec has violated the U.S. Supply Agreement by attempting to increase the price it charges Ethyl for TEL in the United States in a manner not in accordance with the contract. As such, we have not recorded an accrual of these costs. The difference in prices that Innospec is claiming is approximately \$1.7 million for product supplied through September 30, 2006. We are confident in our position and believe we will prevail. Regardless of the outcome, we do not believe the TEL dispute will have a material effect on the financial condition or results of operations of NewMarket. However, with TEL segment operating profit at such a low level, a relatively small increase in cost may be material to TEL segment results.

After the commencement of the above arbitration, Ethyl received three requests for arbitration filed by three subsidiaries of Innospec. The Innospec requests were filed pursuant to the rules of the London Court of International Arbitration and allegedly pursuant to long-standing marketing and supply agreements between Ethyl or its subsidiaries and subsidiaries of Innospec for the sale of TEL outside of the United States. Innospec is claiming the right to terminate the agreements. Although these marketing and supply agreements relate only to TEL, Innospec contends that the agreements impose certain duties that were breached by the sales and marketing in Iraq and South Africa of MMT<sup>®</sup> by affiliates of Ethyl. Ethyl will vigorously defend the cases and believes it will ultimately prevail in these arbitrations.

**ITEM 1A. Risk Factors**

While we attempt to identify, manage, and mitigate risks and uncertainties associated with our business to the extent practical under the circumstances, some level of risk and uncertainty will always be present. Part I, Item 1A of our 2005 Annual Report describes some of the risks and uncertainties associated with our business. These risks and uncertainties have the potential to materially affect our results of operations and our financial condition. We do not believe that there have been any material changes to the risk factors previously disclosed in our 2005 Annual Report. Two of these risk factors are highlighted below.

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### **Legal proceedings and other claims could impose substantial costs on us.**

We are involved in numerous administrative and legal proceedings, including arbitrations, which result from, and are incidental to, the conduct of our business. From time to time, these proceedings involve environmental, product liability, TEL, and premises asbestos liability and other matters. See Part I, Item 3, *Legal Proceedings* in our 2005 Annual Report and Part II, Item 1 in this Quarterly Report on Form 10-Q for more information on legal proceedings and other claims. We have insurance coverage that we believe would be available to mitigate potential damages in many of these proceedings. However, there is no assurance that our available insurance will cover these claims, that our insurers will not challenge coverage for certain claims or that final damage awards will not exceed our available insurance coverage. Any of the foregoing could have a material adverse effect on our results of operations, financial condition, and cash flows in any given period.

### **Our TEL results would be adversely affected if Innospec did not comply with the terms of the marketing and supply agreements or if we did not prevail in our arbitrations with Innospec.**

Results of our TEL segment include the operating profit contribution from marketing agreements between Ethyl or its subsidiaries and subsidiaries of Innospec for the sale of TEL outside of North America. Innospec is now the only manufacturer of TEL worldwide. Under our marketing agreements with Innospec, we receive 32% of the net proceeds from the sale of TEL by Innospec in all regions of the world, except North America, as well as certain TEL operations not included in the marketing agreements. As a result, our TEL results would be adversely affected if Innospec did not comply with the terms of the marketing agreements.

After the commencement of the arbitration discussed below, Ethyl received three requests for arbitration filed by three subsidiaries of Innospec related to the marketing agreements. Innospec is claiming the right to terminate the agreements. Although the marketing agreements relate only to TEL, Innospec contends that the agreements impose certain duties that were breached by sales and marketing in Iraq and South Africa of MMT<sup>®</sup> by affiliates of Ethyl. Although we believe these claims have no merit, an adverse outcome in the arbitrations could have a material effect on the financial condition or results of operations of NewMarket.

Ethyl recently filed a request for arbitration against a subsidiary of Innospec related to a supply agreement that requires the Innospec subsidiary to supply Ethyl with TEL for resale by Ethyl in the United States. Ethyl filed this request because it believes that Innospec has violated the supply agreement by attempting to increase the price it charges Ethyl for TEL in the United States in a manner not in accordance with the contract. The difference in prices that Innospec is claiming is approximately \$1.7 million for product supplied through September 30, 2006. We are confident in our position and believe we will prevail. Regardless of the outcome, we do not believe the TEL dispute will have a material effect on the financial condition or results of operations of NewMarket. However, with TEL segment operating profit at such a low level, a relatively small increase in cost resulting from this arbitration could be material to TEL segment results.

## **ITEM 2. Unregistered Sale of Equity Securities and Use of Proceeds**

On December 16, 2006, our Board of Directors has approved a share repurchase program that authorizes management to repurchase up to \$50 million of our outstanding common stock until

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December 31, 2007, as market conditions warrant and covenants under our existing agreements permit. We may conduct our share repurchases in the open-market and in privately negotiated transactions. The repurchase program does not require us to acquire any specific number of shares and may be terminated or suspended at any time. During the nine-months 2006, we did not repurchase any shares under our repurchase program.

**ITEM 5. Other Information**

Effective October 31, 2006, Afton has purchased for \$10 million and certain future contingent consideration, substantially all of the assets used in the production of MMT<sup>®</sup> from Albemarle. Albemarle will continue to operate the MMT<sup>®</sup> production facility for the benefit of Afton pursuant to the terms of an Amended and Restated Supply Agreement dated October 31, 2006.

**ITEM 6. Exhibits**

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



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SIGNATURES

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

NEWMARKET CORPORATION

(Registrant)

Date: October 31, 2006

By: /s/ D. A. Fiorenza  
David A. Fiorenza  
Vice President and Treasurer  
(Principal Financial Officer)

Date: October 31, 2006

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

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EXHIBIT INDEX

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