NEWMARKET CORP
Form 10-K
February 22, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2011

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from __________ to __________

Commission file number 1-32190

NEWMARKET CORPORATION

Incorporated pursuant to the Laws of the Commonwealth of Virginia

Internal Revenue Service Employer Identification No. 20-0812170

330 South Fourth Street

Richmond, Virginia 23219-4350

804-788-5000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
COMMON STOCK, without par value	NEW YORK STOCK EXCHANGE

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act Yes ¨ No x

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

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

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

Aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2011 (the last business day of the registrant s most recently completed second fiscal quarter): $1,781,611,842*

Number of shares of Common Stock outstanding as of January 31, 2012: 13,404,831

DOCUMENTS INCORPORATED BY REFERENCE

Portions of NewMarket Corporation s definitive Proxy Statement for its 2012 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934 are incorporated by reference into Part III of this Annual Report on Form 10-K.

* In determining this figure, an aggregate of 3,397,329 shares of Common Stock as beneficially owned by Bruce C. Gottwald and members of his immediate family have been excluded and treated as shares held by affiliates. See Item 12. The aggregate market value has been computed on the basis of the closing price in the New York Stock Exchange Composite Transactions on June 30, 2011 as reported by *The Wall Street Journal*.

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PART I

ITEM 1. BUSINESS

NewMarket Corporation (NewMarket) (NYSE: NEU) is a holding company which is the parent company of Afton Chemical Corporation (Afton), Ethyl Corporation (Ethyl), NewMarket Services Corporation (NewMarket Services), and NewMarket Development Corporation (NewMarket Development).

Each of our subsidiaries manages its own assets and liabilities. Afton encompasses the petroleum additives business, while Ethyl represents the sale and distribution of tetraethyl lead (TEL) in North America and certain petroleum additives manufacturing operations. NewMarket Development manages the property that we own in Richmond, Virginia. NewMarket Services provides various administrative services to NewMarket, Afton, Ethyl, and NewMarket Development. NewMarket Services departmental expenses and other expenses are billed to NewMarket and each subsidiary pursuant to services agreements between the companies.

References in this Annual Report on Form 10-K to we, us, our, and NewMarket are to NewMarket Corporation and its subsidiaries on a consolidated basis, unless the context indicates otherwise.

As a specialty chemicals company, Afton develops, manufactures, and blends highly formulated fuel and lubricant additive packages, and markets and sells these products worldwide. Afton is one of the largest lubricant and fuel additives companies worldwide. Lubricant and fuel additives are necessary products for efficient maintenance and reliable operation of all vehicles and machinery. From custom-formulated chemical blends to market-general additive components, we believe Afton provides customers with products and solutions that make fuels burn cleaner, engines run smoother, and machines last longer.

Through an open, flexible, and collaborative style, Afton works closely with its customers to understand their business and help them meet their goals. This style has allowed Afton to develop long-term relationships with its customers in every major region of the world, which Afton serves through eleven manufacturing facilities across the globe.

With almost 400 employees in research and development, Afton is dedicated to developing chemical formulations that are tailored to our customers and the end-users specific needs. Afton s portfolio of technologically-advanced, value-added products allows it to provide a full range of products and services to its customers.

Ethyl provides contract manufacturing services to Afton and to third parties and is one of the primary marketers of TEL in North America.

NewMarket Development manages the property that we own on a site in Richmond, Virginia consisting of approximately 64 acres. We have our corporate offices on this site, as well as a research and testing facility, the office complex we constructed for Foundry Park I, LLC (Foundry Park I), a wholly-owned subsidiary of NewMarket Development, and several acres dedicated to other uses. We are currently exploring various development opportunities for portions of the property as the demand warrants. This effort is ongoing in nature, as we have no specific timeline for any future developments.

We were incorporated in the Commonwealth of Virginia in 2004. Our principal executive offices are located at 330 South Fourth Street, Richmond, Virginia, and our telephone number is (804) 788-5000. We employed 1,625 people at the end of 2011.

Business Segments

Our business is composed of two segments, petroleum additives and real estate development. The petroleum additives segment is primarily represented by Afton and the real estate development segment is represented by Foundry Park I. The TEL business of Ethyl is reflected in the All other category. All of these are discussed below.

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Petroleum Additives Petroleum additives are used in lubricating oils and fuels to enhance their performance in machinery, vehicles, and other equipment. We manufacture chemical components that are selected to perform one or more specific functions and combine those chemicals with other components to form additive packages for use in specified end-user applications. The petroleum additives market is an international marketplace, with customers ranging from oil companies and refineries to original equipment manufacturers (OEMs) and other specialty chemical companies. The products offered by the petroleum additives segment are sold to common customers, are manufactured in the same plants, share common components or building blocks, and are supported with a common sales, as well as research and development, workforce.

We believe our success in the petroleum additives market is largely due to our ability to bring value to our customers through our products and our open, flexible, and collaborative working style. We accomplish this by understanding their needs and applying our technical capabilities, formulation expertise, broadly differentiated product offerings, and global distribution capabilities to meet those needs. We invest significantly in research and development in order to meet our customers needs and to adapt to the rapidly changing environment for new and improved products and services.

We view the petroleum additives marketplace as being comprised of two broad product groupings: lubricant additives and fuel additives. Lubricant additives are highly formulated chemical products that improve the efficiency, durability, performance, and functionality of mineral oils, synthetic oils, and biodegradable fluids, thereby enhancing the performance of machinery and engines. Fuel additives are chemical components and products that improve the refining process and performance of gasoline, diesel, biofuels, and other fuels, resulting in lower fuel costs, improved vehicle performance, reduced tailpipe or smokestack emissions, and improved power plant efficiency.

Lubricant Additives

Lubricant additives are essential ingredients for lubricating oils. Lubricant additives are used in a wide variety of vehicle and industrial applications, including engine oils, transmission fluids, gear oils, hydraulic oils, turbine oils, and in virtually any other application where metal-to-metal moving parts are utilized. Lubricant additives are organic and synthetic chemical components that enhance wear protection, prevent deposits, and protect against the hostile operating environment of an engine, transmission, axle, hydraulic pump, or industrial machine.

Lubricants are used in nearly every piece of operating machinery from heavy industrial equipment to vehicles. Lubricants provide a layer of protection between moving mechanical parts. Without this layer of protection, the normal functioning of machinery would not occur. Effective lubricants reduce downtime, prevent accidents, and increase efficiency. Specifically, lubricants serve the following main functions:

- *Friction reduction* Friction is reduced by maintaining a thin film of lubricant between moving surfaces, preventing them from coming into direct contact with one another and reducing wear on moving machinery.

- *Heat removal* Lubricants act as coolants by removing heat resulting from either friction or through contact with other, higher temperature materials.

- *Containment of contaminants* Lubricants can be contaminated in many ways, especially over time. Lubricants are required to function by carrying contaminants away from the machinery and neutralizing the harmful impact of the by-products created by combustion.

The functionality of lubricants is created through an exact balance between a base fluid and performance enhancing additives. This balance is the goal of effective formulations achieved by experienced research professionals. We offer a full line of lubricant additive products, each of which is composed of component chemicals specially selected to perform desired functions. We manufacture most of the chemical components and

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blend these components to create formulated additives packages designed to meet industry and customer specifications. Lubricant additive components are generally classified based upon their intended functionality, including:

- detergents, which clean moving parts of engines and machines, suspend oil contaminants and combustion by-products, and absorb acidic combustion products;
- dispersants, which serve to inhibit the formation of sludge and particulates;
- extreme pressure/antiwear agents, which reduce wear on moving engine and machinery parts;
- viscosity index modifiers, which improve the viscosity and temperature characteristics of lubricants and help the lubricant flow evenly to all parts of an engine or machine; and
- antioxidants, which prevent oil from degrading over time.

We are one of the leading global suppliers of specially formulated lubricant additives that combine some or all of the components described above to develop our products. Our products are highly formulated, complex chemical compositions derived from extensive research and testing to ensure all additive components work together to provide the intended results. Our products are engineered to meet specifications prescribed by either the industry generally or a specific customer. Purchasers of lubricant additives tend to be oil companies, distributors, refineries, and compounders/blenders.

Key drivers of demand for lubricant additives include total vehicle miles driven, drain/refill intervals, the average age of vehicles on the road, vehicle production, equipment production, and new engine and driveline technologies.

We view our participation in the lubricant marketplace in three primary areas: engine oil additives, driveline additives, and industrial additives. Our view is not necessarily the same way others view the market.

Engine Oil Additives The largest submarket within the lubricant additives marketplace is engine oil additives, which we estimate represents approximately 70% of the overall lubricant additives market volume. The engine oils market s primary customers include consumers, service dealers, and OEMs. The extension of drain intervals has generally offset increased demand due to higher vehicle population and more miles driven. The primary functions of engine oil additives are to reduce friction, prevent wear, control formation of sludge and oxidation, and prevent rust. Engine oil additives are typically sold to lubricant manufacturers who combine them with a base oil fluid to meet internal, industry, and OEM specifications.

Key drivers of the engine oils market are the total vehicle miles driven, number of vehicles on the road, drain intervals, engine and crankcase size, changes in engine design, and temperature and specification changes driven by the OEMs. Afton offers additives for oils that protect the modern engine and makes additives that are specially formulated to protect high mileage vehicles. Afton offers products that enhance the performance of mineral, part-synthetic, and fully-synthetic engine oils.

Driveline Additives The driveline additives submarket is comprised of additives designed for products such as transmission fluids, gear oils, and off-road fluids. This submarket shares in the 30% of the market not covered by engine oils. Transmission fluids primarily serve as the power transmission and heat transfer medium in the area of the transmission where the torque of the drive shaft is transferred to the gears of the vehicle. Gear oil additives lubricate gears, bearings, clutches, and bands in the gear-box and are used in vehicles, off-highway, hydraulic, and marine equipment. Other products in this area include hydraulic transmission fluids, universal tractor fluids, power steering fluids, shock absorber fluids, gear oils, and lubricants for heavy machinery. These products must conform to highly prescribed specifications developed by vehicle OEMs for specific models or designs. These additives are generally sold to oil companies and often ultimately sold to vehicle OEMs for new vehicles (factory-fill). End-products are also sold to service dealers for aftermarket servicing (service-fill), as well as retailers and distributors.

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Key drivers of the driveline additives marketplace are the number of vehicles manufactured, drain intervals for transmission fluids and gear applications, changes in engine and transmission design and temperatures, and specification changes driven by the OEMs.

Industrial Additives The industrial additives submarket is comprised of additives designed for products for industrial applications such as hydraulic fluids, grease, industrial gear fluids, industrial specialty applications, and metalworking additives. This submarket also shares in the 30% of the market not covered by engine oils. These products must conform to industry specifications, OEM requirements and/or application and operating environment demands. Industrial additives are generally sold to oil companies, service dealers for after-market servicing, and distributors.

Key drivers of the industrial additives marketplace are gross domestic product levels and industrial production.

Fuel Additives

Fuel additives are chemical compounds that are used to improve both the oil refining process and the performance of gasoline, diesel, residual, biofuels, and other fuels. Benefits of fuel additives in the oil refining process include reduced use of crude oil, lower processing costs, and improved fuel storage properties. Fuel performance benefits include ignition improvements, combustion efficiency, reduced emission particulates, fuel economy improvements, and engine cleanliness, as well as protection against deposits in fuel injectors, intake valves, and the combustion chamber. Our fuel additives are extensively tested and designed to meet stringent industry, government, OEM, and individual customer requirements.

Many different types of additives are used in fuels. Their use is generally determined by customer, industry, OEM, and government specifications, and often differs from country to country. The types of fuel additives we offer include:

- gasoline performance additives, which clean and maintain key elements of the fuel delivery systems, including fuel injectors and intake valves, in gasoline engines;
- diesel fuel performance additives, which perform similar cleaning functions in diesel engines;
- cetane improvers, which increase the cetane number (ignition quality) in diesel fuel by reducing the delay between injection and ignition;
- stabilizers, which reduce or eliminate oxidation in fuel;
- corrosion inhibitors, which minimize the corrosive effects of combustion by-products and prevent rust;
- lubricity additives, which restore lubricating properties lost in the refining process;
- cold flow improvers, which improve the pumping and flow of diesel in cold temperatures; and
- octane enhancers, which increase octane ratings and decrease emissions.

We offer a broad line of fuel additives worldwide and sell our products to major fuel marketers and refiners, as well as independent terminals and other fuel blenders.

Key drivers in the fuel additive marketplace include total vehicle miles driven, the introduction of more sophisticated engines, regulations on emissions (both gasoline and diesel), quality of the crude oil slate and performance standards, and marketing programs of major oil companies.

Competition

We believe we are one of the four largest manufacturers and suppliers in the petroleum additives marketplace.

In the lubricant additives submarket of petroleum additives, our major competitors are The Lubrizol Corporation (a wholly-owned subsidiary of Berkshire Hathaway Inc.), Infineum (a joint venture between ExxonMobil Chemical and Royal Dutch Shell plc), and Chevron Oronite Company LLC. There are several other suppliers in the worldwide market who are competitors in their particular product areas.

The fuel additives submarket is fragmented and characterized by many competitors. While we participate in many facets of the fuel additives market, our competitors tend to be more narrowly focused. In the gasoline detergent market, we compete mainly against BASF AG, Chevron Oronite Company LLC, and The Lubrizol Corporation; in the cetane improver market, we compete mainly against Innospec, Inc. (Innospec), Eurenco, and EPC - U.K.; and in the diesel markets, we compete mainly against The Lubrizol Corporation, Infineum, BASF AG, and Innospec. We also compete against other regional competitors in the fuel additives marketplace.

The competition among the participants in these industries is characterized by the need to provide customers with cost effective, technologically-capable products that meet or exceed industry specifications. The need to continually increase technology performance and lower cost through formulation technology and cost improvement programs is vital for success in this environment.

Real Estate Development The real estate development segment represents the operations of Foundry Park I.

In January 2007, Foundry Park I entered into a Deed of Lease Agreement with MeadWestvaco Corporation (MeadWestvaco) under which it is leasing an office building which we have constructed on approximately three acres in Richmond, Virginia. The construction of the building was completed in late 2009 and was to the specifications of MeadWestvaco, which is using the building as its corporate headquarters. The rental income to us began in 2010. The lease term is for a period of 13 $^1/2$ years with rent based upon a factor of the final project cost.

Foundry Park I obtained financing, which was due in August 2010 and which was guaranteed by NewMarket, for the construction phase. In early 2010, we secured a five year loan on the property. We used the proceeds from this loan together with cash on hand to repay the construction loan. Further information on our financing of the project and the related interest rate swap agreements is in Notes 12 and 16 (when we make a reference to Notes, we mean the Notes to Consolidated Financial Statements included herein). None of these agreements impacts the terms of the lease with MeadWestvaco. Through 2009, we capitalized the costs of the project, as well as the financing expenses.

We are currently exploring various development opportunities for other portions of the property we own, as the demand warrants. This search is ongoing in nature, and we have no specific timeline for any future developments.

All Other The All other category includes the continuing operations of the TEL business (primarily sales of TEL in North America), as well as certain contract manufacturing performed by Ethyl. Ethyl manufacturing facilities include our Houston, Texas and Sarnia, Ontario, Canada plants. The Houston plant is substantially dedicated to petroleum additives manufacturing and produces both lubricant additives and fuel additives. The Sarnia plant is completely dedicated to petroleum additives manufacturing and produces fuel additives. The financial results of the petroleum additives production by the Ethyl manufacturing facilities are reflected in the petroleum additives segment results. The All other category financial results include a service fee charged by Ethyl for its production services to Afton. Our remaining manufacturing facilities are part of Afton and produce both lubricant additives and fuel additives.

Raw Materials and Product Supply

We use a variety of raw materials and chemicals in our manufacturing and blending processes and believe the sources of these are adequate for our current operations. The primary raw materials for Afton are base oil, polyisobutylene, antioxidants, alcohols, solvents, sulfonates, friction modifiers, olefins, and copolymers.

As the performance requirements of our products become more complex, we often work with highly specialized suppliers. In some cases, we source from a single supplier. In cases where we decide to source from a single supplier, we manage our risk by maintaining safety stock of the raw material, qualifying alternate supply, or identifying a backup position. The backup position could take additional time to implement, but we are confident we can ensure continued supply for our customers. We continue to monitor the raw material supply situation and will adjust our procurement strategies as conditions require.

Research, Development, and Testing

Research, development, and testing (R&D) provides technologies and performance based solutions for the petroleum additives market. We develop products through a combination of chemical synthesis, formulation development, engineering design, and performance testing. In addition to products, R&D provides our customers with product differentiation and technical support to assure total customer satisfaction.

We are committed to providing the most advanced products, comprehensive testing programs, and superior technical support to our customers and to OEMs worldwide. R&D expenditures, which totaled $105 million in 2011, $91 million in 2010, and $86 million in 2009, are expected to increase again in 2012 in support of our core technology areas. Afton continues to expand our internal testing, research, and customer support capabilities around the world in support of our goals of providing market-driven technical leadership and performance-based differentiation. In 2011, we opened a new custom-built R&D laboratory in Suzhou, China to support the growing needs of our customers in the Asia-Pacific region. This new facility replaces the laboratory we opened in Shanghai, China in 2009.

Afton continues to develop new technology and products to meet the changing requirements of OEMs and to keep our customers well positioned for the future. A significant portion of our R&D investment is dedicated to the development of products that deliver improved fuel efficiency or is required for future hardware designs.

In 2011, we successfully launched effective new technologies for multiple new engine oil categories for passenger cars and commercial trucks in support of our customers in all regions of the world. Research in the engine oil area continues to increase with a focused approach to develop next generation technologies capable of meeting new performance standards and to provide our customers with marketing differentiation.

We continue to provide leading technology in the fuel additives area. New products were developed and launched in all product lines including gasoline performance additives, diesel performance additives, and finished fuel additives. Research is focused on the development of new technologies that exceed the changing needs of modern engine fueling systems and changing fuel properties, as well as addressing the growing need for increased fuel economy and emissions reduction. In addition, we continued to maintain close interactions with regulatory, industry, and OEM leaders to guide our development of future fuel additive technologies based on well-defined market needs.

Our industrial additives product slate continued to expand with the development of new products in multiple areas including hydraulic fluids, grease, industrial gear oils, turbine oils, and metalworking fluid additives. Research is focused on the development of technologies that will provide differentiation to our customers in multiple performance areas including equipment life and energy efficiency.

Technology development continued at a rapid pace in our transmission fluid, axle oil, and tractor fluid product lines. This included the development of new factory fill products for OEMs in the United States, Germany, Japan, and China, and for expansion of our service fill product portfolio. Afton s state-of-the art testing capabilities are enabling customized research in all areas of performance needed by both OEMs and tier one suppliers. Our leading-edge capabilities and fundamental understanding in the areas of friction control, energy efficiency, and wear/pitting prevention were used to set the stage for next generation products in all driveline areas.

Intellectual Property

Our intellectual property, including our patents, licenses, and trademarks, is an important component of our business. We actively protect our inventions, new technologies, and product developments by filing patent

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applications and maintaining trade secrets. We currently own approximately 1,300 issued or pending United States and foreign patents. In addition, we have acquired the rights under patents and inventions of others through licenses or otherwise. We take care to respect the intellectual property rights of others and we believe our products do not infringe upon those rights. We vigorously participate in patent opposition proceedings around the world, where necessary, to secure a technology base free of infringement. We believe our patent position is strong, aggressively managed, and sufficient for the conduct of our business.

We also have several hundred trademark registrations throughout the world for our marks, including NewMarket®, Afton Chemical®, Ethyl®, mmt®, HiTEC®, TecGARD®, GREENBURN®, Passion for Solutions®, CleanStart®, Polartech®, and BioTEC®, as well as several pending trademark and service mark applications, including Axcel and 24/7 QuickResponse℠.

Commitment to Environmental and Safety Excellence

We are committed to continuous improvement and vigilant management of the health and safety of our employees, customers, and the communities in which we operate, as well as the stewardship of the environment. One way our companies demonstrate this is through our commitment to the Guiding Principles of the American Chemistry Council (ACC) Responsible Care® (RC) program. Both Afton and Ethyl have implemented Responsible Care Management Systems (RCMS® or RC14001®) at their U.S. headquarters and most facilities. Our implementation of RC management systems is certified by an independent third-party auditing process as established by the ACC as a requirement of membership. Additionally, Afton s Feluy, Belgium and Suzhou, China plants are certified to the environmental standard ISO 14001. Suzhou is also certified to OHSAS 18001, a global occupational health and safety standard. Afton s Sauget, Illinois plant continues to be an OSHA Star VPP (Voluntary Protection Program) location.

Safety and environmental responsibility are a way of life at NewMarket enhancing operations, the way we work, and the relationships we maintain with our employees, customers, supply chain partners, and the communities in which we operate. Our executive management meetings begin with a review of our environmental and safety performance.

Our objective is to establish a culture where our employees understand that good environmental and safety performance is good business and understand that environmental compliance and safety is their personal responsibility.

Our worldwide injury/illness recordable rate (which is the number of injuries per 200,000 hours worked) in 2011 was 0.67. The rate was 0.64 in 2010 and 0.66 in 2009. We plan to continue to demonstrate our safety-first culture with continuous improvement in our safety record. This represents a focused effort by all of our employees. We are extremely proud of our accomplishments in the safety area, especially when compared to safety records in other industries. Both Afton and Ethyl continue to be among top performers among their industry peers. Based on the 2010 OSHA recordable data, both companies rank in the top 10th percentile in their respective size groups. Ethyl won the Responsible Care Company of the Year award from the ACC in 2011, which is an honor given by the ACC to only one company in each size category.

As members of the ACC, Afton and Ethyl provide data on twelve metrics used to track environmental, safety, energy use, community outreach and emergency preparedness, greenhouse gas intensity, and product stewardship performance of the ACC member companies. These can be viewed at http://responsiblecare.americanchemistry.com/Performance-Results. The information on this website is not, and shall not be deemed to be, a part of this Annual Report on Form 10-K or incorporated by reference in this Annual Report on Form 10-K or any other filings we make with the Securities and Exchange Commission (SEC).

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Environmental

We operate under policies that we believe comply with federal, state, local, and foreign requirements regarding the handling, manufacture, and use of materials. One or more regulatory agencies may classify some of these materials as hazardous or toxic. We also believe that we comply in all material respects with laws, regulations, statutes, and ordinances protecting the environment, including those related to the discharge of materials. We expect to continue to comply in all material respects. We regularly review the status of significant existing or potential environmental issues.

Total liabilities accrued at year-end for environmental remediation were $21.7 million for 2011 and $22.5 million for 2010. In addition to the accruals for environmental remediation, we also had accruals for dismantling and decommissioning costs of $600 thousand at December 31, 2011 and $500 thousand at December 31, 2010.

As new technology becomes available, it may be possible to reduce accrued amounts. While we believe that we are fully accrued for known environmental issues, it is possible that unexpected future costs could have a significant financial impact on our financial position and results of operations.

We spent approximately $19 million in 2011, $18 million in 2010, and $17 million in 2009 for ongoing environmental operating and clean-up costs, excluding depreciation of previously capitalized expenditures. These environmental operating and clean-up expenses are included in cost of goods sold.

For capital expenditures on pollution prevention and safety projects, we spent $9 million in 2011, $7 million in 2010, and $5 million in 2009.

Our estimate of the effects of complying with governmental pollution prevention and safety regulations is subject to:

- potential changes in applicable statutes and regulations (or their enforcement and interpretation);
- uncertainty as to the success of anticipated solutions to pollution problems;
- uncertainty as to whether additional expense may prove necessary; and
- potential for emerging technology to affect remediation methods and reduce associated costs.

We are subject to liabilities associated with the investigation and cleanup of hazardous substances, as well as personal injury, property damage, or natural resource damage arising from the release of, or exposure to, such hazardous substances. Further, we may have environmental liabilities imposed in many situations without regard to violations of laws or regulations. These liabilities may also be imposed jointly and severally (so that a responsible party may be held liable for more than its share of the losses involved, or even the entire loss) and may be imposed on many different entities with a relationship to the hazardous substances at issue, including, for example, entities that formerly owned or operated the property and entities that arranged for the disposal of the hazardous substances at an affected property. We are subject to many environmental laws, including the federal Comprehensive Environmental Response, Compensation and Liability Act, commonly known as CERCLA or Superfund, in the United States, and similar foreign and state laws.

Under CERCLA, we are currently considered a potentially responsible party (PRP), at several sites, ranging from a *de minimis* PRP or a minor PRP, to an involvement considered greater than the minor PRP involvement. At some of these sites, the remediation methodology, as well as the proportionate shares of each PRP, has been well established. Other sites are not as mature, which makes it more difficult to reasonably estimate our share of the future clean-up or remediation costs.

In 2000, the Environmental Protection Agency (EPA) named us as a PRP for the clean-up of soil and groundwater contamination at the Sauget Area 2 Site in Sauget, Illinois. Without admitting any fact,

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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 received notice of approval from the EPA of their October 2009 Human Health Risk Assessment. Additionally, the PRPs have submitted their Feasibility Study (FS) to the EPA Remedy review board. We have accrued our estimated proportional share of the expenses, as well as our best estimate of our proportional share of the remediation liability proposed in our ongoing discussions and submissions with the agencies involved. We do not believe there is any additional information available as a basis for revision of the liability that we have established at December 31, 2011. The amount accrued for this site is not material. We also have several other sites where we are in the process of environmental remediation and monitoring. See Note 18.

Geographic Areas

We have operations in the United States, Europe, Asia, Latin America, Australia, the Middle East, and Canada. The economies are stable in the countries where we do most of our business. In countries with more political or economic uncertainty, we generally minimize our risk of loss by utilizing U.S. Dollar-denominated transactions, letters of credit, and prepaid transactions. Our foreign customers consist of financially viable government organizations, as well as both large and smaller companies.

The table below reports revenues and long-lived assets by geographic area. Except for the United States, no single country exceeded 10% of revenue or long-lived assets during any year. We assign revenues to geographic areas based on the location to which the product was shipped to a third-party. The change in revenues during the three-year period is discussed more fully in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operation.

Geographic Areas

(in millions of dollars)

	2011	2010	2009
Revenue			
United States	$ 768	$ 651	$ 605
Foreign	1,382	1,146	925
Consolidated revenue	$ 2,150	$ 1,797	$ 1,530
Long-lived assets (a)			
United States	$ 257	$ 256	$ 257
Foreign	96	78	45
Total long-lived assets	$ 353	$ 334	$ 302

(a) Long-lived assets include property, plant, and equipment, net of depreciation.

Net sales to one customer of our petroleum additives segment exceeded 10% of consolidated revenue in 2011, 2010, and 2009. Sales to Royal Dutch Shell plc and its affiliates (Shell) amounted to $246 million (11% of consolidated revenue) in 2011, $217 million (12% of consolidated revenue) in 2010, and $232 million (15% of consolidated revenue) in 2009. These sales represent a wide-range of products sold to this customer in multiple regions of the world.

Availability of Reports Filed with the Securities and Exchange Commission and Corporate Governance Documents

Our internet website address is www.newmarket.com. We make available, free of charge through our website, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (Exchange Act), as soon as reasonably practicable after such documents are electronically filed with, or furnished to, the SEC. In addition, our Corporate Governance Guidelines, Code of Conduct, and the charters of our Audit; Compensation; and Nominating and Corporate Governance Committees, are available on our website and are available in print, without charge, to any shareholder upon request by contacting our Corporate Secretary at NewMarket Corporation, 330 South Fourth Street, Richmond, Virginia 23219. The information on our website is not, and shall not be deemed to be, a part of this Annual Report on Form 10-K or incorporated by reference in this Annual Report on Form 10-K or any other filings we make with the SEC.

Executive Officers of the Registrant

The names and ages of all executive officers as of February 22, 2012 follow.

Name	Age	Positions
Thomas E. Gottwald	51	President and Chief Executive Officer (Principal Executive Officer)
David A. Fiorenza	62	Vice President and Chief Financial Officer (Principal Financial Officer)
Steven M. Edmonds	59	Vice President General Counsel
Bruce R. Hazelgrove, III	51	Vice President Corporate Resources
Wayne C. Drinkwater	65	Controller (Principal Accounting Officer)
M. Rudolph West	58	Secretary
C. S. Warren Huang	62	President, Afton Chemical Corporation
Cameron D. Warner, Jr.	53	Treasurer

Our officers, at the discretion of the Board of Directors, hold office until the meeting of the Board of Directors following the next annual shareholders meeting. With the exception of Mr. Warner, all of the officers have served in these capacities with NewMarket for at least the last five years. Mr. Warner has been employed by NewMarket for at least five years in various senior management capacities. Prior to being named Treasurer in October 2011, Mr. Warner was Director Treasury and Corporate Development since April, 2007. Prior to that position and beginning in December 2005, he was Director Corporate Development and Planning.

ITEM 1A. RISK FACTORS

Our business is subject to many factors that could materially adversely affect our future performance and cause our actual results to differ materially from those expressed or implied by forward-looking statements made in this Annual Report on Form 10-K. Those risk factors are outlined below.

Availability of raw materials and transportation systems, including sourcing from some single suppliers, could have a material adverse effect on our operations.

The chemical industry can experience some tightness of supply of certain materials or availability of transportation systems. In addition, in some cases, we choose to source from a single supplier. Any significant disruption in supply could affect our ability to obtain raw materials or to utilize transportation systems. This could have a material adverse effect on our operations.

Several of our products are produced solely at one facility, and a significant disruption or disaster at such a facility could have a material adverse effect on our results of operations.

Several of the products we sell are produced only in one location. We are dependent upon the continued safe operation of these production facilities. These production facilities are subject to various hazards associated with the manufacturing, handling, storage, and transportation of chemical materials and products, including leaks and ruptures, explosions, fires, inclement weather and natural disasters, unscheduled downtime, and environmental hazards. Some of our products involve the manufacturing

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and handling of a variety of reactive, explosive, and flammable materials. Many of these hazards could cause a disruption in the production of our products. We cannot assure that these facilities will not experience these types of hazards and disruptions in the future or that these incidents will not result in production delays or otherwise have an adverse effect on our results of operations, financial condition or cash flows in any given period.

We may be unable to respond effectively to technological changes in our industry.

Our future business success will depend upon our ability to maintain and enhance our technological capabilities, develop and market products and applications that meet changing customer needs, and successfully anticipate or respond to technological changes on a cost-effective and timely basis. Our industry is characterized by frequent changes in industry performance standards, which affect the amount and timing of our research and development costs and other technology-related costs. As a result, the life cycle of our products is often hard to predict. Further, technological changes in some or all of our customers products or processes may make our products obsolete. Our inability to maintain a highly qualified technical workforce or their inability to anticipate, respond to, or utilize changing technologies could have a material adverse effect on our results of operations, financial condition, or cash flows in any given period.

Our failure to protect our intellectual property rights could adversely affect our future performance and growth.

Protection of our proprietary processes, methods, compounds, and other technologies is important to our business. We depend upon our ability to develop and protect our intellectual property rights to distinguish our products from those of our competitors. Failure to protect our existing intellectual property rights may result in the loss of valuable technologies or having to pay other companies for infringing on their intellectual property rights. We rely on a combination of patent, trade secret, trademark, and copyright law, as well as judicial enforcement, to protect such technologies. We currently own approximately 1,300 issued and pending U.S. and foreign patents. Some of these patents are licensed to others. In addition, we have acquired the rights under patents and inventions of others through licenses or otherwise. We have developed, and may in the future develop, technologies with universities or other academic institutions, or with the use of government funding. In such cases, the academic institution or the government may retain certain rights to the developed intellectual property. We also own several hundred trademark and service mark registrations throughout the world for our marks, including NewMarket®, Afton Chemical®, Ethyl®, HiTEC®, TecGARD®, GREENBURN® BioTEC®, Passion for Solutions®, CleanStart®, Polartech®, and mmt®, as well as pending trademark and service mark applications, including Axcel and 24/7 QuickResponse℠. In the event that we are unable to continue using certain of our marks, we may be forced to rebrand our products, which could result in the loss of brand recognition, and could require us to devote resources to advertise and market brands. In particular, the loss of our HiTEC® mark could have a material adverse effect on our business.

We cannot assure that the measures taken by us to protect these assets and rights will provide meaningful protection for our trade secrets or proprietary manufacturing expertise or that adequate remedies will be available in the event of an unauthorized use or disclosure of our trade secrets or manufacturing expertise. We cannot assure that any of our intellectual property rights will not be challenged, invalidated, circumvented, or rendered unenforceable. Furthermore, we cannot assure that any pending patent application filed by us will result in an issued patent, or if patents are issued to us, that those patents will provide meaningful protection against competitors or against competitive technologies. The failure of our patents or other measures to protect our processes, apparatuses, technology, trade secrets and proprietary manufacturing expertise, methods, and compounds could have an adverse effect on our results of operations, financial condition, or cash flow. We could face patent infringement claims from our competitors or others alleging that our processes or products infringe on their proprietary technologies. If we were found to be infringing on the proprietary technology of others, we may be liable for damages, and we may be required to change our processes, to redesign our products partially or completely, to pay to use the technology of others or to stop using certain technologies or producing the infringing product entirely. Even if we ultimately prevail in an infringement suit, the existence of the suit could prompt customers to switch to products that are not the subject of infringement suits. We may not prevail in any intellectual property litigation and such litigation may result in significant legal costs or otherwise impede our ability to produce and distribute key products.

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

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

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

Chemical-related assets may be at greater risk of future terrorist attacks than other possible targets in the United States and throughout the world. Federal legislation has imposed significant new site security requirements, specifically on chemical manufacturing facilities, that will require an estimated $2 million to $3 million in capital expenditures over the next two years at our manufacturing facilities and will increase our annual overhead expenses. Federal regulations have also been enacted to increase the security of the transportation of hazardous chemicals in the United States. Further regulations could be enacted in the future, which could result in additional costs.

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

Competition could adversely affect our operating results.

We face intense competition in certain of the product lines and markets in which we compete. We expect that our competitors will develop and introduce new and enhanced products, which could cause a decline in the market acceptance of certain products we manufacture. In addition, as a result of price competition, we may be compelled to reduce the prices for some of our products, which could adversely affect our margins and profitability. Competitive pressures can also result in the loss of major customers. Our inability to compete successfully could have a material adverse effect on our results of operations, financial condition, or cash flows in any given period. In addition, some of our competitors may have greater financial, technological, and other resources than we have. Some of our competitors may also be able to maintain greater operating and financial flexibility than we are able to maintain. As a result, these competitors may be able to better withstand changes in conditions within our industry, changes in the prices for raw materials, and changes in general economic conditions.

Sudden or sharp raw materials price increases may adversely affect our profit margins.

We utilize a variety of raw materials in the manufacture of our products, including base oil, polyisobutylene, antioxidants, alcohols, solvents, sulfonates, friction modifiers, olefins, and copolymers. Our profitability is sensitive to changes in the costs of these materials caused by changes in supply, demand or other market conditions, over which we have little or no control. Political and economic conditions in the Middle East and Latin America have caused, and may continue to cause, the cost of our raw materials to fluctuate. War, armed hostilities, terrorist acts, civil unrest, or other incidents may also cause a sudden or sharp increase in the cost of our raw materials. We cannot assure that we will be able to pass on to our customers any future increases in raw material costs in the form of price increases for our products.

Our reliance on a small number of significant customers may have a material adverse effect on our results of operations.

Our principal customers are major multinational oil companies. The oil industry is characterized by the concentration of a few large participants as a result of consolidation. The loss of a significant customer or a material reduction in purchases by a significant customer could have a material adverse effect on our results of operations, financial condition, or cash flows.

Our customers are concentrated in the lubricant and fuel industries and, as a result, our reliance on that industry is significant.

Most of our customers are primarily engaged in the fuel and lubricant industries. This concentration of customers affects our overall risk profile, since our customers will be similarly affected by changes in economic, geopolitical, and industry conditions. Many factors affect the level of our customers spending on our products, including, among others, general business conditions, changes in technology, interest rates, gasoline prices, and consumer confidence in future economic conditions. A sudden or protracted downturn in these industries could adversely affect the buying power and purchases by our customers.

We face risks related to our foreign operations that may negatively affect our business.

In 2011, sales to customers outside of the United States accounted for over 60% of consolidated revenue. We do business in all major regions of the world, some of which do not have stable economies or governments. In particular, we sell and market products in countries experiencing political and/or economic instability in the Middle East, Asia Pacific, Europe, and Latin America. Our international operations are subject to international business risks, including unsettled political conditions, expropriation, import and export restrictions, increases in royalties, exchange controls, national and regional labor strikes, taxes, government royalties, inflationary or unstable economies and currency exchange rate fluctuations, and changes in laws and policies governing operations of foreign-based companies (such as restrictions on repatriation of earnings or proceeds from liquidated assets of foreign subsidiaries). The occurrence of any one or a combination of these factors may increase our costs or have other adverse effects on our business.

We are exposed to fluctuations in foreign exchange rates, which may adversely affect our results of operations.

We conduct our business in the local currency of many of the countries in which we operate. The financial condition and results of operations of our foreign operating subsidiaries are reported in the relevant local currency and then translated to U.S. Dollars at the applicable currency exchange rate for inclusion in our consolidated financial statements. Changes in exchange rates between these foreign currencies and the U.S. Dollar will affect the recorded levels of our assets and liabilities, as well as our revenues, costs, and operating margins. The primary foreign currencies in which we have exchange rate fluctuation exposure are the European Union Euro, British Pound Sterling, Japanese Yen, and Canadian Dollar. Exchange rates between these currencies and the U.S. Dollar have fluctuated significantly in recent years and may do so in the future.

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An information technology system failure may adversely affect our business.

We rely on information technology systems to transact our business. An information technology system failure due to computer viruses, internal or external security breaches, power interruptions, hardware failures, fire, natural disasters, human error, or other causes could disrupt our operations and prevent us from being able to process transactions with our customers, operate our manufacturing facilities, and properly report those transactions in a timely manner. A significant, protracted information technology system failure may result in a material adverse effect on our financial condition, results of operations, or cash flows.

Our business is subject to government regulation and could be adversely affected by future governmental regulation.

We are subject to regulation by local, state, federal, and foreign governmental authorities. In some circumstances, before we may sell certain products, these authorities must approve these products, our manufacturing processes, and our facilities. We are also subject to ongoing reviews of our products, manufacturing processes, and facilities by governmental authorities.

In order to obtain regulatory approval of certain new products, we must, among other things, demonstrate to the relevant authority that the product is safe and effective for its intended uses and that we are capable of manufacturing the product in accordance with current regulations. The process of seeking approvals can be costly, time consuming, and subject to unanticipated and significant delays. There can be no assurance that approvals will be granted to us on a timely basis, or at all. Any delay in obtaining, or any failure to obtain or maintain, these approvals would adversely affect our ability to introduce new products and to generate sales from those products.

New laws and regulations, including climate change regulations, may be introduced in the future that could result in additional compliance costs, seizures, confiscation, recall, or monetary fines, any of which could prevent or inhibit the development, distribution, and sale of our products. If we fail to comply with applicable laws and regulations, we may be subject to civil remedies, including fines, injunctions, and recalls or seizures, any of which could have an adverse effect on our results of operations, financial condition, or cash flows.

Our business and our customers are subject to significant regulations under the European Commission s Registration, Evaluation and Authorization of Chemicals (REACH) regulation. REACH became effective on June 1, 2007. It imposes obligations on European Union manufacturers and importers of chemicals and other products into the European Union to compile and file comprehensive reports, including testing data, on each chemical substance, perform chemical safety assessments, and obtain pre-market authorization with respect to certain substances of particularly high concern. The regulation imposes additional burdens on chemical producers and importers, and, to a lesser extent, downstream users of chemical substances and preparations. Our manufacturing presence and sales activities in the European Union will require us to incur additional compliance costs.

We are subject to the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act and anti-bribery laws in other jurisdictions which generally prohibit companies and their intermediaries from making improper payments to foreign officials for the purposes of obtaining or retaining business. We are also subject to export and import laws and regulations which restrict trading with embargoed or sanctioned countries. Although we have policies and procedures designed to facilitate compliance with these laws and regulations, our employees, contractors and agents may take actions in violation of our policies. Any such violation, even if prohibited by our policies, could have a material adverse effect on our business and reputation.

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

We are involved in numerous administrative and legal proceedings that result from, and are incidental to, the conduct of our business. From time to time, these proceedings involve environmental, product liability, TEL, premises asbestos liability, and other matters. See Item 3, Legal Proceedings. We have

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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, or cash flows.

Environmental matters could have a substantial negative impact on our results of operations.

As a manufacturer and distributor of chemical products, we are generally subject to extensive local, state, federal, and foreign environmental, safety, and health laws and regulations concerning, among other things, emissions to the air, discharges to land and water, the generation, handling, treatment, and disposal of hazardous waste and other materials, and remediation of contaminated soil, as well as surface and ground water. Our operations entail the risk of violations of those laws and regulations, many of which provide for substantial fines and criminal sanctions for violations. We believe that we comply in all material respects with laws, regulations, statutes, and ordinances protecting the environment, including those related to the discharge of materials. However, we cannot assure that we have been or will be at all times in compliance with all of these requirements.

In addition, these requirements, and the enforcement or interpretation of these requirements, may become more stringent in the future. Although we cannot predict the ultimate cost of compliance with any such requirements, the costs could be material. Noncompliance could subject us to material liabilities, such as government fines, damages arising from third-party lawsuits, or the suspension and potential cessation of noncompliant operations. We may also be required to make significant site or operational modifications at substantial cost. Future developments could also restrict or eliminate the use of or require us to make modifications to our products, which could have an adverse effect on our results of operations, financial condition, or cash flows.

At any given time, we are involved in claims, litigation, administrative proceedings, and investigations of various types in a number of jurisdictions involving potential environmental liabilities, including clean-up costs associated with waste disposal sites, natural resource damages, property damage, and personal injury. We cannot assure that the resolution of these environmental matters will not have an adverse effect on our results of operations, financial condition, or cash flows.

There may be environmental problems associated with our properties of which we are unaware. Some of our properties contain, or may have contained in the past, on-site facilities or underground tanks for the storage of chemicals, hazardous materials, and waste products that could create a potential for release of hazardous substances or contamination of the environment. The discovery of environmental liabilities attached to our properties could have a material adverse effect on our results of operations, financial condition, or cash flows.

We may also face liability arising from current or future claims alleging personal injury, product liability, property damage due to exposure to chemicals or other hazardous substances, such as premises asbestos, at or from our facilities. We may also face liability for personal injury, product liability, property damage, natural resource damage, or clean-up costs for the alleged migration of contaminants or hazardous substances from our facilities or for future accidents or spills. A significant increase in the number or success of these claims could adversely affect our financial condition, results of operations, or cash flows. For further discussion of some related claims, see Item 1, Business Environmental.

The ultimate costs and timing of environmental liabilities are difficult to predict. Liability under environmental laws relating to contaminated sites can be imposed retroactively and on a joint and several basis. A liable party could be held responsible for all costs at a site, whether currently or formerly owned or operated, regardless of fault, knowledge, timing of the contamination, cause of the contamination, percentage of contribution to the contamination, or the legality of the original disposal. We could incur significant costs, including clean-up costs, natural resource damages, civil or criminal fines and sanctions, and third-party claims, as a result of past or future violations of, or liabilities under, environmental laws.

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We have been identified, and in the future may be identified, as a PRP in connection with state and federal laws regarding environmental clean-up projects.

Within the United States, we are subject to the federal, state and local environmental laws under which we may be designated as a PRP. As a PRP, we may be liable for a share of the costs associated with cleaning up hazardous waste sites, such as a landfill to which we may have sent waste.

In *de minimis* PRP matters and in some minor PRP matters, we generally negotiate a consent decree to pay an apportioned settlement. This relieves us of any further liability as a PRP, except for remote contingencies. We are also a PRP at sites where our liability may be in excess of the *de minimis* or minor PRP levels. Most sites where we are a PRP represent environmental issues that are quite mature. The sites have been investigated, and in many cases, the remediation methodology, as well as the proportionate shares of each PRP, has been established. Other sites are not as mature, which makes it more difficult to reasonably estimate our share of future clean-up or remediation costs. Generally, environmental remediation and monitoring will go on for an extended period. As a result, we may incur substantial expenses for all these sites over a number of years.

Liability for investigation and remediation of hazardous substance contamination at currently or formerly owned or operated facilities or at third-party waste disposal sites is joint and several. Currently, we are involved in active remediation efforts at several sites where we have been named a PRP. If other PRPs at these sites are unable to contribute to the remediation costs, we could be held responsible for some, or all, of their portion of the remediation costs, in addition to the portion of these costs for which we are already responsible.

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

Our senior credit agreement and senior notes contain restrictive covenants. These covenants may constrain our activities and limit our operational and financial flexibility. The failure to comply with these covenants could result in an event of default, which, if not cured or waived, could have a material adverse effect on our business, financial condition, or results of operations.

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

We maintain property, business interruption, and casualty insurance, but such insurance may not cover all risks associated with the hazards of our business and is subject to limitations, including deductibles and maximum liabilities covered. We may incur losses beyond the limits, or outside the coverage, of our insurance policies, including liabilities for environmental remediation. In the future, we may not be able to obtain coverage at current levels, and our premiums may increase significantly on coverage that we maintain.

Landlord and financing risks associated with Foundry Park I could adversely affect our financial results.

In January 2007, Foundry Park I entered into a Deed of Lease Agreement with MeadWestvaco under which it is leasing an office building which we have constructed on approximately three acres in Richmond, Virginia.

Our landlord and financing activities may subject us to the following risks:

- We may incur costs associated with our landlord activities that exceed our expectations and result in the Foundry Park I operations materially negatively impacting our results of operations for our real estate development segment; and

- we may incur losses, which could be material, under the Goldman Sachs interest rate swap agreement. See Note 16 for further information on the interest rate swap.

We may not be able to complete recent or future acquisitions or successfully integrate recent or future acquisitions into our business, which could result in unanticipated expenses and losses.

As part of our business growth strategy, we intend to pursue acquisitions and joint venture opportunities. Our ability to implement this component of our growth strategy will be limited by our

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ability to identify appropriate acquisition or joint venture candidates and our financial resources, including available cash and borrowing capacity. The expense incurred in completing acquisitions or entering into joint ventures, the time it takes to integrate an acquisition, or our failure to integrate businesses successfully, could result in unanticipated expenses and losses. Furthermore, we may not be able to realize any of the anticipated benefits from acquisitions or joint ventures.

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

Our financial results will vary according to the timing of customer orders and other external factors, which complicates gauging our performance.

External factors beyond our control, such as timing of customer orders, product shipment dates, and other factors can cause shifts in net sales and income from quarter to quarter. These external factors can magnify the impact of industry cycles. As a result, our income and cash flows may fluctuate significantly on a quarter-to-quarter basis, and gauging trends in our business may be impaired.

We could be required to make additional contributions to our pension plans, which may be underfunded due to any underperformance of the equities markets.

Our pension plan asset allocation is predominantly weighted towards equities. Cash contribution requirements to our pension plans are sensitive to changes in our plans actual return on assets. Reductions in our plans return on assets due to poor performance of the equities markets could cause our pension plans to be underfunded and require us to make additional cash contributions.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal operating properties are shown below. Unless indicated, we own the research, development, and testing facilities and manufacturing properties, which primarily support the petroleum additives business segment.

Research, Development, and Testing	Richmond, Virginia
	Bracknell, England
	Manchester, England
	Tsukuba, Japan
	Ashland, Virginia *(leased)*
	Suzhou, China
Manufacturing and Distribution	Bedford Park, Illinois *(lubricant additives)*
	Feluy, Belgium *(lubricant additives)*
	Houston, Texas *(lubricant and fuel additives; also TEL storage and distribution)*

Hyderabad, India *(lubricant additives)*

Manchester, England *(lubricant additives)*

Orangeburg, South Carolina *(fuel additives)*

Port Arthur, Texas *(lubricant additives)*

Rio de Janeiro, Brazil *(petroleum additives storage and distribution; leased)*

Sarnia, Ontario, Canada (*fuel additives)*

Sauget, Illinois *(lubricant and fuel additives)*

Suzhou, China *(lubricant additives)*

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We own our corporate headquarters located in Richmond, Virginia, and generally lease our regional and sales offices located in a number of areas worldwide.

NewMarket Development manages the property that we own on a site in Richmond, Virginia consisting of approximately 64 acres. We have our corporate offices on this site, as well as a research and testing facility, the office complex we constructed for Foundry Park I, and several acres dedicated to other uses. We are currently exploring various development opportunities for portions of the property as the demand warrants. This effort is ongoing in nature, and we have no specific timeline for any future developments.

In January 2007, Foundry Park I entered into a Deed of Lease Agreement with MeadWestvaco under which it is leasing the office building which we constructed on approximately three acres in Richmond, Virginia.

Production Capacity

We believe our plants and supply agreements are sufficient to meet expected sales levels. Operating rates of the plants vary with product mix and normal sales swings. We believe that our facilities are well maintained and in good operating condition.

ITEM 3. 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. Some of these legal proceedings relate to environmental matters and involve governmental authorities. For further information, see Environmental in Part I, Item 1.

While it is not possible to predict or determine with certainty the outcome of any legal proceeding, we believe the outcome of any of these proceedings, or all of them combined, will not result in a material adverse effect on our consolidated financial condition, results of operations, or cash flows.

As previously disclosed, NewMarket Corporation and Afton Chemical Corporation (collectively, NewMarket) brought two civil actions against Innospec Inc. and its subsidiaries Alcor Chemie Vertriebs GmbH and Innospec Ltd. (collectively Innospec) in July 2010.

NewMarket and Innospec have agreed to settle these actions pursuant to the terms of a settlement agreement between them signed on September 13, 2011 which provides for mutual releases of the parties and dismissal of the actions with prejudice. Under the settlement agreement, Innospec will pay NewMarket an aggregate amount of approximately $45 million, payable in a combination of cash, a promissory note, and stock, of which $25 million was paid in cash on September 20, 2011 and approximately $5 million was paid in the form of 195,313 shares of unregistered Innospec Inc. common stock. Fifteen million dollars is payable in three equal annual installments of $5 million under the promissory note, which bears interest at 1% per year. The first installment is due on September 10, 2012.

Following the litigation, the United States Department of Justice has advised us that it is conducting a review of certain of our foreign business activities in relation to compliance with relevant U.S. economic sanctions programs and anti-corruption laws, as well as certain historical conduct in the domestic U.S. market, and has requested certain information from us regarding our foreign business activities. We intend to cooperate with the review.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock, with no par value, has traded on the New York Stock Exchange (NYSE) under the symbol NEU since June 21, 2004 when we became the parent holding company of Ethyl, Afton, NewMarket Services, NewMarket Development, and their subsidiaries. We had 2,830 shareholders of record at January 31, 2012.

On July 21, 2010, our Board of Directors approved a share repurchase program authorizing management to repurchase up to $200 million of NewMarket s outstanding common stock until December 31, 2012, as market conditions warrant and covenants under our existing agreements permit. We may conduct the share repurchases in the open market and in privately negotiated transactions. The repurchase program does not require NewMarket to acquire any specific number of shares and may be terminated or suspended at any time. Approximately $60 million remained available under the 2010 authorization at December 31, 2011. There were no purchases during the fourth quarter 2011 under this authorization.

As shown in the table below, cash dividends declared and paid totaled $2.39 per share for the twelve months ended December 31, 2011 and $1.565 per share for the twelve months ended December 31, 2010.

Year	Date Declared	Date Paid	Per Share Amount
2011	February 17, 2011	April 1, 2011	44 cents
	April 20, 2011	July 1, 2011	60 cents
	July 21, 2011	October 1, 2011	60 cents
	October 27, 2011	January 1, 2012	75 cents
2010	February 18, 2010	April 1, 2010	37.5 cents
	April 22, 2010	July 1, 2010	37.5 cents
	July 21, 2010	October 1, 2010	37.5 cents
	October 18, 2010	January 1, 2011	44 cents

The declaration and payment of dividends is subject to the discretion of our Board of Directors. Future dividends will depend on various factors, including our financial condition, earnings, cash requirements, legal requirements, restrictions in agreements governing our outstanding indebtedness, and other factors deemed relevant by our Board of Directors. For a discussion of the restrictions on our ability to declare and pay dividends, see Note 12.

The following table shows the high and low prices of our common stock on the NYSE for each of the last eight quarters.

	2011			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
High	$ 160.89	$ 190.76	$ 180.39	$ 204.92
Low	$ 118.83	$ 149.12	$ 135.01	$ 140.46

	2010			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
High	$ 126.89	$ 116.29	$ 115.98	$ 131.76
Low	$ 81.80	$ 87.03	$ 84.57	$ 113.19

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The performance graph showing the five-year cumulative total return on our common stock as compared to specialty chemical companies and the S&P 500 is shown below. The graph assumes $100 invested on the last day of December 2006. Dividends are assumed to be reinvested quarterly. Beginning in 2011, the performance graph no longer includes The Lubrizol Corporation, as it was acquired by another company during 2011 and is no longer publicly traded.

Performance Graph

Comparison of Five-Year Cumulative Total Return

Performance Through December 31, 2011

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ITEM 6. SELECTED FINANCIAL DATA

NewMarket Corporation and Subsidiaries

Five Year Summary

	Years Ended December 31				
	2011	**2010**	**2009**	**2008**	**2007**
	(in thousands, except per-share amounts)				
Results of Operations					
Revenue	$ 2,149,558	$ 1,797,392	$ 1,530,122	$ 1,617,431	$ 1,374,874
Costs and expenses	1,847,629	1,510,088	1,267,834	1,501,071	1,266,251
Special item income, net (1)	38,656	0	0	0	0
Operating profit	340,585	287,304	262,288	116,360	108,623
Interest and financing expenses, net	18,820	17,261	11,716	12,046	11,557
Other (expense) income, net (2)	(18,048)	(10,047)	(11,196)	1,012	3,358
Income from continuing operations before income tax expense	303,717	259,996	239,376	105,326	100,424
Income tax expense (3)	96,810	82,871	77,093	32,099	21,874
Income from continuing operations	206,907	177,125	162,283	73,227	78,550
Income from operations of discontinued business (net of tax) (4)	0	0	0	0	16,771
Net income	$ 206,907	$ 177,125	$ 162,283	$ 73,227	$ 95,321
Financial Position and Other Data					
Total assets	$ 1,191,662	$ 1,062,741	$ 1,025,192	$ 811,452	$ 770,934
Operations:					
Working capital	$ 463,707	$ 396,388	$ 405,087	$ 310,265	$ 317,380
Current ratio	3.15 to 1	2.92 to 1	3.05 to 1	3.28 to 1	2.79 to 1
Depreciation and amortization	$ 43,352	$ 39,134	$ 32,820	$ 28,968	$ 29,126
Capital expenditures	$ 53,515	$ 36,406	$ 89,133	$ 74,619	$ 36,656
Gross profit as a % of revenue	26.0	28.7	30.3	19.4	21.6
Research, development, and testing expenses (5)	$ 105,496	$ 91,188	$ 86,072	$ 81,752	$ 76,834
Total debt	$ 243,567	$ 221,913	$ 250,081	$ 237,162	$ 157,797
Common stock and other shareholders equity	$ 549,593	$ 491,640	$ 458,185	$ 291,123	$ 317,007
Total debt as a % of total capitalization (debt plus equity)	30.7	31.1	35.3	44.9	33.2
Net income as a % of average shareholders equity	39.7	37.3	43.3	24.1	30.8
Common Stock					
Basic earnings per share:					
Income from continuing operations	$ 15.10	$ 12.12	$ 10.67	$ 4.77	$ 4.66
Income from operations of discontinued business (net of tax) (4)	0.00	0.00	0.00	0.00	1.00
Net income	$ 15.10	$ 12.12	$ 10.67	$ 4.77	$ 5.66
Diluted earnings per share:					
Income from continuing operations	$ 15.09	$ 12.09	$ 10.65	$ 4.75	$ 4.63
Income from operations of discontinued business (net of tax) (4)	0.00	0.00	0.00	0.00	.99
Net income	$ 15.09	$ 12.09	$ 10.65	$ 4.75	$ 5.62
Shares used to compute basic earnings per share	13,707	14,619	15,206	15,362	16,841

Shares used to compute diluted earnings per share		13,712		14,650		15,243		15,430		16,957
Equity per share	$	41.00	$	35.03	$	30.12	$	19.15	$	20.37
Cash dividends declared per share	$	2.39	$	1.565	$	1.075	$	.80	$	.575

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Notes to the Five Year Summary

(1) Special item income, net was $38.7 million in 2011 and represented the gain on the legal settlement with Innospec Inc.

(2) Other (expense) income, net in 2011, 2010, and 2009 included the loss on the Goldman Sachs interest rate swap. The loss on the interest rate swap was $17.5 million for the twelve months ended December 31, 2011; $10.3 million for the twelve months ended December 31, 2010; and $11.4 million for the twelve months ended December 31, 2009. We are not using hedge accounting to record the interest rate swap, and accordingly, any change in the fair value is immediately recognized in earnings. Other (expense) income, net in both 2008 and 2007 consists primarily of investment income.

(3) Income tax expense in 2007 included a special item gain of $9.5 million primarily representing a reversal of deferred tax provisions that were previously provided on the undistributed earnings of certain foreign subsidiaries.

(4) Discontinued operations for 2007 reflect the April 1, 2007 termination of all marketing agreements between the subsidiaries of Ethyl and Innospec. The gain on the termination of this business was $22.8 million ($14.6 million after tax). The remaining amounts reflect the after-tax earnings of this business.

(5) Of the total research, development, and testing expenses, the portion related to new products and processes was $51 million in 2011, $45 million in 2010, $46 million in 2009, $44 million in 2008, and $42 million in 2007.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Forward-Looking Statements

The following discussion, as well as other discussions in this Annual Report on Form 10-K, 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, should, could, may, will, and similar expressions, we do so to identify forward-looking statemer of forward-looking statements include statements we make regarding future prospects of growth 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, availability of raw materials and transportation systems; supply disruptions at single sourced facilities; ability to respond effectively to technological changes in our industry; failure to protect our intellectual property rights; hazards common to chemical businesses; occurrence or threat of extraordinary events, including natural disasters and terrorist attacks; competition from other manufacturers; sudden or sharp raw materials price increases; gain or loss of significant customers; risks related to operating outside of the United States; the impact of fluctuations in foreign exchange rates; political, economic, and regulatory factors concerning our products; future governmental regulation; resolution of environmental liabilities or legal proceedings; and inability to complete recent or future acquisitions or successfully integrate recent or future acquisitions into our business. In addition, certain risk factors are also discussed in Item 1A, Risk Factors.

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, any forward-looking statement made in this discussion, or elsewhere, might not occur.

OVERVIEW

While we experienced some slowdown in the demand for our products during the final months of 2011, operations for the full year generated strong results with increased net sales, improved operating profit in every major world region, and higher product shipments in our petroleum additives segment as compared to 2010, reflecting the value our technology-driven products provide to our customers. In 2011, our plants continued to run safely at high production levels and we again expanded our capability in research and development through new investment in people and facilities.

Our cash flow from operations was strong during 2011, enabling us to repurchase 659,373 shares of our common stock for $94.8 million and increase our quarterly dividend from 44 cents per share at the beginning of the year to 75 cents per share at the end of the year. Also, our working capital position improved during 2011, and we ended the year with $50 million in cash and $22 million drawn on the $300 million revolving credit facility.

On September 13, 2011, we signed a settlement agreement with Innospec Inc. and its subsidiaries, Alcor Chemie Vertriebs GmbH and Innospec Ltd. (collectively, Innospec) which provided for mutual releases of the parties and

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a dismissal of the actions with prejudice. Under the settlement agreement, Innospec will pay NewMarket an aggregate amount of approximately $45 million, payable in a combination of cash, a promissory note, and stock, of which $25 million was paid in cash on September 20, 2011 and approximately $5 million was paid in the form of 195,313 shares of unregistered Innospec Inc. common stock. Fifteen million dollars is payable in three equal annual installments of $5 million under the promissory note, which bears interest at 1% per year. The first installment is due on September 10, 2012. We recognized a pre-tax gain of $38.7 million, which is net of expenses related to the settlement of the lawsuit.

RESULTS OF OPERATION

Revenue

Our consolidated revenue for 2011 amounted to $2.2 billion, an increase of 20% from $1.8 billion in 2010. The increase of $267 million between 2010 and 2009 was 17%.

Net sales to one customer of our petroleum additives segment exceeded 10% of consolidated revenue in 2011, 2010, and 2009. Sales to Royal Dutch Shell plc and its affiliates (Shell) amounted to $246 million (11% of consolidated revenue) in 2011, $217 million (12% of consolidated revenue) in 2010, and $232 million (15% of consolidated revenue) in 2009. These sales represent a wide-range of products sold to this customer in multiple regions of the world.

No other single customer accounted for 10% or more of our total revenue in 2011, 2010, or 2009.

The following table shows revenue by segment for each of the last three years.

Consolidated Revenue by Segment

(in millions of dollars)

	2011	2010	2009
Petroleum additives	$ 2,127	$ 1,774	$ 1,518
Real estate development	11	11	0
All other	12	12	12
Consolidated revenue	$ 2,150	$ 1,797	$ 1,530

Petroleum Additives Petroleum additives net sales for 2011 of $2.1 billion were approximately 20% higher than 2010 levels. The increase between the two years primarily resulted from higher selling prices, as well as higher product shipments and a favorable impact from foreign currency. Product shipments increased 6% in 2011 from 2010 levels, reflecting higher shipments across both the lubricant and fuel additive product lines. The higher product shipments included a benefit to revenue resulting from increased shipments of certain higher priced products. When comparing the two years, the U.S. Dollar weakened against the major currencies in which we conduct business, including the European Union Euro, British Pound Sterling, and Japanese Yen, resulting in a favorable foreign currency impact on revenue.

Net sales in 2010 of $1.8 billion were $256 million or 17% higher than 2009 net sales of $1.5 billion. The increase in net sales reflected higher total product shipments of 12%, including the benefit of the Polartech group of companies (Polartech) shipments during 2010. The increase in product shipments was across most product lines, but primarily in the lubricant additives product lines. Selling prices were also favorable for 2010 as compared to 2009. An unfavorable foreign currency impact of $6 million partially offset the increase in product shipments and selling prices. While recovering in 2009 from the worldwide economic slowdown, product shipments were weaker than normal during the first half of 2009.

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The approximate components of the petroleum additives increase in net sales of $353 million when comparing 2011 to 2010 and $256 million when comparing 2010 to 2009 are shown below in millions.

Net sales for year ended December 31, 2009	$ 1,518
Increase in shipments, including changes in product mix	213
Increase in selling prices, including changes in customer mix	49
Decrease due to foreign currency impact	(6)
Net sales for year ended December 31, 2010	1,774
Increase in shipments, including changes in product mix	145
Increase in selling prices, including changes in customer mix	175
Increase due to foreign currency impact	33
Net sales for year ended December 31, 2011	$ 2,127

Real Estate Development Segment The revenue of $11 million for the real estate development segment for both 2011 and 2010 represents the rental of the office building, which was constructed by Foundry Park I. The building was completed in late 2009, and we began recognizing rental revenue in January 2010.

Segment Operating Profit

NewMarket evaluates the performance of the petroleum additives business and the real estate development business based on segment operating profit. NewMarket Services expenses are charged to NewMarket and each subsidiary pursuant to services agreements between the companies. Depreciation on segment property, plant, and equipment, as well as amortization of segment intangible assets, is included in the segment operating profit.

The All other category includes the operations of the TEL business, as well as certain contract manufacturing performed by Ethyl.

The table below reports operating profit by segment for the last three years.

Segment Operating Profit

(in millions of dollars)

	2011	2010	2009
Petroleum additives	$ 348	$ 299	$ 280
Real estate development	$ 7	$ 7	$ (1)
All other	$ 3	$ 3	$ 0

Petroleum Additives The petroleum additives segment includes a net gain of $39 million related to the Innospec settlement in 2011, which is discussed above in the Overview section. Including the legal settlement, the petroleum additives operating profit increased $49 million when comparing 2011 and 2010. The increase was across both the lubricant and fuel additives product lines. As discussed above in the Revenue section, increased product shipments, higher selling prices, and foreign currency were all significant favorable impacts to operating profit during 2011. Partially offsetting these favorable factors on operating profit were unfavorable impacts from increased raw material costs, as well as additional planned spending in selling, general, and administrative expenses (SG&A), and research, development, and testing expenses (R&D).

The petroleum additives operating profit increased $19 million when comparing 2010 and 2009. When compared to 2009 operating profit levels, the 2010 results are higher across the lubricant additives product lines, but lower across the fuel additives product lines. Substantially increased product shipments and somewhat higher selling prices, as well as the benefit of the Polartech acquisition, as discussed in the Revenue section above, were significant favorable factors in the operating profit when compared to 2009. Partially offsetting these favorable factors on operating profit, were unfavorable impacts from margin compression, as well as planned additional spending in SG&A. While operating profit improved in 2010 over 2009, the operating profit margin was unfavorable when comparing the two years. The lower 2010 operating profit margin reflects increased raw material costs and less favorable product mix resulting from the decrease of shipments of certain high margin products.

Finally, our SG&A, together with R&D, was $32 million, or 16%, higher in 2011 than 2010 and $25 million, or 14%, higher in 2010 than 2009.

In 2011, SG&A increased approximately $18 million, or 16%, as compared to 2010. In 2010, the increase was approximately $19 million, or 21%, over 2009 levels. The increase for both periods was primarily the result of certain growth-related costs reflecting higher personnel-related costs and professional fees. The increase from 2009 to 2010 also reflects the inclusion of the Polartech operations in 2010. Total R&D for petroleum additives was $105 million in 2011, $91 million in 2010, and $86 million in 2009. We continue to invest in SG&A and R&D to support our customers programs and to develop the technology required to remain a leader in this industry. We expect this to continue for the foreseeable future. R&D related to new products and processes was $51 million in 2011, $45 million in 2010, and $46 million in 2009. All of our R&D was related to the petroleum additives segment.

Real estate development Operating profit for the real estate development segment was $7 million for both 2011 and 2010, compared to a loss of $1 million for 2009. During 2009, the office building was under construction resulting in no rental revenue and limited non-capital expenses.

The following discussion references certain captions on the Consolidated Statements of Income.

Interest and Financing Expenses

Interest and financing expenses were $19 million in 2011, $17 million in 2010, and $12 million in 2009. The increase in interest and financing expenses between 2011 and 2010 was primarily due to higher average outstanding debt reflecting higher borrowings on the revolving credit facility, which was partially offset by a lower average interest rate during 2011. The increase between 2010 and 2009 was primarily related to the mortgage loan on the Foundry Park I office building, as well as higher average outstanding debt on the revolving credit facility during 2010. Prior to obtaining the mortgage loan in January 2010, the interest and financing expenses for the construction phase of the office building were capitalized.

Other Expense, Net

Other expense, net was $18 million in 2011, $10 million in 2010, and $11 million in 2009. The 2011 amount includes $1 million expense related to the consent we obtained in January 2011 from the holders of the senior notes to modify the formula for calculating the capacity under the senior notes to make certain restricted payments. The remaining amounts for 2011, 2010, and 2009 primarily represent the loss on an interest rate swap which is recorded at fair value. See Note 16 for additional information on the interest rate swap.

Income Tax Expense

Income tax expense was $97 million in 2011, $83 million in 2010, and $77 million in 2009. The effective tax rate was 31.9% in both 2011 and 2010 and 32.2% in 2009. The 2011 and 2010 effective income tax rates include the benefit of higher income in foreign jurisdictions with lower tax rates. The effective income tax rates for each year include a substantial benefit from the domestic manufacturing tax deduction, as well as the benefit from the R&D tax credit. See Note 22 for further details on income taxes.

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The increase in income before income tax expense between 2010 and 2011 resulted in the entire increase in income tax expense of $14 million.

The increase in income before income tax expense between 2009 and 2010 resulted in an increase in income tax expense of $7 million. This was partially offset by a reduction in income tax expense of $1 million due to the lower effective tax rate in 2010 compared to 2009.

Our deferred taxes are in a net asset position. Based on current forecast operating plans and historical profitability, we believe that we will recover nearly the full benefit of our deferred tax assets and have, therefore, only recorded an immaterial valuation allowance at a foreign subsidiary.

CASH FLOWS DISCUSSION

We generated cash from operating activities of $185 million in 2011, $164 million in 2010, and $226 million in 2009.

During 2011, we used the cash provided by operating activities of $185 million, along with $18 million of borrowings under our revolving credit facility and an additional $7 million of borrowings under foreign lines of credit to fund $54 million in capital expenditures, $98 million in repurchases of our common stock, and $33 million in dividend payments. In addition, we made a net deposit of $13 million related to the Goldman Sachs interest rate swap, made a net payment of $5 million for settlements under the mortgage loan interest rate swap, and funded $3 million for debt issuance costs. Further information on the Goldman Sachs and mortgage loan interest rate swaps is in Note 16. These cash flows, including an unfavorable foreign exchange impact of $1 million, resulted in an increase in cash and cash equivalents of $1 million. Cash flows from operating activities included a decrease of $62 million resulting from higher working capital requirements and payments of $31 million for our pension and postretirement plans, as well as $25 million proceeds from a legal settlement.

During 2010, we utilized the $164 million of cash generated from operations and $152 million of cash on hand, along with the borrowing of $68 million under the mortgage loan for Foundry Park I and $4 million under the revolving credit facility to fund several key initiatives. These initiatives included repaying the Foundry Park I construction loan of $99 million. We also funded the acquisition of Polartech for $41 million, funded capital expenditures of $36 million, repurchased $122 million of our common stock, paid $23 million of dividends on our common stock, made a net deposit of $8 million related to the Goldman Sachs interest rate swap, paid $4 million for debt issuance costs, and made a net payment of $2 million for settlements under the mortgage loan interest rate swap. These cash flows included an unfavorable foreign currency impact on cash of $2 million. Cash flows from operating activities included a decrease of $63 million resulting from higher working capital requirements and payments of $22 million for our pension and postretirement plans.

During 2009, we used the cash generated from operations, along with $56 million of draws under the Foundry Park I construction loan and $11 million from a net return of funds for the deposit related to an interest rate lock agreement to fund $89 million of capital expenditures, payoff the outstanding balance of $42 million on the revolving credit agreement, and make a net deposit of $15 million related to the Goldman Sachs interest rate swap. We also paid dividends on our common stock of $16 million. These items, including a favorable fluctuation in foreign currency rates of $5 million, resulted in an increase of $130 million in cash and cash equivalents. Cash flows from operating activities included an increase of $23 million resulting from lower working capital requirements, as well as payments of $25 million for our pension and postretirement plans.

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 at least the next twelve months.

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FINANCIAL POSITION AND LIQUIDITY

Cash

At December 31, 2011, we had cash and cash equivalents of $50 million as compared to $49 million at the end of 2010.

At both December 31, 2011 and December 31, 2010, we had a book overdraft for some of our disbursement cash accounts. A book overdraft represents disbursements 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.

Our cash and cash equivalents held by our foreign subsidiaries amounted to approximately $45 million at December 31, 2011 and $43 million at December 31, 2010. A significant amount, but not all, of these foreign cash balances are associated with earnings that we have asserted are indefinitely reinvested. We plan to use these indefinitely reinvested earnings to support growth outside of the United States through funding of operating expenses, research and development expenses, capital expenditures, and other cash needs of our foreign subsidiaries. Periodically, we repatriate cash from our foreign subsidiaries to the United States through intercompany dividends. These intercompany dividends are paid only by subsidiaries whose earnings we have not asserted are indefinitely reinvested or whose earnings qualify as previously taxed income, as defined by the Internal Revenue Code. If circumstances were to change that would cause these indefinitely reinvested earnings to be repatriated, an incremental U.S. tax liability would be incurred. As part of our foreign subsidiary repatriation activities, we received cash dividends of $30 million for 2011, $53 million for 2010, and $24 million for 2009.

Debt

Senior Notes The 7.125% senior notes are our senior unsecured obligations and are jointly and severally guaranteed on an unsecured basis by all existing and future domestic restricted subsidiaries wholly-owned by NewMarket. The 7.125% senior notes are due in 2016. We incurred financing costs of approximately $3 million in 2006 related to the 7.125% senior notes, which are being amortized over the term of the agreement. We incurred additional financing costs of approximately $3 million in 2011 for consents we obtained from the senior note holders related to the change in the formula for calculating the capacity to make restricted payments under the senior notes. Of the $3 million incurred in 2011, $1 million was expensed immediately, with the remaining fees being amortized over the remaining term of the agreement.

The 7.125% senior notes and the subsidiary guarantees rank:

- effectively junior to all of our and the guarantors existing and future secured indebtedness, including any borrowings under the senior credit facility described below;
- equal in right of payment with any of our and the guarantors existing and future unsecured senior indebtedness; and
- senior in right of payment to any of our and the guarantors existing and future subordinated indebtedness.

The indenture governing the 7.125% senior notes contains covenants that, among other things, limit our ability and the ability of our restricted subsidiaries to:

- incur additional indebtedness;
- create liens;
- pay dividends or repurchase capital stock;

make certain investments;

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- sell assets or consolidate or merge with or into other companies; and
- engage in transactions with affiliates.

The more restrictive and significant of the covenants under the indenture include a minimum fixed charge ratio of 2.00, as well as a limitation on restricted payments, as defined in the indenture. Our fixed charge coverage ratio was 20.46 at December 31, 2011. In addition, we would have been permitted to make additional restricted payments in the amount of approximately $126 million at December 31, 2011.

We were in compliance with all covenants under the indenture governing the 7.125% senior notes as of December 31, 2011 and December 31, 2010.

Senior Credit Facility On November 12, 2010, we entered into a Credit Agreement (Credit Agreement). The Credit Agreement provides for a $300 million, multicurrency revolving credit facility, with a $100 million sublimit for multicurrency borrowings, a $100 million sublimit for letters of credit, and a $20 million sublimit for swingline loans. The Credit Agreement includes an expansion feature, which allows us, subject to certain conditions, to request to increase the aggregate amount of the revolving credit facility or obtain incremental term loans in an amount up to $150 million.

At December 31, 2011, we had outstanding letters of credit of $6.1 million and $22.0 million borrowed, resulting in the unused portion of the senior credit facility amounting to $271.9 million. For further information on the outstanding letters of credit, see Note 18.

We paid financing costs in 2010 of approximately $2.5 million related to this agreement and carried over deferred financing costs from our previous revolving credit agreement of approximately $700 thousand, resulting in total deferred financing costs of $3.2 million, which we are amortizing over the term of the Credit Agreement.

The obligations under the Credit Agreement are unsecured and are fully guaranteed by NewMarket and the subsidiary guarantors. The revolving credit facility matures on November 12, 2015.

Borrowing made under the revolving credit facility bear interest at an annual rate equal to, at our election, either (1) the Alternate Base Rate (ABR) plus the Applicable Rate (solely in the case of loans denominated in U.S. dollars to NewMarket) or (2) the Adjusted LIBO Rate plus the Applicable Rate. ABR is the greatest of (i) the rate of interest publicly announced by the Administrative Agent as its prime rate, (ii) the federal funds effective rate from time to time plus 0.5% or (iii) the Adjusted LIBO Rate for a one month interest period plus 1%. The Adjusted LIBO Rate means the rate at which Eurocurrency deposits in the London interbank market for certain periods (as selected by NewMarket) are quoted, as adjusted for statutory reserve requirements for Eurocurrency liabilities and other applicable mandatory costs. Depending on our consolidated Leverage Ratio (as defined in the Credit Agreement), the Applicable Rate ranges from 1.00% to 1.50% for loans bearing interest based on the ABR and from 2.00% to 2.50% for loans bearing interest based on the Adjusted LIBO Rate. At December 31, 2011, the Applicable Rate was 1.00% for loans bearing interest based on the ABR and 2.00% for loans bearing interest based on the Adjusted LIBO Rate. Our average interest rate under the Credit Agreement was 2.9% during 2011. At December 31, 2011, the interest rate on outstanding borrowings was 4.25%.

The Credit Agreement contains financial covenants that require NewMarket to maintain a consolidated Leverage Ratio of no more than 3.00 to 1.00 and a consolidated Interest Coverage Ratio (as defined in the Credit Agreement) of no less than 3.00 to 1.00, as of the end of each fiscal quarter ending on and after December 31, 2010. At December 31, 2011, the Leverage Ratio was 0.69 and the Interest Coverage Ratio was 17.90.

We were in compliance with all covenants under the Credit Agreement at December 31, 2011 and December 31, 2010.

Mortgage Loan Agreement On January 28, 2010, Foundry Park I entered into a mortgage loan agreement in the amount of $68.4 million. The loan, which is collateralized by the Foundry Park I office building, is for a period of five years, with two thirteen-month extension options. NewMarket Corporation is fully guaranteeing the loan. The mortgage loan bears interest at a variable rate of LIBOR plus a margin of 400 basis points. At December 31, 2011, the interest rate was 4.27%. Principal payments on the loan are being made monthly based on a 15 year amortization schedule, with all remaining amounts due in five years, unless we exercise the extension options. We incurred financing costs of $1.5 million related to the mortgage loan, which are being amortized over the initial term of the agreement.

Concurrently with the closing of the mortgage loan, Foundry Park I obtained an interest rate swap to effectively convert the variable interest rate in the loan to a fixed interest rate by setting LIBOR at 2.642% for five years. Further information on the interest rate swap is in Note 16.

Construction Loan Agreement Foundry Park I and NewMarket Corporation entered into a construction loan agreement with a group of banks on August 7, 2007 to borrow up to $116 million to fund the development and construction of an office building. The construction loan bore interest at LIBOR plus a margin of 140 basis points. The term of the loan was for a period of 36 months and was unconditionally guaranteed by NewMarket Corporation. No principal reduction payment became due during the construction period. As a condition of the construction loan and concurrently with the closing of the loan, Foundry Park I also obtained interest rate risk protection in the form of an interest rate swap. See Note 16. On January 29, 2010, we paid off the outstanding balance of $99.1 million of the construction loan with proceeds of $68.4 million from the mortgage loan agreement (discussed above) and cash on hand of $30.7 million.

Other Borrowings One of our subsidiaries in India has a short-term line of credit of 110 million Rupees for working capital purposes. The average interest rate was approximately 10.8% during 2011 and 11.1% at December 31, 2011. The outstanding balance of $1.7 million (90 million Rupees) at December 31, 2011 is due during 2012. Another subsidiary in China has a short-term line of credit of $10 million for working capital purposes. The average interest rate was approximately 2.3% during 2011 and 2.5% at December 31, 2011. The outstanding balance of $6.3 million at December 31, 2011 is due during 2012.

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We had combined current and noncurrent long-term debt of $244 million at December 31, 2011 and $222 million at December 31, 2010. The increase in debt resulted from additional borrowings of $18 million on the revolving credit facility, as well as $7 million under the short-term lines of credit in India and China described above. These amounts were partially offset by payments on the mortgage loan of $3 million.

As a percentage of total capitalization (total debt and shareholders equity), our total debt decreased from 31.1% at the end of 2010 to 30.7% at the end of 2011. The change in the percentage was primarily the result of the increase in shareholders equity offset by the increase in debt. The increase in shareholders equity reflects our earnings, partially offset by the impact of dividend payments, the stock repurchase program, and the increase in accumulated other comprehensive loss. Normally, we repay long-term debt with cash from operations or refinancing activities.

Working Capital

At December 31, 2011, we had working capital of $464 million, resulting in a current ratio of 3.15 to 1. Our working capital at year-end 2010 was $396 million resulting in a current ratio of 2.92 to 1.

The change in the working capital ratio primarily reflects higher accounts receivable and inventories, as well as higher prepaid expenses and other current assets at December 31, 2011. The increase in accounts receivable primarily reflects higher sales levels when comparing fourth quarter 2011 and fourth quarter 2010, while the fluctuation in inventories reflects higher quantities at certain locations in response to demand for our products, as well as higher priced inventory resulting from increased raw material costs. The increase in prepaid expenses and other current assets primarily reflects higher prepaid taxes on intercompany profit in inventory.

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Capital Expenditures

We expect capital expenditures to be approximately $60 million to $70 million in 2012. We expect to continue to finance this capital spending through cash provided from operations, together with borrowing available under our senior credit facility.

Environmental Expenses

We spent approximately $19 million in 2011, $18 million in 2010, and $17 million in 2009 for ongoing environmental operating and clean-up costs, excluding depreciation of previously capitalized expenditures. These environmental operating and clean-up expenses are included in cost of goods sold. We expect to continue to fund these costs through cash provided by operations in the future.

Contractual Obligations

The table below shows our year-end contractual obligations by year due.

	Payments Due by Period (in millions of dollars)				
	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
Long-term debt obligations (a)	$ 244	$ 11	$ 7	$ 226	$ 0
Interest payable on long-term debt, interest rate swaps, and capital lease obligations	117	21	40	32	24
Letters of credit (b)	6	0	0	0	6
Operating lease obligations	24	9	11	3	1
Property, plant, and equipment purchase obligations	7	7	0	0	0
Raw material purchase obligations (c)	256	105	137	14	0
Other long-term liabilities (d)	50	33	3	2	12
Reserves for uncertain tax positions	1	0	1	0	0
Total	$ 705	$ 186	$ 199	$ 277	$ 43

(a) Amounts represent contractual payments due on the senior notes, senior credit facility, mortgage loan, and short-term lines of credit as of December 31, 2011. See Note 12 for more information on long-term debt obligations.

(b) We intend to renew letters of credit when necessary as they mature; therefore, the obligations do not have a definitive maturity date.

(c) Raw material purchase obligations include agreements to purchase goods or services that are enforceable and legally binding and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum, or variable price provisions; and the approximate timing of the transaction. Purchase obligations exclude agreements that are cancelable without penalty. Purchase orders made in the ordinary course of business are excluded from the above table. Any amounts for which we are liable under purchase orders are reflected in our Consolidated Balance Sheets as accounts payable or accrued expenses.

(d) These represent other long-term liability amounts reflected in our Consolidated Balance Sheets that have known payment streams. Amounts include environmental liabilities, including asset retirement obligations, as well as contributions associated with pension and postretirement benefit plans. Amounts accrued for the potential exposure with respect to litigation, claims, and assessments are not included in the table above.

Pension and Postretirement Benefit Plans

Our U.S. and foreign benefit plans are discussed separately below. Our U.S. pension and postretirement plans are similar and therefore, the information discussed below applies to all of our U.S. benefit plans. Our foreign plans

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are quite diverse, and the actuarial assumptions used by the various foreign plans are based upon the circumstances of each particular country and retirement plan. The discussion below surrounding our foreign retirement benefits focuses only on our pension plan in the United Kingdom (U.K.) which represents the majority of the impact on our financial statements from foreign pension plans. We use a December 31 measurement date to determine our pension and postretirement expenses and related financial disclosure information. Additional information on our pension and postretirement plans is in Note 19.

U.S. Pension and Postretirement Benefit Plans The average remaining service period of active participants for our U.S. plans is 13.2 years, while the average remaining life expectancy of inactive participants is 24.4 years. We utilize the Optional Combined Mortality Tables for males and females based on the RP-2000 Mortality Tables projected to 2012 with Scale AA in determining the impact of the U.S. benefit plans on our financial statements.

Investment Return Assumptions and Asset Allocation We periodically review our assumptions for the long-term expected return on pension plan assets. As part of the review and to develop expected rates of return, we considered a stochastic analysis of expected returns based on the U.S. plans asset allocation as of both January 1, 2010 and January 1, 2011. This analysis reflects our expected long-term rates of return for each significant asset class or economic indicator. As of January 1, 2012, the expected rates were 8.8% for U.S. large cap stocks, 3.0% for fixed income, and 2.3% for inflation. The range of returns developed relies both on forecasts and on broad-market historical benchmarks for expected return, correlation, and volatility for each asset class.

The asset allocation for our U.S. pension plans is predominantly weighted toward equities. Through the ongoing monitoring of our investments, we have determined that we should maintain the expected long-term rate of return for our U.S. pension plans at 9.0% at December 31, 2011.

An actuarial loss occurred during 2011 as the actual investment return was lower than the expected return for all of our U.S. pension plans by approximately $11 million. During 2010 and 2009, the actual return was higher than the expected return, resulting in an actuarial gain for all of our U.S. pension plans of approximately $4 million in 2010 and $10 million in 2009. Investment gains and losses are recognized in earnings on an amortized basis over a period of years so that 2011 losses will cause an expected $400 thousand increase in expense in 2012. We expect that there will be continued volatility in pension expense as actual investment returns vary from the expected return, but we continue to believe the potential long-term benefits justify the risk premium for equity investments.

At December 31, 2011, our expected long-term rate of return on our postretirement plans was 6.00%. This rate varies from the pension rate of 9.0% primarily because of the difference in investment of assets. The assets of the postretirement plan are held in an insurance contract, which results in a lower assumed rate of investment return.

Pension expense and the life insurance portion of postretirement expense are sensitive to changes in the expected return on assets. For example, decreasing the expected rate of return by 25 basis points to 8.75% for pension assets and 5.75% for postretirement benefit assets (while holding other assumptions constant) would increase the forecasted 2012 expense for our U.S. pension and postretirement plans by approximately $425 thousand. Similarly, a 25 basis point increase in the expected rate of return to 9.25% for pension assets and 6.25% for postretirement benefit assets (while holding other assumptions constant) would reduce forecasted 2012 pension and postretirement expense by approximately $425 thousand.

Discount Rate Assumption We develop the discount rate assumption by determining the single effective discount rate for a unique hypothetical portfolio constructed from investment-grade bonds that, in aggregate, match the projected cash flows of each of our retirement plans. The discount rate is developed based on the hypothetical portfolio on the last day of December. The discount rate at December 31, 2011 was 5.00% for all plans.

Pension and postretirement benefit expense is also sensitive to changes in the discount rate. For example, decreasing the discount rate by 25 basis points to 4.75% (while holding other assumptions constant) would increase the forecasted 2012 expense for our U.S. pension and postretirement benefit plans by approximately $850 thousand. A 25 basis point increase in the discount rate to 5.25% would reduce forecasted 2012 pension and postretirement benefit expense by approximately $950 thousand.

Rate of Projected Compensation Increase We have maintained our rate of projected compensation increase at December 31, 2011 at 3.50%. The rate assumption was based on an analysis of our projected compensation increases for the foreseeable future.

Liquidity Cash contribution requirements to the pension plan are sensitive to changes in assumed interest rates and investment gains or losses in the same manner as pension expense. We expect our aggregate cash contributions, before income taxes, to the U.S. pension plans will be approximately $23 million in 2012. We expect our contributions to the postretirement benefit plans will be approximately $2 million in 2012.

Other Assumptions We periodically review our assumption for the health care cost trend rate based on actual cost experience, typically assuming a higher current-year trend scaling down to a lower permanent rate over a five to ten year period. We refreshed this health care trend assumption for 2010 and 2011 resulting in an assumed rate of 9.0% for 2010 and 8.5% for 2011, scaling down to 5.75% by 2017.

Foreign Pension Benefit Plans Our foreign pension plans are quite diverse. The following information applies only to our U.K. pension plan, which represents the majority of the impact on our financial statements from our foreign pension plans. The average remaining service period for our U.K. plan is 11 years, while the average remaining life expectancy is 36 years. We utilize the S1 SAPS Normal Health (Light) mortality tables and allow for future projected improvements in life expectancy in line with the CMI 2010 model, with a long-term rate of improvement of 1% per year based on the membership of the plan, in determining the impact of the U.K. pension plans on our financial statements.

Investment Return Assumptions and Asset Allocation We periodically review our assumptions for the long-term expected return on the U.K. pension plan assets. The expected long-term rate of return is based on both the asset allocation, as well as yields available in the U.K. markets.

The target asset allocation in the U.K. is to be invested 55% in equities, 40% in a mixture of government and corporate bonds, and 5% in a pooled investment property fund, although the actual allocation at the end of 2011 was 52% in equities, 43% in government and corporate bonds, and 5% in a pooled investment property fund. Based on the actual asset allocation and the expected yields available in the U.K. markets, the expected long-term rate of return for the U.K. pension plan was 5.5% at December 31, 2011.

An actuarial loss occurred during 2011 as the expected investment return exceeded the actual investment return in 2011 by approximately $2 million for our U.K. pension plan. This loss compares to actuarial gains of $5 million in 2010 and $7 million in 2009 where actual investment returns exceeded expected returns. Investment gains and losses are recognized in earnings on an amortized basis, resulting in increased expense of approximately $800 thousand in 2011, as well as an expected $500 thousand increased expense in 2012. We expect that there will be continued volatility in pension expense as actual investment returns vary from the expected return, but we continue to believe the potential benefits justify the risk premium for the target asset allocation.

Pension expense is sensitive to changes in the expected return on assets. For example, decreasing the expected rate of return by 25 basis points to 5.25% (while holding other assumptions constant) would increase the forecasted 2012 expense for our U.K. pension plan by approximately $200 thousand. Similarly, a 25 basis point increase in the expected rate of return to 5.75% (while holding other assumptions constant) would reduce forecasted 2012 pension expense by approximately $200 thousand.

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Discount Rate Assumption We utilize a yield curve based on AA-rated corporate bond yields constructed from iBoxx indices in developing a discount rate assumption (extrapolated at longer terms based on the corresponding swap yield curve). The yield appropriate to the duration of the U.K. plan liabilities is then used. The discount rate at December 31, 2011 was 4.8%.

Pension expense is also sensitive to changes in the discount rate. For example, decreasing the discount rate by 25 basis points to 4.55% (while holding other assumptions constant) would increase the forecasted 2012 expense for our U.K. pension plans by approximately $100 thousand. A 25 basis point increase in the discount rate to 5.05% would reduce forecasted 2012 pension expense by approximately $100 thousand.

Rate of Projected Compensation Increase We have decreased our rate of projected compensation increase at December 31, 2011 to 4.50% from 5.10%. The rate assumption was based on an analysis of our projected compensation increases for the foreseeable future.

Liquidity Cash contribution requirements to the U.K. pension plan are sensitive to changes in assumed interest rates in the same manner as pension expense. We expect our aggregate U.K. cash contributions, before income taxes, will be approximately $5 million in 2012.

OUTLOOK

We begin 2012 with a positive view of our business and the customer-focused approach that we believe has resulted in 2011 being a record setting year. We believe the fundamentals of how we run our business a safety-first culture, customer-focused solutions, technology-driven product offerings, world-class supply chain capability, and a regional organizational structure to better understand our customers needs will continue to pay dividends to all of our stakeholders.

We expect 2012 to be a more profitable year than 2011, as we project an increase in volume, revenue, and net income. There has been no significant change in the positive fundamentals of the petroleum additives business, and we expect the industry demand to continue to grow at a rate of approximately 1% - 2%. We plan to exceed that rate. Over the past several years, we have made significant investments to expand our capabilities around the world. These investments have been in people, research centers, and production capacity. We intend to use these new capabilities to improve our ability to deliver the goods and service that our customers value and to expand our business and profits.

In summary, we expect the business practices that have produced the outstanding results of the past two years will continue in 2012. As a global company operating in most countries around the world, we are not immune to the economic conditions in many of those countries. Western Europe and the Euro are a significant factor in our business and financial results.

Our business continues to generate significant amounts of cash beyond what is necessary for the expansion and growth of our current product lines. We regularly review the many internal opportunities which we have to utilize this cash, both from a geographical and product line point of view. We continue our efforts in investigating potential acquisitions as both a use for this cash and to generate shareholder value. Our primary focus in the acquisition area remains on the petroleum additives industry. It is our view that this industry will provide the greatest opportunity for a good return on our investment while minimizing risk. We remain focused on this strategy and will evaluate any future opportunities. Nonetheless, we are patient in this pursuit and intend to make the right acquisition when the opportunity arises. Until an acquisition materializes, we will build cash on our balance sheet and will continue to evaluate all alternative uses of that cash to enhance shareholder value, including stock repurchases and dividends.

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CRITICAL ACCOUNTING POLICIES AND ESTIMATES

It is our goal to clearly present our financial information in a manner that enhances the understanding of our sources of earnings and cash flows, as well as 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.

Our financial 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 statements fairly represent the financial position and operating results of our company. 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 could cause a change in future reported financial results.

Intangibles (net of amortization) and Goodwill

We have certain identifiable intangibles, as well as goodwill, amounting to $38 million at year-end 2011 that are discussed in Note 10. These intangibles relate to our petroleum additives business and, except for the goodwill, are being amortized over periods with up to approximately eighteen years of remaining life. We continue to assess the market related to these intangibles, as well as their specific values, and have concluded the values and amortization periods 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. In addition, none of our reporting units with goodwill is at risk of failing the goodwill impairment test. However, if conditions were to substantially deteriorate in the petroleum additives market, it could possibly cause a reduction in the periods of this amortization charge or result in a noncash write-off of all or a portion of the intangibles carrying amount. A reduction in the amortization period would have no effect on cash flows. We do not anticipate such a change in the market conditions in the near term.

Environmental and Legal Proceedings

We have made disclosure of our environmental matters in Item 1 of this Annual Report on Form 10-K, as well as in the Notes to Consolidated Financial Statements. 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 Item 3 of this Annual Report on Form 10-K, while it is not possible to predict or determine with certainty the outcome of any legal proceeding, it is our opinion, based on our current knowledge, that we will not experience any material adverse effects on our results of operations or financial condition as a result of any pending or threatened proceeding.

Pension Plans and Other Postretirement Benefits

We use 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 on plan assets, rate of compensation increase, and health-care cost trend rate. A change in any one of these assumptions could result in different results for the plans. We develop these assumptions after considering available information that we deem relevant. Information is provided on the pension and postretirement plans in Note 19. In addition, further disclosure on the effect of changes in these assumptions is provided in the Financial Position and Liquidity section of Item 7.

Income Taxes

We file consolidated U.S. federal and both consolidated and individual state income tax returns, as well as individual foreign income tax returns, under which assumptions may be made to determine the deductibility of

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certain costs. We make estimates related to the impact of tax positions taken on our financial statements when we believe the tax position is likely to be upheld on audit. In addition, we make certain assumptions in the determination of the estimated future recovery of deferred tax assets.

RECENTLY ISSUED ACCOUNTING STANDARDS

For a full discussion of the more significant pronouncements which may impact our financial statements, see Note 27.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to many market risk factors, including fluctuations in interest and foreign currency rates, as well as changes in the cost of raw materials and marketable security prices. These risk factors may affect our results of operations, cash flows, and financial position.

We manage these risks through regular operating and financing methods, including the use of derivative financial instruments. When we have derivative instruments, they are with major financial institutions and are not for speculative or trading purposes. Also, as part of our financial risk management, we regularly review significant contracts for embedded derivatives and record them in accordance with accounting standards.

The following analysis presents the effect on our earnings, cash flows, and financial position as if the hypothetical changes in market risk factors occurred at December 31, 2011. We analyzed only the potential impacts of our hypothetical assumptions. This analysis does not consider other possible effects that could impact our business.

Interest Rate Risk

At December 31, 2011, we had total debt of $244 million. Of the total debt, $150 million is at fixed rates. There was no interest rate risk at the end of the year associated with the fixed rate debt.

At year-end 2011, we had $22 million of outstanding variable rate debt under our revolving credit facility and $8 million of outstanding variable rate debt under short-term lines of credit. Holding all other variables constant, if the variable portion of the interest rates hypothetically increased 10%, the effect on our earnings and cash flows would have been higher interest expense of approximately $100 thousand.

The remaining amount of debt represents the outstanding balance of the mortgage loan, which bears interest at a variable rate of LIBOR plus a margin of 400 basis points. Concurrently with the closing of the mortgage loan, Foundry Park I obtained an interest rate swap to effectively convert the variable interest rate of the loan to a fixed interest rate by setting LIBOR at 2.642% for five years. Accordingly, in combination, there is no interest rate risk associated with the mortgage loan and related interest rate swap, other than the change in the value of the interest rate swap due to changes in the yield curve. The fair value amounted to a liability of $4 million at December 31, 2011. Any change in fair value is recognized in accumulated other comprehensive income, to the degree of effectiveness of the swap. With other variables held constant, a hypothetical 50 basis point adverse parallel shift in the LIBOR yield curve would have resulted in an increase of approximately $1 million in the fair value liability of the mortgage loan interest rate swap at December 31, 2011.

We recorded the Goldman Sachs interest rate swap at fair value, which amounted to a liability of $32 million at December 31, 2011. Any change in fair value is recognized immediately in earnings. With other variables held constant, a hypothetical 50 basis point adverse parallel shift in the LIBOR yield curve would have resulted in an increase of approximately $5 million in the liability fair value of the interest rate swap with Goldman Sachs. See Note 16 for further information.

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A hypothetical 10% decrease in interest rates, holding all other variables constant, would have resulted in a change of $4 million in fair value of our debt at year-end 2011.

Foreign Currency Risk

We sell to customers in foreign markets through our foreign subsidiaries, as well as through export sales from the United States. These transactions are often denominated in currencies other than the U.S. Dollar. Our primary currency exposures are the European Union Euro, British Pound Sterling, Japanese Yen, and Canadian Dollar. We sometimes enter into forward contracts as hedges to minimize the fluctuation of intercompany accounts receivable denominated in foreign currencies. At December 31, 2011, we had no outstanding forward contracts.

Raw Material Price Risk

We utilize a variety of raw materials in the manufacture of our products, including base oil, polyisobutylene, antioxidants, alcohols, solvents, sulfonates, friction modifiers, olefins and copolymers. Our profitability is sensitive to changes in the costs of these materials caused by changes in supply, demand, or other market conditions, over which we have little or no control. If we experience sudden or sharp increases in the cost of our raw materials, we may not be able to pass on these increases in whole or in part to our customers. Political and economic conditions in the Middle East and Latin America have caused and may continue to cause the cost of our raw materials to fluctuate. War, armed hostilities, terrorist acts, civil unrest or other incidents may also cause a sudden or sharp increase in the cost of our raw materials. If we cannot pass on to our customers any future increases in raw material costs in the form of price increases for our products, there will be a negative impact on operating profit.

Marketable Security Price Risk

As part of the legal settlement related to the Innospec lawsuit, we own 195,313 shares of unregistered Innospec Inc. common stock. We have classified the stock as available for sale and have recorded the stock in current assets at fair market value discounted for transfer restrictions on the shares. The unrealized gain or loss on the common stock is recorded in Other Comprehensive Income. At December 31, 2011, we valued the stock at $5 million. A hypothetical 10% decrease in the stock price, holding all other variables constant, would have resulted in a decrease of approximately $500 thousand in the fair value of the stock at December 31, 2011.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of NewMarket Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, shareholders equity and cash flows present fairly, in all material respects, the financial position of NewMarket Corporation and its subsidiaries (the Company) at December 31, 2011 and December 31, 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Richmond, Virginia

February 22, 2012

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NewMarket Corporation and Subsidiaries

Consolidated Statements of Income

	Years Ended December 31		
	2011	**2010**	**2009**
	(in thousands, except per-share amounts)		
Revenue:			
Net sales product	$ 2,138,127	$ 1,786,076	$ 1,530,122
Rental revenue	11,431	11,316	0
	2,149,558	1,797,392	1,530,122
Costs:			
Cost of goods sold product	1,586,145	1,277,505	1,066,862
Cost of rental	4,386	4,428	0
	1,590,531	1,281,933	1,066,862
Gross profit	559,027	515,459	463,260
Selling, general, and administrative expenses	151,602	136,967	114,900
Research, development, and testing expenses	105,496	91,188	86,072
Gain on legal settlement, net	38,656	0	0
Operating profit	340,585	287,304	262,288
Interest and financing expenses, net	18,820	17,261	11,716
Other expense, net	18,048	10,047	11,196
Income before income tax expense	303,717	259,996	239,376
Income tax expense	96,810	82,871	77,093
Net income	$ 206,907	$ 177,125	$ 162,283
Basic earnings per share	$ 15.10	$ 12.12	$ 10.67
Diluted earnings per share	$ 15.09	$ 12.09	$ 10.65
Shares used to compute basic earnings per share	13,707	14,619	15,206
Shares used to compute diluted earnings per share	13,712	14,650	15,243

See accompanying Notes to Consolidated Financial Statements.

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NewMarket Corporation and Subsidiaries

Consolidated Balance Sheets

	December 31	
	2011	**2010**
	(in thousands, except share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 50,370	$ 49,192
Short-term investments	0	300
Trade and other accounts receivable, net	278,332	257,748
Inventories	306,785	273,215
Deferred income taxes	7,261	6,876
Prepaid expenses and other current assets	36,983	15,444
Total current assets	679,731	602,775
Property, plant, and equipment, at cost	1,034,472	988,180
Less accumulated depreciation and amortization	681,506	654,204
Net property, plant, and equipment	352,966	333,976
Prepaid pension cost	11,494	8,597
Deferred income taxes	35,805	21,974
Other assets and deferred charges	73,619	48,893
Intangibles (net of amortization) and goodwill	38,047	46,526
TOTAL ASSETS	$ 1,191,662	$ 1,062,741
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 103,217	$ 109,250
Accrued expenses	78,546	71,558
Dividends payable	8,529	5,304
Book overdraft	1,680	1,063
Long-term debt, current portion	10,966	4,369
Income taxes payable	13,086	14,843
Total current liabilities	216,024	206,387
Long-term debt	232,601	217,544
Other noncurrent liabilities	193,444	147,170
Commitments and contingencies (Note 18)		
Shareholders equity:		
Common stock and paid in capital (without par value; authorized shares 80,000,000; issued and outstanding 13,404,831 at December 31, 2011 and 14,034,884 at December 31, 2010)	64	0
Accumulated other comprehensive loss	(98,732)	(73,820)
Retained earnings	648,261	565,460
	549,593	491,640
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 1,191,662	$ 1,062,741

See accompanying Notes to Consolidated Financial Statements.

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NewMarket Corporation and Subsidiaries

Consolidated Statements of Shareholders Equity

	Common Stock and Paid in Capital		Accumulated Other Comprehensive Loss	Retained Earnings	Total Shareholders Equity
	Shares	Amount			
	(in thousands, except share amounts)				
Balance at December 31, 2008	15,199,207	$ 115	$ (95,750)	$ 386,758	$ 291,123
Comprehensive income:					
Net income				162,283	162,283
Changes in (net of tax):					
Foreign currency translation adjustments			17,816		17,816
Pension plans and other postretirement benefit adjustments:					
Prior service cost			200		200
Unrecognized actuarial gain			3,304		3,304
Transition obligation			9		9
Derivative net loss			(363)		(363)
Total comprehensive income					183,249
Cash dividends ($1.075 per share)				(16,347)	(16,347)
Stock options exercised	9,000	40			40
Issuance of stock	1,782	120			120
Balance at December 31, 2009	15,209,989	275	(74,784)	532,694	458,185
Comprehensive income:					
Net income				177,125	177,125
Changes in (net of tax):					
Foreign currency translation adjustments			(6,042)		(6,042)
Pension plans and other postretirement benefit adjustments:					
Prior service cost			(523)		(523)
Unrecognized actuarial gain			9,006		9,006
Transition obligation			10		10
Derivative net loss			(1,487)		(1,487)
Total comprehensive income					178,089
Cash dividends ($1.565 per share)				(22,608)	(22,608)
Repurchases of common stock	(1,213,158)	(3,104)		(121,751)	(124,855)
Stock options exercised	21,000	91			91
Stock option tax benefit		711			711
Issuance of stock	17,053	2,027			2,027
Balance at December 31, 2010	14,034,884	0	(73,820)	565,460	491,640
Comprehensive income:					
Net income				206,907	206,907
Changes in (net of tax):					
Foreign currency translation adjustments			163		163
Pension plans and other postretirement benefit adjustments:					

Prior service cost			260		260
Unrecognized actuarial loss			(25,154)		(25,154)
Transition obligation			40		40
Derivative net loss			(585)		(585)
Unrealized gain on marketable securities			364		364
Total comprehensive income					181,995
Cash dividends ($2.39 per share)				(32,588)	(32,588)
Repurchases of common stock	(659,373)	(3,237)		(91,518)	(94,755)
Stock options exercised	16,000	70			70
Stock option tax benefit		1,102			1,102
Issuance of stock	13,320	2,129			2,129
Balance at December 31, 2011	13,404,831	$ 64	$ (98,732)	$ 648,261	$ 549,593

See accompanying Notes to Consolidated Financial Statements.

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NewMarket Corporation and Subsidiaries

Consolidated Statements of Cash Flows

	Years Ended December 31		
	2011	**2010**	**2009**
		(in thousands)	
Cash and cash equivalents at beginning of year	$ 49,192	$ 151,831	$ 21,761
Cash flows from operating activities			
Net income	206,907	177,125	162,283
Adjustments to reconcile net income to cash flows from operating activities:			
Noncash foreign exchange loss (gain)	114	(603)	1,812
Depreciation and other amortization	41,749	37,667	31,573
Amortization of deferred financing costs	1,603	1,467	1,247
Noncash pension benefits expense	13,719	13,911	13,578
Noncash postretirement benefits expense	2,780	2,832	2,647
Noncash environmental remediation and dismantling	1,321	3,554	4,177
Deferred income tax expense	2,375	1,933	4,257
Unrealized loss on derivative instruments net	12,642	8,016	11,440
Stock award	2,900	2,790	0
Gain on legal settlement, net	(38,656)	0	0
Change in assets and liabilities:			
Trade and other accounts receivable, net	(16,225)	(34,815)	(66)
Inventories	(33,154)	(74,852)	26,097
Prepaid expenses	(13,721)	24,281	(30,893)
Accounts payable and accrued expenses	1,976	11,718	30,740
Income taxes payable	(887)	10,671	(2,870)
Realized loss (gain) on derivative instruments, net	4,874	2,308	(92)
Cash pension benefits contributions	(29,447)	(20,333)	(23,728)
Cash postretirement benefits contributions	(1,929)	(1,835)	(1,280)
Proceeds from legal settlement	25,000	0	0
Change in book overdraft	617	(1,167)	1,231
Excess tax benefits from stock-based payment arrangements	(1,102)	(711)	0
Other, net	1,142	90	(6,478)
Cash provided from (used in) operating activities	184,598	164,047	225,675
Cash flows from investing activities			
Capital expenditures	(53,515)	(36,406)	(89,133)
Deposits for interest rate swap	(46,467)	(44,072)	(38,730)
Return of deposits for interest rate swap	33,600	36,180	23,460
Payments on settlement of interest rate swap	(5,148)	(2,574)	0
Receipts from settlement of interest rate swap	274	266	0
Proceeds from sale of short-term investment	300	0	0
Acquisition of business (net of cash acquired of $1.8 million in 2010)	0	(41,300)	0
Deposits for interest rate lock agreement	0	0	(5,000)
Return of deposits for interest rate lock agreement	0	0	15,500
Purchase of short-term investment	0	0	(300)
Foundry Park I deferred leasing costs	0	0	(1,500)
Cash provided from (used in) investing activities	(70,956)	(87,906)	(95,703)
Cash flows from financing activities			
Net borrowings (repayments) under revolving credit agreement	18,000	4,000	(41,900)
Repayment on Foundry Park I mortgage loan	(2,731)	(2,125)	0
Net borrowings under lines of credit	6,529	1,494	0
Repayment of Foundry Park I construction loan	0	(99,102)	0
Draws on Foundry Park I construction loan	0	0	55,603
Borrowing under Foundry Park I mortgage loan	0	68,400	0

Repurchases of common stock	(98,093)	(121,517)	0
Dividends paid	(32,588)	(22,608)	(16,347)
Debt issuance costs	(3,233)	(3,992)	(465)
Proceeds from exercise of stock options	70	91	40
Excess tax benefits from stock-based payment arrangements	1,102	711	0
Payments on the capital lease	(144)	(835)	(784)
Payment for financed intangible asset	0	(1,000)	(1,000)
Cash provided from (used in) financing activities	(111,088)	(176,483)	(4,853)
Effect of foreign exchange on cash and cash equivalents	(1,376)	(2,297)	4,951
Increase (decrease) in cash and cash equivalents	1,178	(102,639)	130,070
Cash and cash equivalents at end of year	$ 50,370	$ 49,192	$ 151,831

See accompanying Notes to Consolidated Financial Statements.

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1. Summary of Significant Accounting Policies

Consolidation Our consolidated financial statements include the accounts of NewMarket Corporation and its subsidiaries. All intercompany transactions are eliminated upon consolidation. References to we, our, and NewMarket are to NewMarket Corporation and its subsidiaries on a consolidated basis, unless the context indicates otherwise.

NewMarket is the parent company of two operating companies, each managing its own assets and liabilities. Those companies are Afton, which focuses on petroleum additive products, and Ethyl, representing certain manufacturing operations and the TEL business. NewMarket is also the parent company of NewMarket Development, which manages the property and improvements that we own in Richmond, Virginia, and NewMarket Services, which provides various administrative services to NewMarket, Afton, Ethyl, and NewMarket Development.

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

Foreign Currency Translation We translate the balance sheets of our foreign subsidiaries into U.S. Dollars based on the current exchange rate at the end of each period. We translate the statements of income using the weighted-average exchange rates for the period. NewMarket includes translation adjustments in the Consolidated Balance Sheets as part of accumulated other comprehensive loss and transaction adjustments in cost of sales.

Revenue Recognition Our policy is to recognize revenue from the sale of products when title and risk of loss have transferred to the buyer, the price is fixed and determinable, and collectability is reasonably assured. Provisions for rebates to customers are recorded in the same period the related sales are recorded. Freight costs incurred on the delivery of product are included in cost of goods sold. The majority of our sales are sold FOB (free on board) shipping point or on a substantially equivalent basis. Our standard terms of delivery are included in our contracts, sales order confirmation documents, and invoices.

We recognize rental revenue on a straight-line basis over the lease term. The cumulative difference between lease revenue recognized under this method and the contractual lease payment terms is recorded in Other assets and deferred charges on our Consolidated Balance Sheets.

Cash and Cash Equivalents Our cash equivalents generally consist of government obligations and commercial paper with original maturities of 90 days or less. Throughout the year, we have cash balances in excess of federally insured amounts on deposit with various financial institutions. We state cash and cash equivalents at cost, which approximates fair value.

At both December 31, 2011 and December 31, 2010, we had a book overdraft for some of our disbursement cash accounts. A book overdraft represents disbursements 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 the items clear the bank in subsequent periods.

Accounts Receivable We record our accounts receivable at net realizable value. We maintain an allowance for doubtful accounts for estimated losses resulting from our customers not making required payments. We determine the adequacy of the allowance by periodically evaluating each customer s receivable balance, considering our customers financial condition and credit history, and considering current economic conditions.

Inventories NewMarket values its U.S. petroleum additives and TEL inventories at the lower of cost or market, with cost determined on the last-in, first-out (LIFO) basis. In countries where the LIFO method is not permitted, we use the weighted-average method. Inventory cost includes raw materials, direct labor, and manufacturing overhead.

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Property, Plant, and Equipment We state property, plant, and equipment at cost and compute depreciation by the straight-line method based on the estimated useful lives of the assets. We capitalize expenditures for significant improvements that extend the useful life of the related property. We expense repairs and maintenance, including plant turnaround costs, as incurred. When property is sold or retired, we remove the cost and accumulated depreciation from the accounts and any related gain or loss is included in earnings.

Our policy on capital leases is to record the asset at the lower of fair value at lease inception or the present value of the total minimum lease payments. We compute amortization by the straight-line method over the lesser of the estimated economic life of the asset or the term of the lease.

Real Estate Development and Construction Costs We capitalize in property, plant, and equipment the costs associated with real estate development projects, including the cost of land, as well as development and construction costs. We also capitalize interest costs associated with the project. Upon completion of the project, the accumulated depreciable costs are recognized in the Consolidated Statements of Income over the estimated useful life of the asset.

Intangibles (Net of Amortization) and Goodwill Identifiable intangibles include the cost of acquired contracts, formulas and technology, trademarks and trade names, and customer bases. We assign a value to identifiable intangibles based on independent appraisals and internal estimates at the time of acquisition. NewMarket amortizes the cost of the customer bases by an accelerated method and the cost of the remaining identifiable intangibles by the straight-line method over the estimated economic life of the intangible.

Goodwill arises from the excess of cost over net assets of businesses acquired. Goodwill represents the residual purchase price after allocation to all identifiable net assets. We test goodwill for impairment each year and whenever a significant event or circumstance occurs which could reduce the fair value of the reporting unit to which the goodwill applies below the carrying amount of the reporting unit.

Impairment of Long-Lived Assets When significant events or circumstances occur that might impair the value of long-lived assets, we evaluate recoverability of the recorded cost of these assets. Assets are considered to be impaired if their carrying amount is not recoverable from the estimated undiscounted future cash flows associated with the assets. If we determine an asset is impaired and its recorded cost is higher than estimated fair market value based on the estimated present value of future cash flows, we adjust the asset to estimated fair market value.

Asset Retirement Obligations Asset retirement obligations, including costs associated with the retirement of tangible long-lived assets, are recorded at the fair value of the liability for an asset retirement obligation when incurred instead of ratably over the life of the asset. The asset retirement costs must be capitalized as part of the carrying amount of the long-lived asset. If the liability is settled for an amount other than the recorded balance, we recognize either a gain or loss at settlement.

Environmental Costs NewMarket capitalizes environmental compliance costs if they extend the useful life of the related property or prevent future contamination. Environmental compliance costs also include maintenance and operation of pollution prevention and control facilities. We expense these compliance costs as incurred.

Accrued environmental remediation and monitoring costs relate to an existing condition caused by past operations. NewMarket accrues these costs in current operations within cost of goods sold in the Consolidated Statements of Income when it is probable that we have incurred a liability and the amount can be reasonably estimated. These estimates are based on an assessment of the site, available clean-up methods, and prior experience in handling remediation.

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When we can reliably determine the amount and timing of future cash flows, we discount these liabilities, incorporating an inflation factor.

Legal Costs We expense legal costs in the period incurred.

Employee Savings Plan Most of our full-time salaried and hourly employees may participate in defined contribution savings plans. Employees who are covered by collective bargaining agreements may also participate in a savings plan according to the terms of their bargaining agreements. Employees, as well as NewMarket, contribute to the plans. We made contributions of $4 million in 2011, as well as 2010, and $3 million in 2009 related to these plans.

Research, Development, and Testing Expenses NewMarket expenses all research, development, and testing costs as incurred. Of the total research, development, and testing expenses, those related to new products and processes were $51 million in 2011, $45 million in 2010, and $46 million in 2009.

Income Taxes We recognize deferred income taxes for temporary differences between the financial reporting basis and the income tax basis of assets and liabilities. We also adjust for changes in tax rates and laws at the time the changes are enacted. A valuation allowance is recorded when it is more likely than not that a deferred tax asset will not be realized. We recognize accrued interest and penalties associated with uncertain tax positions as part of income tax expense on our Consolidated Statements of Income.

We generally provide for additional U.S. taxes that would be incurred when a foreign subsidiary returns its earnings in cash to the United States. Undistributed earnings of certain foreign subsidiaries for which U.S. taxes have not been provided totaled approximately $177 million at December 31, 2011, $138 million at December 31, 2010, and $92 million at December 31, 2009. Deferred income taxes have not been provided on these earnings since we expect them to be indefinitely reinvested abroad. Accordingly, no provision has been made for taxes that may be payable on the remittance of these earnings at December 31, 2011 or December 31, 2010. The determination of the amount of such unrecognized deferred tax liability is not practicable.

Derivative Financial Instruments and Hedging Activities We record all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether we have elected to designate a derivative in a hedging relationship and apply hedge accounting, and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. We may enter into derivative contracts that are intended to economically hedge certain of our risks, even though hedge accounting does not apply or we elect not to apply hedge accounting. We do not enter into derivative instruments for speculative purposes.

Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Derivatives may also be designated as hedges of the foreign currency exposure of a net investment in a foreign operation.

Additional information on our derivatives and hedging activities is in Note 16.

Stock-Based Compensation When we issue stock options, we use an option-pricing model similar to Black-Scholes to estimate the fair value of options and recognize the related costs in the financial statements. See Note 15 for further information on our stock-based compensation plan.

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Investments We classify current marketable securities as available for sale and record them at fair value with the unrealized gains or losses, net of tax, included as a component of shareholders equity in accumulated other comprehensive loss. The fair value is determined based on quoted market prices.

When a decline in the fair value of a marketable security is considered other than temporary, we write down the investment to estimated fair market value with a corresponding charge to earnings.

Estimates and Risks Due to Concentration of Business The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

In addition, our financial results can be influenced by certain risk factors. Some of our significant concentrations of risk include the following:

- reliance on a small number of significant customers;
- customers concentrated in the fuel and lubricant industries;
- production of several of our products solely at one facility; and
- cash balances in excess of federally insured amounts on deposit with various financial institutions.

2. Acquisition of Business

On March 5, 2010, Afton Chemical Corporation completed the acquisition of 100% of Polartech for $43.1 million in cash. Polartech is a global company specializing in the supply of metalworking additives. The acquisition agreement included all physical assets of the Polartech business including the headquarters, research and development, and manufacturing facilities in the United Kingdom, as well as manufacturing sites in India, China, and the United States.

We performed a valuation of the assets acquired to determine the purchase price allocation. This valuation resulted in the recognition of $6 million of identifiable intangibles, including formulas and technology, customer base, and trademarks/trade names. We also acquired property, plant, and equipment of $28.4 million, as well as working capital.

As part of the acquisition, we recorded $4.2 million of goodwill. The goodwill resulted from the cost of assets acquired exceeding the valuation of the assets and liabilities. All of the goodwill recognized is part of the petroleum additives segment, and none is deductible for tax purposes.

Pro forma consolidated results of operations for the years ended December 31, 2010 and December 31, 2009, assuming the acquisition had occurred on January 1, 2010 or January 1, 2009, would not be materially different from the actual results reported for NewMarket for the years ended December 31, 2010 and December 31, 2009.

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3. Earnings Per Share

Basic and diluted earnings per share are calculated as follows:

	Years Ended December 31		
	2011	2010	2009
Basic earnings per share			
Numerator:			
Net income	$ 206,907	$ 177,125	$ 162,283
Denominator:			
Weighted-average number of shares of common stock outstanding	13,707	14,619	15,206
Basic earnings per share	$ 15.10	$ 12.12	$ 10.67
Diluted earnings per share			
Numerator:			
Net income	$ 206,907	$ 177,125	$ 162,283
Denominator:			
Weighted-average number of shares of common stock outstanding	13,707	14,619	15,206
Shares issuable upon exercise of stock options	5	31	37
Total shares	13,712	14,650	15,243
Diluted earnings per share	$ 15.09	$ 12.09	$ 10.65

Options are not included in the computation of diluted earnings per share when the option exercise price exceeds the average market price of the underlying common share, as the impact on earnings per share would be anti-dilutive. We had no anti-dilutive options that were excluded from the calculation of earnings per share for any period presented.

4. Supplemental Cash Flow Information

	Years Ended December 31		
	2011	2010	2009
Cash paid during the year for			
Interest and financing expenses (net of capitalization)	$ 17,329	$ 15,884	$ 12,456
Income taxes	$ 96,919	$ 59,949	$ 94,093

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(tabular amounts in thousands, except per-share amounts)

5. Trade and Other Accounts Receivable, Net

	December 31	
	2011	2010
Trade receivables	$ 254,959	$ 234,233
Income tax receivables	5,755	15,146
Other tax receivables	5,060	4,928
Innospec Inc. settlement receivable	5,015	0
Other	8,059	4,174
Allowance for doubtful accounts	(516)	(733)
	$ 278,332	$ 257,748

Bad debt write-offs totaled $628 thousand in 2011 and $0 in 2010 and 2009. The allowance for doubtful accounts amounted to $1.2 million at December 31, 2009. The change in the allowance for doubtful accounts between 2009 and 2010 primarily reflected our evaluation of certain higher risk customer receivables, all of which were current at December 31, 2010, as well as allowances for disputed invoiced prices and quantities. The change in the allowance for doubtful accounts between 2010 and 2011 reflects our evaluation of certain higher risk customer receivables (all of which were current at December 31, 2011), bad debt write-offs, and allowances for disputed invoiced prices and quantities.

6. Inventories

	December 31	
	2011	2010
Finished goods and work-in-process	$ 249,826	$ 215,764
Raw materials	50,037	50,853
Stores, supplies, and other	6,922	6,598
	$ 306,785	$ 273,215

The reserve for obsolete and slow moving inventory amounted to $2 million at December 31, 2011 and $3 million at December 31, 2010. These amounts are included in the table above.

Our foreign inventories amounted to $203 million at year-end 2011 and $178 million at year-end 2010.

Our U.S. inventories, which are stated on the LIFO basis, amounted to $98 million at year-end 2011, which was below replacement cost by approximately $65 million. At year-end 2010, LIFO basis inventories were $83 million, which was approximately $49 million below replacement cost.

During 2011, the TEL and raw material petroleum additives inventory quantities were reduced resulting in a liquidation of LIFO layers. The effect of these liquidations increased net income $300 thousand with $200 thousand from petroleum additives and $100 thousand from TEL. During 2010, the TEL inventory quantities were reduced resulting in a liquidation of LIFO layers. The effect of this liquidation increased net income by $200 thousand in 2010.

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7. Prepaid Expenses and Other Current Assets

	December 31 2011	December 31 2010
Income taxes on intercompany profit	$ 17,998	$ 5,673
Dividend funding	8,529	5,304
Marketable securities Innospec Inc. settlement	5,208	0
Insurance	2,661	2,380
Other	2,587	2,087
	$ 36,983	$ 15,444

8. Property, Plant, and Equipment, At Cost

	December 31 2011	December 31 2010
Land	$ 42,771	$ 39,302
Land improvements	31,112	31,366
Leasehold improvements	1,333	1,278
Buildings	186,960	174,328
Machinery and equipment	748,051	712,829
Construction in progress	24,245	29,077
	$ 1,034,472	$ 988,180

We depreciate the cost of property, plant, and equipment by the straight-line method and primarily over the following useful lives:

Land improvements	5 - 30 years
Buildings	10 - 50 years
Machinery and equipment	3 - 15 years

At both December 31, 2011 and December 31, 2010, assets held for lease and included in the table above, include $3 million of land, $2 million of land improvements, $66 million of buildings, and $38 million of machinery and equipment. Accumulated depreciation on these assets was $8 million at December 31, 2011 and $4 million at December 31, 2010. All of these assets represent the assets of Foundry Park I.

Interest capitalized was $500 thousand in 2011, $400 thousand in 2010, and $2.0 million in 2009. Of the total amount capitalized in 2009, $1.5 million related to the construction of the office building by Foundry Park I. Capitalized interest is amortized generally over the same lives as the asset to which it relates. Depreciation expense was $33 million in 2011, $29 million in 2010, and $23 million in 2009. Amortization of capitalized interest, which is included in depreciation expense, was $300 thousand in 2011, as well as 2010, and $200 thousand in 2009.

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9. Other Assets and Deferred Charges

	December 31	
	2011	**2010**
Interest rate swap deposits	$ 36,041	$ 23,175
Innospec Inc. settlement receivable	10,030	0
Deferred financing costs, net of amortization	6,795	6,165
Asbestos insurance receivables	6,345	8,489
Foundry Park I deferred leasing costs	4,597	4,997
Other	9,811	6,067
	$ 73,619	$ 48,893

We incurred $3 million of additional financing fees in 2011 primarily related to the consents we obtained from the senior note holders related to the change in the formula for calculating the capacity to make restricted payments under the senior notes. We immediately expensed $1 million of the additional financing fees and deferred the remaining $2 million, recognizing amortization expense of $1 million during 2011. The accumulated amortization on the deferred financing costs relating to our 7.125% senior notes, mortgage loan, and current senior credit facility was $3 million at December 31, 2011 and $2 million at December 31, 2010. See Note 12 for further information on our long-term debt and Note 16 for further information on interest rate swaps.

10. Intangibles (Net of Amortization) and Goodwill

	December 31			
	2011		2010	
	Gross Carrying Amount	**Accumulated Amortization**	**Gross Carrying Amount**	**Accumulated Amortization**
Amortizing intangible assets				
Formulas and technology	$ 91,552	$ 69,387	$ 91,487	$ 64,013
Contracts	16,380	12,139	16,380	9,650
Customer bases	7,050	1,855	7,040	1,276
Trademarks and trade names	1,609	295	1,600	133
Goodwill	5,132		5,091	
	$ 121,723	$ 83,676	$ 121,598	$ 75,072
Aggregate amortization expense		$ 8,604		$ 8,767

The goodwill in both 2011 and 2010 relates to the 2010 purchase by Afton of Polartech, as well as the 2008 acquisition by Afton of the North American Fuel Additives Business from GE Water and Process Technologies. The Polartech acquisition resulted in goodwill of $4.2 million, while the GE Water and Process Technologies acquisition resulted in goodwill of approximately $900 thousand. The change in the goodwill amount between 2010 and 2011 is due to foreign currency fluctuations.

The fair value of intangible assets is estimated at the time of acquisition based upon management s assessment, as well as independent third-party appraisals in some cases. All of the intangibles relate to the petroleum additives segment. There is no accumulated goodwill impairment.

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Estimated amortization expense for the next five years is expected to be:

2012	$ 7,421
2013	$ 7,108
2014	$ 6,163
2015	$ 5,790
2016	$ 1,936

Generally, we amortize the cost of the customer base intangibles by an accelerated method and the cost of the remaining intangible assets by the straight-line method over their estimated economic lives. We generally amortize contracts over 1.5 to 10 years and formulas and technology over 5 to 20 years. Trademarks and trade names are amortized over 10 years.

11. Accrued Expenses

	December 31	
	2011	**2010**
Employee benefits, payroll, and related taxes	$ 26,255	$ 25,214
Customer rebates	21,414	16,160
Environmental remediation	3,281	2,823
Interest rate swap	2,366	2,395
Environmental dismantling	283	0
Other	24,947	24,966
	$ 78,546	$ 71,558

Environmental remediation and environmental dismantling includes asset retirement obligations recorded at a discount.

12. Long-Term Debt

	December 31	
	2011	**2010**
Senior notes 7.125% due 2016	$ 150,000	$ 150,000
Foundry Park I mortgage loan due 2015	63,544	66,275
Revolving credit agreement	22,000	4,000
Lines of credit	8,023	1,494
Capital lease obligations	0	144
	243,567	221,913
Current maturities of long-term debt	(10,966)	(4,369)
	$ 232,601	$ 217,544

Senior Notes The 7.125% senior notes are our senior unsecured obligations and are jointly and severally guaranteed on an unsecured basis by all existing and future domestic restricted subsidiaries wholly-owned by NewMarket. The 7.125% senior notes are due in 2016. We incurred financing costs of approximately $3 million in 2006 related to the 7.125% senior notes, which are being amortized over the term of the agreement. We incurred additional financing costs of approximately $3 million in 2011 for the consents we obtained from the

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senior note holders related to the change in the formula for calculating the capacity to make restricted payments under the senior notes. Of the $3 million incurred in 2011, $1 million was expensed immediately, with the remaining fees being amortized over the remaining term of the agreement.

The 7.125% senior notes and the subsidiary guarantees rank:

- effectively junior to all of our and the guarantors existing and future secured indebtedness, including any borrowings under the senior credit facility described below;
- equal in right of payment with any of our and the guarantors existing and future unsecured senior indebtedness; and
- senior in right of payment to any of our and the guarantors existing and future subordinated indebtedness.

The indenture governing the 7.125% senior notes contains covenants that, among other things, limit our ability and the ability of our restricted subsidiaries to:

- incur additional indebtedness;
- create liens;
- pay dividends or repurchase capital stock;
- make certain investments;
- sell assets or consolidate or merge with or into other companies; and
- engage in transactions with affiliates.

The more restrictive and significant of the covenants under the indenture include a minimum fixed charge ratio of 2.00, as well as a limitation on restricted payments, as defined in the indenture.

We were in compliance with all covenants under the indenture governing the 7.125% senior notes as of December 31, 2011 and December 31, 2010.

Senior Credit Facility On November 12, 2010, we entered into a Credit Agreement (Credit Agreement). The Credit Agreement provides for a $300 million, multicurrency revolving credit facility, with a $100 million sublimit for multicurrency borrowings, a $100 million sublimit for letters of credit, and a $20 million sublimit for swingline loans. The Credit Agreement includes an expansion feature, which allows us, subject to certain conditions, to request to increase the aggregate amount of the revolving credit facility or obtain incremental term loans in an amount up to $150 million.

At December 31, 2011, we had outstanding letters of credit of $6.1 million and borrowings of $22.0 million, resulting in the unused portion of the senior credit facility amounting to $271.9 million. For further information on the outstanding letters of credit, see Note 18.

We paid financing costs in 2010 of approximately $2.5 million related to this agreement and carried over deferred financing costs from our previous revolving credit agreement of approximately $700 thousand, resulting in total deferred financing costs of $3.2 million, which we are amortizing over the term of the Credit Agreement.

The obligations under the Credit Agreement are unsecured and are fully guaranteed by NewMarket and the subsidiary guarantors. The revolving credit facility matures on November 12, 2015.

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Borrowings made under the revolving credit facility bear interest at an annual rate equal to, at our election, either (1) the ABR plus the Applicable Rate (solely in the case of loans denominated in U.S. dollars to NewMarket) or (2) the Adjusted LIBO Rate plus the Applicable Rate. ABR is the greatest of (i) the rate of interest publicly announced by the Administrative Agent as its prime rate, (ii) the federal funds effective rate from time to time plus 0.5% or (iii) the Adjusted LIBO Rate for a one month interest period plus 1%. The Adjusted LIBO Rate means the rate at which Eurocurrency deposits in the London interbank market for certain periods (as selected by NewMarket) are quoted, as adjusted for statutory reserve requirements for Eurocurrency liabilities and other applicable mandatory costs. Depending on our consolidated Leverage Ratio, the Applicable Rate ranges from 1.00% to 1.50% for loans bearing interest based on the ABR and from 2.00% to 2.50% for loans bearing interest based on the Adjusted LIBO Rate. At December 31, 2011, the Applicable Rate was 1.00% for loans bearing interest based on the ABR and 2.00% for loans bearing interest based on the Adjusted LIBO Rate. Our average interest rate under the Credit Agreement was 2.9% during 2011. At December 31, 2011, the interest rate was 4.25%.

The Credit Agreement contains financial covenants that require NewMarket to maintain a consolidated Leverage Ratio of no more than 3.00 to 1.00 and a consolidated Interest Coverage Ratio (as defined in the Credit Agreement) of no less than 3.00 to 1.00, as of the end of each fiscal quarter ending on and after December 31, 2010.

We were in compliance with all covenants under the Credit Agreement at December 31, 2011 and December 31, 2010.

Mortgage Loan Agreement On January 28, 2010, Foundry Park I entered into a mortgage loan agreement in the amount of $68.4 million. The loan, which is collateralized by the Foundry Park I office building, is for a period of five years, with two thirteen-month extension options. NewMarket Corporation is fully guaranteeing the loan. The mortgage loan bears interest at a variable rate of LIBOR plus a margin of 400 basis points. At December 31, 2011, the interest rate was 4.27%. Principal payments on the loan are being made monthly based on a 15 year amortization schedule, with all remaining amounts due in five years, unless we exercise the extension options. We incurred financing costs of $1.5 million related to the mortgage loan, which are being amortized over the initial term of the agreement.

Concurrently with the closing of the mortgage loan, Foundry Park I obtained an interest rate swap to effectively convert the variable interest rate in the loan to a fixed interest rate by setting LIBOR at 2.642% for five years. Further information on the interest rate swap is in Note 16.

Other Borrowings One of our subsidiaries in India has a short-term line of credit of 110 million Rupees for working capital purposes. The average interest rate was approximately 10.8% during 2011 and 9.8% during 2010. At December 31, 2011 the interest rate was 11.1%. The outstanding balance on the India line of credit of $1.7 million (90 million Rupees) at December 31, 2011 is due during 2012. Another subsidiary in China has a short-term line of credit of $10 million with an outstanding balance of $6.3 million at December 31, 2011. The average interest rate was approximately 2.3% during 2011 and 2.5% at December 31, 2011. The outstanding balance on the China line of credit is due during 2012.

We recorded our capital lease obligations at the lower of fair market value of the related asset at the inception of the lease or the present value of the total minimum lease payments. The capital lease obligation of approximately $100 thousand was paid off in 2011.

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Principal debt payments for the next five years are scheduled as follows:

2012	$ 11.0 million
2013	$ 3.2 million
2014	$ 3.4 million
2015	$ 76.0 million
2016	$ 150.0 million

13. Other Noncurrent Liabilities

	December 31	
	2011	**2010**
Employee benefits	$ 120,558	$ 90,584
Interest rate swaps	33,424	19,717
Environmental remediation	18,467	19,632
Asbestos litigation reserve	9,389	12,030
Environmental dismantling	337	478
Other	11,269	4,729
	$ 193,444	$ 147,170

The increase in employee benefits primarily reflects the deterioration in the funded status of our pension and postretirement plans. See Note 19 for further information on these employee benefit plans. Environmental remediation and environmental dismantling include our asset retirement obligations. Further information on the interest rate swaps is in Note 16.

14. Asset Retirement Obligations

Our asset retirement obligations are related primarily to past TEL operations. The following table illustrates the 2011, 2010, and 2009 activity associated with our asset retirement obligations.

	Years Ended December 31		
	2011	**2010**	**2009**
Asset retirement obligations, beginning of year	$ 2,975	$ 3,031	$ 3,009
Liabilities incurred	100	0	2,000
Accretion expense	165	139	168
Liabilities settled	0	0	(1,539)
Changes in expected cash flows and timing	57	(195)	(607)
Asset retirement obligations, end of year	$ 3,297	$ 2,975	$ 3,031

15. Stock-Based Compensation

The 2004 Incentive Compensation and Stock Plan (the Plan) was approved on May 24, 2004. 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 Compensation Committee of the 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 participants stock awards, incentive awards, or options (which may be either

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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. During 2011, 18,930 shares of our common stock were issued under the Plan resulting in 1,451,335 shares being available for grant at December 31, 2011. 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.

Of the 18,930 shares of common stock issued during 2011 under the Plan, 702 shares were to six of our non-employee directors with an aggregate fair value of $120 thousand at the issue date of July 1, 2011. The fair value of the shares was based on the closing price of our common stock on the day prior to the date of issue. We recognized expense of $120 thousand related to the issuance of this common stock. The remaining 18,228 shares issued during 2011 under the Plan related to a stock award granted on August 15, 2011. The shares issued under this award vested immediately; however, the stock may not be sold or otherwise transferred until August 15, 2012. We recognized expense of $2.9 million related to the issuance of the shares under the stock award, based on the closing price of our common stock on the date of the stock award.

At December 31, 2010, we had 16,000 outstanding options to purchase shares of our common stock at an exercise price of $4.35 per share. These outstanding options became 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. None of these options included an associated SAR. These options were exercised during 2011.

A summary of activity during 2011 in NewMarket s stock option plan is presented below in whole shares:

	Whole Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term in Years	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2011	16,000	$ 4.35		
Exercised	(16,000)	4.35		$ 2,805
Outstanding at December 31, 2011	0	$ 0	0	$ 0
Exercisable at December 31, 2011	0	$ 0	0	$ 0

We have neither granted nor modified any stock option awards in 2011, 2010, or 2009. The total intrinsic value of options exercised was $3 million for 2011, $2 million for 2010, and $500 thousand for 2009.

We recognized a tax benefit of $1 million on the $4.35 options for 2011 and $700 thousand for 2010. We recognized no tax benefit for 2009. There was no unrecognized compensation cost during 2011, 2010, or 2009.

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16. Derivatives and Hedging Activities

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

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

Our foreign operations expose us to fluctuations of foreign exchange rates. These fluctuations may impact the value of our cash receipts and payments as compared to our reporting currency, the U.S. Dollar. To manage this exposure, we sometimes enter into foreign currency forward contracts to minimize currency exposure due to cash flows from foreign operations.

Cash Flow Hedge of Interest Rate Risk

In January 2010, we entered into an interest rate swap to manage our exposure to interest rate movements on the Foundry Park I mortgage loan and to reduce variability in interest expense. Further information on the mortgage loan is in Note 12. We also had an interest rate swap to manage our exposure to interest rate movements on the Foundry Park I construction loan and add stability to capitalized interest expense. The Foundry Park I construction loan interest rate swap matured on January 1, 2010. Both interest rate swaps are designated and qualify as a cash flow hedge. As such, the effective portion of changes in the fair value of the swaps is recorded in accumulated other comprehensive loss and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. Any ineffective portion of changes in the fair value of the swap is recognized immediately in earnings. We assess the effectiveness of the mortgage loan interest rate swap quarterly, just as we assessed the effectiveness of the construction loan interest rate swap quarterly, by comparing the changes in the fair value of the derivative hedging instrument with the change in present value of the expected future cash flows of the hedged transaction.

Both interest rate swaps involve the receipt of variable-rate amounts based on LIBOR in exchange for fixed-rate payments over the life of the agreement without exchange of the underlying notional amount. The fixed-rate payments are at a rate of 2.642% for the mortgage loan interest rate swap, while the fixed-rate payments on the construction loan interest rate swap were at a rate of 4.975%. The notional amount of the mortgage loan interest rate swap was approximately $68 million at origination, $64 million at December 31, 2011, and $66 million at December 31, 2010. The notional amount of the mortgage loan interest rate swap amortizes to approximately $54 million over the term of the swap. The amortizing notional amount is necessary to maintain the swap notional at an amount that matches the declining mortgage loan principal balance over the loan term. The mortgage loan interest swap matures on January 29, 2015. The notional amount of the construction loan interest rate swap was approximately $94 million at December 31, 2009, just prior to its January 1, 2010 maturity.

The unrealized loss, net of tax, related to the fair value of the mortgage loan interest rate swap is recorded in accumulated other comprehensive loss in shareholders equity on the Consolidated Balance Sheets, and amounted to approximately $2.2 million at December 31, 2011 and $1.5 million at December 31, 2010. The unrealized loss, net of tax, related to the fair value of the construction loan interest rate swap and recorded in accumulated other comprehensive loss amounted to approximately $37 thousand at December 31, 2009. This amount was settled on January 1, 2010. Also recorded as a component of accumulated other comprehensive loss in shareholders equity on the Consolidated Balance Sheets was the accumulated losses related to the construction loan interest rate swap. This amounted to approximately $2.6 million, net of tax, at both December 31, 2011 and December 31, 2010. The amounts remaining in accumulated other comprehensive loss

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related to the construction loan interest rate swap are being recognized in the Consolidated Statements of Income over the depreciable life of the office building beginning in January 2010. Approximately $900 thousand, net of tax, currently recognized in accumulated other comprehensive loss related to both the construction loan interest rate swap and the mortgage loan interest rate swap is expected to be reclassified into earnings over the next twelve months.

Non-designated Hedges

On June 25, 2009, we entered into an interest rate swap with Goldman Sachs in the notional amount of $97 million and with a maturity date of January 19, 2022 (Goldman Sachs interest rate swap). NewMarket entered into the Goldman Sachs interest rate swap in connection with the termination of a loan application and related rate lock agreement between Foundry Park I and Principal Commercial Funding II, LLC (Principal). When the rate lock agreement was originally executed in 2007, Principal simultaneously entered into an interest rate swap with a third party to hedge Principal s exposure to fluctuation in the ten-year United States Treasury Bond rate. Upon the termination on June 25, 2009 of the rate lock agreement, Goldman Sachs both assumed Principal s position with the third party and entered into an offsetting interest rate swap with NewMarket. Under the terms of this interest rate swap, NewMarket is making fixed rate payments at 5.3075% and Goldman Sachs will make variable rate payments based on three-month LIBOR. We have collateralized this exposure through cash deposits posted with Goldman Sachs amounting to $36 million at December 31, 2011 and $23 million at December 31, 2010. This transaction effectively preserves the impact of the original rate lock agreement for the possible application to a future loan of a similar structure.

We elected not to use hedge accounting for the Goldman Sachs interest rate swap and therefore, immediately recognize any change in the fair value of this derivative financial instrument directly in earnings.

The table below presents the fair value of our derivative financial instruments, as well as their classification on the Consolidated Balance Sheets as of December 31, 2011 and December 31, 2010.

Fair Value of Derivative Instruments

	Asset Derivatives				Liability Derivatives			
	December 31, 2011		December 31, 2010		December 31, 2011		December 31, 2010	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives Designated as Hedging Instruments								
Mortgage loan interest rate swap		$ 0		$ 0	Accrued expenses and Other noncurrent liabilities	$ 3,692	Accrued expenses and Other noncurrent liabilities	$ 2,656
Derivatives Not Designated as Hedging Instruments								
Goldman Sachs interest rate swap		$ 0		$ 0	Accrued expenses and Other noncurrent liabilities	$ 32,098	Accrued expenses and Other noncurrent liabilities	$ 19,456

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The total fair value reflected in the table above includes amounts recorded in accrued expenses of approximately $130 thousand at both December 31, 2011 and December 31, 2010 for the mortgage loan interest rate swap and approximately $2 million at both December 31, 2011 and December 31, 2010 for the Goldman Sachs rate swap.

The tables below present the effect of our derivative financial instruments on the Consolidated Statements of Income.

Effect of Derivative Instruments on the Consolidated Statements of Income

Designated Cash Flow Hedges

Derivatives in Cash Flow Hedging Relationship	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion) December 31			Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) December 31			Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) December 31		
	2011	2010	2009		2011	2010	2009		2011	2010	2009
Mortgage loan interest rate swap	$ (2,627)	$ (4,012)	$ 0	Interest and financing expenses	$ (1,584)	$ (1,493)	$ 0		$ 0	$ 0	$ 0
Construction loan interest rate swap	$ 0	$ 0	$ (583)	Cost of rental	$ (85)	$ (85)	$ 0	Other expense, net	$ 0	$ 0	$ 92

Effect of Derivative Instruments on the Consolidated Statements of Income

Not Designated Derivatives

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives December 31		
		2011	2010	2009
Goldman Sachs interest rate swap	Other expense, net	$ (17,516)	$ (10,324)	$ (11,440)

Credit-risk-related Contingent Features

We have agreements with both of our current derivative counterparties that contain a provision where we could be declared in default on our derivative obligations if repayment of indebtedness is accelerated by the lender due to our default on the indebtedness.

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As of December 31, 2011, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was $35 million. We have minimum collateral posting thresholds with one of our derivative counterparties and have posted cash collateral of $36 million as of December 31, 2011. If required, we could have settled our obligations under the agreements at their termination value of $35 million at December 31, 2011.

17. Fair Value Measurements

The following table provides information on assets and liabilities measured at fair value on a recurring basis. No events occurred during the twelve months ended December 31, 2011, requiring adjustment to the recognized balances of assets or liabilities which are recorded at fair value on a nonrecurring basis.

	Carrying Amount in Consolidated Balance Sheets	Fair Value	Fair Value Measurements Using		
			Level 1	Level 2	Level 3
			December 31, 2011		
Cash and cash equivalents	$ 50,370	$ 50,370	$ 50,370	$ 0	$ 0
Marketable securities	5,208	5,208	0	5,208	0
Interest rate swaps liability	35,790	35,790	0	35,790	0
			December 31, 2010		
Cash and cash equivalents	$ 49,192	$ 49,192	$ 49,192	$ 0	$ 0
Short-term investments	300	300	300	0	0
Interest rate swaps liability	22,112	22,112 &nb			