

Innophos Holdings, Inc.  
Form 10-K  
March 12, 2009  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON DC, 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, 2008

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

**INNOPHOS HOLDINGS, INC.**

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Delaware

001-33124

20-1380758

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(state or other jurisdiction  
of incorporation)

(Commission File number)

(IRS Employer

Identification No.)

259 Prospect Plains Road

Cranbury, New Jersey 08512

(Address of Principal Executive Officer, including Zip Code)

(609) 495-2495

(Registrants Telephone Number, Including Area Code)

Not Applicable

(Former name or former address, if changed since last report)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$.001 per share	The NASDAQ Stock Market, LLC

**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  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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) 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.

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.

Large Accelerated Filer  Accelerated Filer  Non-accelerated filer  Smaller reporting company

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

**The aggregate market value of the voting common equity held by non-affiliates of the registrant was approximately \$482.4 million as of June 30, 2008, the last business day of the Registrant's most recently completed second quarter (based on the NASDAQ National Market closing price on that date).**

**As of February 27, 2009, the registrant had 21,127,755 shares of Common Stock outstanding.**

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**DOCUMENTS INCORPORATED BY REFERENCE**

<b>Document</b>	<b>Incorporated By Reference In Part No.</b>
Portions of Innophos Holdings, Inc. Proxy Statement to be filed for its Annual Meeting of Stockholders to be held June 2, 2009	III (Items 10, 11, 12, 13 and 14)

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**FORWARD-LOOKING STATEMENTS**

Certain information set forth in this report contains forward-looking statements within the meaning of the federal securities laws. Forward-looking statements include statements concerning our plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions and other information that is not historical information. In some cases, forward-looking statements can be identified by terminology such as believes, expects, may, will, should, or anticipates, or the negative of such terms or other comparable terminology, or by discussions of strategy. We may also make additional forward-looking statements from time to time. All such subsequent forward-looking statements, whether written or oral, by us or on our behalf, are also expressly qualified by these cautionary statements.

All forward-looking statements, including without limitation, management's examination of historical operating trends, are based upon our current expectations and various assumptions. Our expectations, beliefs and projections are expressed in good faith and we believe there is a reasonable basis for them, but there can be no assurance that management's expectations, beliefs and projections will result or be achieved. All forward-looking statements apply only as of the date made. Unless required by law, we undertake no obligation to update or revise forward-looking statements to reflect events or circumstances after the date made or to reflect the occurrence of unanticipated events.

There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in or contemplated by this report. The following are among the factors that could cause actual results to differ materially from the forward-looking statements. There may be other factors, including those discussed elsewhere in this report, which may cause our actual results to differ materially from the forward-looking statements. Any forward-looking statements should be considered in light of the risk factors specified in this Form 10-K.

Unless the context otherwise indicates, all references in this report to the Company, Innophos, we, us or our or similar words are to Innophos Holdings, Inc. and its consolidated subsidiaries. Innophos Holdings, Inc. is a Delaware corporation and was incorporated July 15, 2004.

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**PART I**

**ITEM 1. BUSINESS**

**Our Company**

Innophos is a leading North American producer of specialty phosphates. Many specialty phosphates are application-specific compounds engineered to meet customer performance requirements. Specialty phosphates are often critical to the taste, texture and performance of foods, beverages, pharmaceuticals, oral care products and other applications. For example, specialty phosphates act as flavor enhancers in beverages, electrolytes in sports drinks, texture additives in cheeses, leavening agents in baked goods, calcium and phosphorus sources for nutritional supplements, pharmaceutical excipients and cleaning agents in toothpaste.

Our products are essential to the performance of our customers' end products. In the case of food, beverage and pharmaceutical excipients, our production facilities must comply with the standards of the U.S. Food and Drug Administration, or FDA, or the U.S. Department of Agriculture, or USDA. We maintain long-standing relationships, most spanning decades, with a number of blue-chip customers. We work closely with these and our other customers to design products that meet application-specific performance and quality requirements. Customers are often reluctant to switch specialty phosphate suppliers due to the low cost of specialty phosphates relative to customers' total product cost, and the high functional value of specialty phosphates in customers' products. In addition, new suppliers face significant barriers to entry related to production technology, capital cost and logistics. For example, we estimate that building a large-scale specialty phosphate facility similar to our Coatzacoalcos, Mexico facility would require capital investment in excess of \$300 million and would require three-to-four year lead times. Furthermore, transportation costs and the logistical challenges of providing just-in-time delivery limit the ability of many imported products to service the North American marketplace effectively.

Innophos commenced operations as an independent company in August 2004 after purchasing our North American specialty phosphates business from affiliates of Rhodia, S.A. In November 2006, we completed an initial public offering and listed our Common Stock for trading on the NASDAQ Stock Market under the symbol "IPHS".

For the years ended December 31, 2008 and 2007, we generated net sales of \$934.8 million and \$579.0 million, respectively.

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### **Our Product Lines**

We have three principal product lines: (i) Specialty Salts and Specialty Acids, (ii) Purified Phosphoric Acid, and (iii) Technical Sodium Tripolyphosphate (STPP) & Other Products. Our products serve diverse end-use markets which historically have exhibited stable demand growth.

Our three product lines are highlighted below:

#### ***Specialty Salts and Specialty Acids:***

Specialty Salts are used in food, beverage and pharmaceutical applications, for example as flavor enhancers in beverages, electrolytes in sports drinks, texture modifiers in cheeses, leavening agents in baked goods, calcium and phosphorus sources for nutritional supplements, pharmaceutical excipients, and cleaning agents in toothpaste as well as to control lead in water treatment systems.

Specialty Acids are used in industrial applications such as asphalt modification and petrochemical catalysis.

#### ***Purified Phosphoric Acid:***

Purified Phosphoric Acid is used as an input to Specialty Salts, Specialty Acids and STPP and also in water and metal treatment applications.

#### ***Technical Grade Sodium Tripolyphosphate (STPP) & Other Products:***

STPP is used in detergent applications such as automatic dishwashing, commercial/industrial detergents and (outside the U.S.) consumer laundry detergents.

Other Products include co-product phosphate fertilizers produced in tandem with Purified Phosphoric Acid in Mexico.

### **Our Industry**

The North American marketplaces for each of our product lines have seen consolidation to two primary suppliers and several secondary suppliers. We consider the two key suppliers in each product category to be: (i) our Company and Israel Chemicals Limited, or ICL, which acquired Astaris in 2005, in Specialty Salts and Specialty Acids; (ii) our Company and Potash Corporation of Saskatchewan Inc., or PCS, in Purified Phosphoric Acid; and (iii) our Company and Mexichem in Technical STPP. The production of specialty phosphates begins with phosphate rock, which can be processed in two alternative ways to produce Purified Phosphoric Acid (PPA): (i) the thermal acid method, in which elemental phosphorus is combusted in a furnace and subsequently hydrated to produce purified phosphoric acid; or (ii) the purified wet acid method (PWA), in which mined phosphate rock is reacted with sulfuric acid to produce merchant green acid (agricultural grade phosphoric acid), which is then purified through solvent-based extraction into purified phosphoric acid. The conversion of merchant green acid into purified phosphoric acid (PPA) is a technically complex and a capital-intensive process.

The thermal acid method of production is based on the electrolytic production of elemental phosphorus and is therefore electricity intensive, while phosphoric acid made by the purified wet acid process requires the use of significant amounts of sulfuric acid. The relative overall costs of the two methods depend on the availability and cost of their component processes, electricity and coke for the former and sulfur for the latter. Purified phosphoric acid is reacted with appropriate mineral salts or inorganic compounds to produce various specialty phosphate salts or STPP as required. We currently use purified acid manufactured via the wet acid process for all of our Specialty Salts and Specialty Acids manufacturing needs.

#### ***Key Product Lines***

*Specialty Salts and Specialty Acids*

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Specialty Salts and Specialty Acids are the most highly engineered products in our portfolio. There are a wide range of application-specific products, such as abrasives in toothpaste and electrolytes in sports drinks that take advantage of the physical and chemical properties of phosphates to satisfy specific end-market needs. The result of long term product development efforts has been the creation of a wide range of finished product applications across a number of markets including the food and beverage, pharmaceutical and consumer product markets.



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The table below presents a list of the main Specialty Salts and Specialty Acids sold by us in 2008:

<b>Product</b>	<b>Description/End-Use Application</b>
Sodium Aluminum Phosphate, Acidic and Basic ( SALP )	Premier leavening agent for baking mixes, cakes, self-rising flours, baking powders, batter & breadings (acidic). Improves melting properties of cheese (basic).
Sodium Acid PyroPhosphate ( SAPP )	Leavening agent for baking powders, doughnuts, and biscuits; inhibits browning in potatoes; provides moisture and color retention in poultry and meat.
Sodium HexaMetaPhosphate ( SHMP )	Water treatment applications; anti-microbial and sequestrant in beverages; cheese emulsifier; improves tenderness in meat, seafood and poultry applications.
Monocalcium Phosphate ( MCP )	Leavening agent in double-acting baking powder; acidulant; buffering agent.
Dicalcium Phosphate ( DCP )	Toothpaste abrasive; leavening agent; calcium fortification.
Tricalcium Phosphate ( TCP )	Calcium and phosphorus fortifier in food and beverage applications (e.g., orange juice, cereals, and cheese); flow aid; additive in expandable polystyrene.
Pharma Calcium Phosphates ( A-Ta <sup>®</sup> , Di-Ta <sup>®</sup> , Tri-Ta <sup>®</sup> )	Excipients in vitamins, minerals, nutritional supplements and pharmaceuticals.
Ammonium Phosphates ( MAP , DAP )	High-end fertilizer products for horticultural use; flame retardant; cigarette additives; culture nutrient.
Potassium Phosphates ( TKPP , DKP , MKP , KTPP )	Water treatment; sports drinks; buffering agent; improves tenderness in meat, seafood and poultry applications; horticulture applications.
Specialty Acids (e.g., Polyacid, High Purity)	Additive improving performance properties of asphalt; electronic applications.
Sodium Blends (e.g., Sodium Tripolyphosphate (STPP (food grade)))	Ingredient improving yield, tenderness, shelf life, moisture and color retention in meat, seafood and poultry applications.
Other (Sodium Bicarbonate, Calcium Acid Pyrophosphate ( CAPP ), Tetrasodium Pyrophosphate ( TSPP ), Mono, Di, & Trisodium Phosphates ( MSP , DSP , TSP ))	Baking powders; gelling agent in puddings; cheese emulsifiers.

Each salt or acid derivative typically has a number of different applications and end uses. For example, DCP can be used both as a leavening agent in bakery products and as an abrasive in oral care products. However, several food grade salts are unique to the end user in their particular finished product application. Manufacturers often work directly with customers to tailor products to their required specifications.

Our major competitor in the downstream Specialty Salts and Specialty Acids is ICL Performance Products.

*Purified Phosphoric Acid*

Purified Phosphoric Acid (PPA) is a higher-purity form of phosphoric acid, distinct from the agricultural-grade merchant green phosphoric acid used in fertilizer production. PPA is used to manufacture specialty phosphate salts and acids and is also used directly in beverage applications as a flavor enhancer and in water treatment applications. We also sell PPA in the merchant market to third-party phosphate derivative producers.

Our major competitor in PPA is PCS, a global fertilizer company for which specialty phosphates represents only a small part of its business. We consume the majority of our PPA production in our downstream operations and sell the remainder on the North American merchant market and to other downstream phosphate derivative producers, where we compete with PCS. To the best of our knowledge, PCS does not have any downstream technical or food grade phosphate derivative production capacity, other than a small potassium phosphate salt unit which primarily operates under a contract manufacturing arrangement.



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*STPP & Other Products*

STPP is a specialty phosphate derived from reacting phosphoric acid with a sodium alkali. STPP is a key ingredient in cleaning products, including automatic dishwashing detergents, industrial and institutional cleaners and (outside the U.S.) consumer laundry detergents. In addition to its use in cleaning products, STPP is also used in water treatment, clay processing, and copper ore processing. Over 90% of the end use market for STPP is derived from consumer product applications.

Other Products primarily include phosphate fertilizers produced in Mexico chiefly as co-products of manufacturing PPA.

Our major competitor in STPP is Mexichem in Mexico. Currently, Mexichem produces STPP at two manufacturing locations in Mexico.

Over the past several decades, there have been efforts to reduce the use of STPP in consumer and institutional cleaners. In the 1980 s STPP use in consumer laundry applications was discontinued in the U.S. and Canada. Over the last several years momentum has gained in eliminating STPP use in consumer automatic dishwashing applications in the U.S. and Canada. It is expected that most detergent manufacturers will discontinue the use of STPP in automatic dishwashing detergent applications during 2010. Recently, a global retailer began an initiative to materially reduce the use of STPP in consumer laundry detergent in Latin American by 2011. Our Mexican operations have historically dedicated a significant portion of their capacity to the production of STPP directly and have sold purified acid to other producers of STPP. In January 2009, our largest customer, Quimir, a division of Mexichem, closed its largest STPP plant. On February 25, 2009, the Company entered into a letter of intent with Quimir to toll manufacture STPP for Innophos to lower our production costs. If this arrangement is finalized, the Company may temporarily idle its Coatzacoalcos STPP unit and associated assets.

***Consolidation and Capacity Changes***

Consolidation has been most significant in the Specialty Salts and Specialty Acids market. The following table summarizes the U.S. phosphate industry consolidation since 1991:

<b>Year</b>	<b>Industry Developments</b>
1991	OxyChem acquired by FMC Corp. Olin acquired by A&W and PCS
1994	A&W and Troy (Mexico) formed 50:50 joint venture
2000	Rhodia acquired A&W s phosphates business and in accordance with Federal Trade Commission or FTC mandate, PCS acquired remaining 50% of Aurora purified wet acid capacity from Rhodia. PCS and Rhodia signed an 18-year contract for supply of purified wet acid; FMC Corp. and Solutia Inc. merged their specialty phosphates business to form Astaris LLC, a 50:50 joint venture between the two parents; and under an FTC mandate, Astaris sold its Augusta, Georgia plant to Prayon.
2004	ThermPhos International B.V. acquired Rhodia s European specialty phosphates business. Innophos acquired Rhodia s North American specialty phosphates business.

2005 ICL acquired Astaris  
 In addition to consolidation of producers, uneconomic production capacity has been eliminated in North America across all three major specialty phosphate product categories. In 2001, Rhodia closed its plants in Buckingham, Quebec and Morrisville, Pennsylvania. In 2002, Vicksburg Chemical Company closed a specialty salts plant in Vicksburg, Mississippi. In 2003 and 2004, Astaris closed three manufacturing facilities, eliminating roughly 320,000 metric tons of capacity: a purified wet phosphoric acid plant in Conda, Idaho; a specialty salts plant in Trenton, Michigan; and an STPP plant in Green River, Wyoming. In January 2009, Mexichem closed its Coatzacoalcos facility eliminating approximately 50% of their estimated STPP capacity.

In June 2006, PCS started up a fourth PWA based purified phosphoric acid production train at its Aurora, NC facility, a capacity addition less than the estimated combined level of 2006 North American PPA imports and domestic PPA produced via the thermal process. The PCS capacity increase was also comparable in capacity to the Astaris Idaho plant closed in 2003 following a failed start-up.

***Penetration from Imports***

Over the past several years, we estimate that imports, including domestic producers, have accounted for approximately 10-15% of the North American specialty phosphate market. This market share has been fairly stable for at least the last five years, with periods from time to time of

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lower penetration due to upsets in foreign production or international logistics. This import share increased to approximately 15-20% in 2008, due to shortage of supply, reduced demand in global markets and the price increases in the North American market which made it relatively more attractive to imports, especially for technical STPP and technical grade horticultural specialty salts.

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The following are the primary importers of purified phosphoric acid products and derivatives into North America: (i) Prayon and Rotem Amfert Negev Ltd. (a subsidiary of ICL) for purified phosphoric acid, with Prayon primarily supplying acid to its specialty salts manufacturing facility in Augusta, Georgia; and (ii) various Chinese, European, and Israeli specialty phosphate manufacturers such as Chemische Fabrik Budenheim, Thermphos, Hubei Xingfa, Prayon and BK Giulini Chemie GmbH & Co. (a subsidiary of ICL) for specialty salts and STPP.

A 2007 anti-dumping order remains in effect against Chinese imports of SHMP, a product that represented approximately 3% of our 2007 sales revenue. As a result, duties ranging from 92% to 188% are being imposed upon Chinese imports to neutralize the effects of SHMP products being sold in U.S. markets at less than fair value.

### **Our Customers**

Our customer base is principally composed of consumer goods manufacturers, distributors and specialty chemical manufacturers. Our customers manufacture products such as soft drinks, sports drinks and juices, various food products, toothpaste and other dental products, petroleum and petrochemical products, and various cleaners and detergents. Our customers include major consumer goods manufacturers with global market recognition in the food, beverage, pharmaceutical and cleaning product markets. We have maintained long-term relationships with the majority of our key customers, with the average customer relationship having lasted over 15 years, and some relationships spanning nearly a century.

We work closely with our customers to manufacture and supply our products to meet the technical performance requirements and quality standards specific to each of them and to develop new products to satisfy their changing needs. Our specialty chemical products are often critical ingredients in the formulation of our customers' products, and typically represent only a small percentage of their total product costs. As a result, we believe that the risks associated with our customers switching suppliers often outweigh the potential gains.

### **Our Suppliers**

Our purchases range from basic phosphate rock to end-products used directly for resale through tolling arrangements with other manufacturers of phosphates. However, most of our purchases are basic inputs. Innophos shares key raw materials with phosphate fertilizer producers. Phosphate fertilizers are bulk commodities whose markets can be extremely cyclical in nature. These market cycles have a direct impact on the pricing and availability to those raw materials we share (phosphate rock, sulfur, and sulfuric acid). As a result, we have placed significant emphasis on securing stable relationships with key suppliers to ensure timely and cost effective delivery of raw materials to our North American manufacturing facilities. We have secured the supply of our key raw materials, specifically sulfur, sulfuric acid, phosphate rock, agricultural grade phosphoric acid (MGA) for PPA production and PPA itself for downstream salt production, through long-term agreements with large suppliers such as PCS, OCP S.A., or OCP, Rhodia and PEMEX, the Mexican state owned energy firm.

### **Raw Materials and Energy**

We purchase a range of raw materials and energy sources on the open market, including phosphate rock, sulfur and sulfuric acid, agricultural grade phosphoric acid (MGA), purified phosphoric acid (PPA), natural gas and electricity. To help secure supply, we purchase several of our key raw materials under long-term contracts generally providing for fixed or minimum quantities of materials, or purchase of our full requirements, and predetermined pricing formulae based on various market indices and other factors. We do not engage in any significant futures or other derivative contracts to hedge against fluctuations of raw material or energy prices. We are not integrated vertically back to our sources of supply by ownership interests, joint ventures or affiliated companies, as a result of which raw materials acquisition at economical price levels is a major risk of our business. See Item 1A Raw Materials Availability and Pricing of this Report Form 10-K.

*Phosphate Rock.* Phosphate rock is essential to our production of Purified Phosphoric Acid in Mexico. We have a long-term agreement with OCP for the supply of phosphate rock to secure this input. This agreement renews in five year increments. However, if either party elects to terminate the agreement on or before September 10, 2009 it will expire on September 10, 2010. The price we pay OCP under this contract is to be settled annually based on parameters established in the contract. Those factors are driven primarily by supply and demand conditions in the much larger, global fertilizer market.

*Sulfur and Sulfuric Acid.* Sulfur is the key raw material used in the production of Sulfuric Acid. Sulfuric acid is a key raw material used in the production of merchant green acid. We produce the vast majority of the sulfuric acid required to operate our Coatzacoalcos facility. We purchase the majority of our U.S. sulfuric acid needs from Rhodia. Our U.S. needs for sulfuric acid and our Mexican needs for sulfur are handled through long term contracts with Rhodia and PEMEX, respectively.



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*Merchant Green Acid.* MGA may be used for the production of purified phosphoric acid, the main raw material for the creation of our downstream salts and acids. We purchase merchant green acid for processing at our Geismar, LA facility through a long-term agreement with PCS.

*Purified Phosphoric Acid.* The key raw material input for all of our downstream Specialty Salt and Specialty Acid operations is PPA. We purchase certain quantities of our PPA supply from third parties to optimize our consumption and net sales, including from PCS with whom we have a long-term supply contract. In 2008 Innophos produced approximately 80 percent and purchased approximately 20 percent of its total PPA supply.

*Natural Gas and Electricity.* Natural gas and electricity are used to operate our facilities and generate heat and steam for the various manufacturing processes. We typically purchase natural gas and electricity on the North American open market at so-called spot rates. From time to time, we will enter into longer term natural gas and electricity supply contracts in an effort to eliminate some of the volatility in our energy costs. We also seek to increase the energy efficiencies of our facilities and reduce costs through investments such as the co-generation project for our Coatzacoalcos Plant commissioned into service in March 2008.

## **Research and Development**

Our product engineering and development activities are aimed at developing and enhancing products, processes, applications and technologies to strengthen our position in our markets and with our customers. We focus on:

developing new or improved application-specific specialty phosphate products based on our existing product line and identified or anticipated customer needs;

creating specialty phosphate products to be used in new applications or to serve new markets;

providing customers with premier technical services as they integrate our specialty phosphate products into their products and manufacturing processes;

ensuring that our products are manufactured in accordance with our stringent regulatory, health and safety policies and objectives;

developing more efficient and lower cost manufacturing processes; and

expanding existing, and developing new, relationships with customers to meet their product engineering needs.

Our research expenditures were \$2.3 million, \$2.0 million and \$1.7 million for the years ended December 31, 2008, December 31, 2007 and December 31, 2006, respectively.

## **Environmental and Regulatory Compliance**

Certain of our operations involve manufacturing ingredients for use in food, nutritional supplement and pharmaceutical excipient products, and therefore must comply with stringent FDA or USDA good manufacturing practices as well as the quality requirements of our customers. In addition, our operations that involve the use, handling, processing, storage, transportation and disposal of hazardous materials, are subject to extensive and frequently changing environmental regulation by federal, state, and local authorities, as well as regulatory authorities with jurisdiction over our foreign operations. Our operations also expose us to the risk of claims for environmental remediation and restoration or for exposure to hazardous materials. Our production facilities require operating permits that are subject to renewal or modification. Violations of health and safety and environmental laws, regulations, or permits may result in restrictions being imposed on operating activities, substantial fines, penalties, damages, the rescission of an operating permit, third-party claims for property damage or personal injury, or other costs, any of which could have a material adverse effect on our business, financial condition, results of operations, or cash flows. Due to changes in health

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and safety and environmental laws and regulations, the time frames when those laws and regulations might be applied, and developments in environmental control technology, we cannot predict with certainty the amount of capital expenditures to be incurred for environmental purposes.

Some environmental laws and regulations impose liability and responsibility on present and former owners, operators or users of facilities, and sites for contamination at such facilities and sites without regard to causation or knowledge of contamination. Many of our sites have an extended history of industrial use. Soil and groundwater contamination have been detected at some of our sites, and additional contamination might occur or be discovered at these sites or other sites in the future (including sites to which we may have sent hazardous waste). We continue to investigate, monitor or cleanup contamination at most of these sites. The potential liability for all these sites will depend on several factors, including the extent of contamination, the method of remediation, future developments and increasingly stringent regulation, the outcome of discussions with regulatory agencies, the liability of third parties, potential natural resource damage, and insurance coverage. Accruals for environmental matters are recorded in the accounting period in which our responsibility is established and the cost can be reasonably estimated. Due to the uncertainties associated with environmental investigations and cleanups and the ongoing nature of the investigations and cleanups at our sites, we are unable to predict precisely the nature, cost and timing of our future remedial obligations with respect to our sites and, as a result, our actual environmental costs and liabilities could significantly exceed our accruals.



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Further information, including the current status of significant environmental matters and the financial impact incurred for the remediation of such environmental matters, is included in Note 16, Commitments and Contingencies, of the Notes to Financial Statements in Item 8. Financial Statements and Supplementary Data, and in Item 1A. Risk Factors .

### **Intellectual Property**

We rely on a combination of patent, copyright and trademark laws to protect certain key intellectual aspects of our business. In addition, our pool of proprietary information, consisting of manufacturing know-how, trade secrets and unregistered copyrights relating to the design and operation of our facilities and systems, is considered particularly important and valuable. Accordingly, we protect proprietary information through all legal means practicable. However, monitoring the unauthorized use of our intellectual property is difficult, and the steps we have taken may not prevent all unauthorized use by others. While we consider our copyrights and trademarks to be important to our business, ultimately our established reputation and the products and service we provide to the end-customer are more important.

### **Insurance**

In the normal course of business, we are subject to numerous operating risks, including risks associated with environmental, health and safety while manufacturing, developing and supplying products, potential damage to a customer, and the potential for an environmental accident.

We currently have in force insurance policies covering property, general liability, excess liability, workers compensation/employer's liability, product liability, fiduciary and other coverages. We seek to maintain coverages consistent with market practices and required by those with whom we do business. We believe that we are appropriately insured for the insurable risks associated with our business.

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As of December 31, 2008, we had approximately 1,125 employees, of whom 690 were unionized hourly wage employees. We currently employ both union and non-union employees at most of our facilities. We believe we have a good working relationship with our employees, which has resulted in high productivity and low turnover in key production positions. We have experienced no work stoppages or strikes at any of our unionized facilities since acquiring them in 2004. We are a party to a collective bargaining agreement with the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union, Local No. 7-765 through January 16, 2011 at the Chicago Heights facility; International Union of Operating Engineers, Local No. 912 through April 15, 2010 at the Nashville facility; the Health Care, Professional, Technical, Office, Warehouse and Mail Order Employees Union, affiliated with the International Brotherhood of Teamsters, Local 743 through June 17, 2011 at the Chicago (Waterway) facility; the United Steelworkers of America, Local No. 6304 through April 30, 2011 at the Port Maitland, Ontario facility; and the Sindicato de Trabajadores de la Industria Química, Petroquímica, Carboquímica, Similares y Conexos de la República Mexicana, Mexico facility. The agreement at the Coatzacoalcos, Mexico facility is for an indefinite period, but wages are reviewed every year and the rest of the agreement is subject to negotiation every two years. The current two-year period will expire in June 2010.

**Executive Officers**

The following table and biographical material present information about the persons serving as our executive officers, and key employees:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Randolph Gress	53	Chairman of the Board, Chief Executive Officer, President and Director
Richard Heyse	46	Vice President and Chief Financial Officer
William Farran	59	Vice President, General Counsel and Corporate Secretary
Charles Brodheim	45	Corporate Controller
Louis Calvarin	45	Vice President Operations
Mark Feuerbach	50	Vice President Treasury, Financial Planning & Analysis
Joseph Golowski	47	Vice President Sales
José González	60	General Director Innophos Mexicana S.A. de C.V.
Wilma Harris	63	Vice President Human Resources
Russell Kemp	50	Vice President Research & Development
Michael Lovrich	55	Vice President Supply Chain
Mark Thurston	49	Vice President Corporate Strategy and Worldwide Business Development
Alfredo Celis Toussaint	40	Finance Director Innophos Mexicana S.A. de C.V.
Timothy Treinen	58	Vice President Phosphates Business

**Biographical Material**

**Randolph Gress** is Chairman of the Board, Chief Executive Officer, President and Director of Innophos. Mr. Gress joined Rhodia in 1997 and became Vice President and General Manager of the sulfuric acid business. He was named global President of Specialty Phosphates (based in the U.K.) in 2001. Prior to joining Rhodia, Mr. Gress spent fourteen years at FMC Corporation where he worked in various managerial capacities in the Chemical Products, Phosphorus Chemicals and Corporate Development groups. From 1977 to 1980, Mr. Gress worked at Ford Motor Company in various capacities within the Plastics, Paint and Vinyl Division. Mr. Gress earned a B.S. in Chemical Engineering from Princeton University and an M.B.A. from Harvard Business School.

**Richard Heyse** is Vice President and Chief Financial Officer of Innophos. Mr. Heyse joined Innophos in April, 2005, from Eastman Chemical Company, where he was a Division Controller and led the financial team for Eastman's specialty chemicals and specialty polymers businesses, which had approximately \$3.5 billion in annual revenues. Mr. Heyse held this financial position within Eastman Chemical Company from March 2001 to April 2005. Prior to his employment with Eastman, Mr. Heyse held various positions in Finance, IT, and Engineering with Koch Industries, Eaton Corporation and International Paper. Mr. Heyse earned a B.S. in Mechanical Engineering from Purdue University and an M.S. in Industrial Administration from Carnegie Mellon University.

**William Farran** is Vice President, General Counsel and Corporate Secretary of Innophos. Prior to joining Innophos, Mr. Farran was Assistant General Counsel of Rhodia, Inc., providing and managing a wide range of legal services to various Rhodia North American enterprises. Prior to joining Rhodia in 1987, Mr. Farran was Senior Counsel for UGI Corporation, Valley Forge, PA, and an associate with Morgan, Lewis & Bockius, Philadelphia, PA. Mr. Farran earned his B.S. in Economics from the Wharton School, University of Pennsylvania and his J.D. from Case Western Reserve University. He is a member of the bars of the Supreme Court of Pennsylvania and the Supreme Court of the United

States.

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**Charles Brodheim** is Corporate Controller of Innophos. Mr. Brodheim joined Rhodia in 1988 and held various tax, accounting and business analyst positions within Rhodia. Mr. Brodheim was the North American Finance Director for Specialty Phosphates from 2000-2002. After 2002, Mr. Brodheim was a Finance Director for various Rhodia North American Enterprises, including its Eco-Services enterprise. Mr. Brodheim earned a B.B.A. degree in Finance/Accounting from Temple University and is a certified public accountant.

**Louis Calvarin** is Vice President Operations of Innophos. Dr. Calvarin joined Rhodia in France in 1986. He has been Director of Manufacturing and Engineering for Specialty Phosphates since January 2004. Prior to that, Dr. Calvarin held the positions of Director of Manufacturing for Specialty Phosphates (U.S.), Mineral Chemicals Industrial Operations Manager for Home, Personal Care and Industrial Ingredients, and Projects Director for Paint, Paper and Construction Materials. Dr. Calvarin earned a Ph.D. degree in Chemical Engineering from the Ecole Nationale Supérieure des Mines in France and graduated from Ecole Polytechnique in France.

**Mark Feuerbach** was appointed Vice President Treasury, Financial Planning & Analysis of Innophos in April, 2005 and had previously served as Chief Financial Officer of Innophos from August 2004 through April 2005. Mr. Feuerbach joined Rhodia in 1989 and was Global Finance Director of Specialty Phosphates from 2000 to 2004, including a two-year assignment in the U.K. immediately following the purchase of the phosphates business of Albright & Wilson. Prior to this assignment, Mr. Feuerbach was the Finance Director of Rhodia's North American phosphates business from 1997 to 2000 and he previously held various finance positions in a number of Rhodia's businesses. Prior to joining Rhodia, Mr. Feuerbach held various accounting and finance positions in both manufacturing and service companies. Mr. Feuerbach earned a B.A. in Business Administration/Accounting from Rutgers College and an M.B.A. in Finance/Information Systems from Rutgers Graduate School of Management.

**Joseph Golowski** is Vice President Sales & Distribution of Innophos. Joining Rhodia in 1989 as Market Development Specialist, Mr. Golowski has since then held progressive roles in business development, sales, marketing and management. From 1997 through 2000, Mr. Golowski served as a Global Market Director for Rhodia based in Paris, France. Returning to the U.S., he became the North American Asset Manager for Phosphoric Acid and subsequently the Director of Sales for the Specialty Phosphate Business. Mr. Golowski has earned a B.S. in Ceramic Engineering from Rutgers University, College of Engineering.

**José González** is General Manager Mexico Operations of Innophos. Mr. González has a Chemical Engineering degree from Universidad Iberoamericana in Mexico City and currently resides in Mexico City where he was born. He first joined Troy Industries (which became known as Albright & Wilson Troy de Mexico and was acquired by Rhodia in 2000) in September 1992 as a Development Director; in 1997 he was appointed Planning & Logistics Director; and in 1998 he was promoted to Commercial Director. Mr. Gonzalez joined Innophos in August 2004 as part of its acquisition of Rhodia's Mexican phosphates business, and since April 2005, he has served as General Director. Prior to his employment at Troy, Mr. González worked at Monsanto, Resistol and Aquanova in technical and management positions.

**Wilma Harris** is Vice President Human Resources of Innophos. Ms. Harris joined Rhodia in 1986 as Human Resource Manager for the Agricultural Products business located in Research Triangle Park, NC. Since that time she has held various positions in corporate, shared services and business human resources and information technology. From January 2003 until August 2005, she was the Human Resources Director for the Specialty Phosphates and Performance Phosphates and Derivatives businesses. Prior to joining Rhodia, Ms. Harris worked for Union Carbide Corporation in several labor relations and research and development positions. She holds a B.S. degree from West Virginia University, a M.P.A. degree from Marshall University and Masters Degrees in Theological Studies and Divinity from New Brunswick, NJ Theological Seminary.

**Russell Kemp** is Vice President Research & Development of Innophos. Mr. Kemp joined Rhodia in 1989, first holding several manufacturing management jobs and from 1998 through 2007 fulfilling a business management role. Previously, he worked as a process and production engineer at Monsanto. Mr. Kemp earned a BS in Chemical Engineering from the Colorado School of Mines and an MBA from Southern Illinois University Edwardsville.

**Michael Lovrich** is Vice President Supply Chain of Innophos. Mr. Lovrich joined Innophos in August, 2007 from Coach, Inc., where he served as Vice President, Supply Chain from 2004 through 2007 for that specialty leather and women's accessories manufacturer. Prior to his tenure with Coach, Mr. Lovrich was with Engelhard Corporation where he held various positions in Supply Chain Operations and Information Technology focusing on leading several supply chain transformation initiatives. Prior to Engelhard, Mr. Lovrich held positions with Fisher Scientific, Thompson Medical and Becton-Dickinson. Mr. Lovrich earned his B.A. in History from William Paterson College and his MBA from New York University Stern School of Business.

**Mark Thurston** is Vice President Corporate Strategy and Worldwide Business Development. Prior to his appointment of Vice President Corporate Strategy and Worldwide Business Development, Mr. Thurston served as Vice President Specialties of Innophos. Mr. Thurston joined Rhodia in 1985 working in Fine Organics and has been Business Director of Specialties since February 2004. Previously, Mr. Thurston was a Vice President and General Manager of Food Ingredients North America from 2002 to 2004 and, prior to that, worked in

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various sales and marketing capacities for Rhodia. Mr. Thurston previously worked at RTZ Corp. as an assistant planning and marketing manager and an assistant production manager. Mr. Thurston earned a B.S. in Chemical Engineering from the University of Aston in Birmingham, England.

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**Alfredo Celis Toussaint** became Finance Director of our wholly-owned subsidiary, Innophos Mexicana S.A. de C.V., in October 2004. Before joining Innophos, Mr. Celis served for three years as Finance Manager for the Latin American and European operations of The Quaker Oats Company. Prior to this assignment Mr. Celis was Financial Planning Manager and Plant Controller for Quaker's Gatorade business in México, prior to which he held various finance roles in Quaker. Mr. Celis earned a CPA and Corporate Finance degree from ITAM (Instituto Tecnológico Autónomo de México).

**Timothy Treinen** is Vice President Phosphates Business of Innophos. Mr. Treinen joined Rhodia in 2000 as the Global Asset Director, Acid and has been a Business Director of Performance Chemicals since February 2004. Prior to joining Rhodia, Mr. Treinen spent thirteen years at Albright & Wilson where he worked as a Vice President and General Manager of Industrial Chemicals from 1994 to 2000. Previously, Mr. Treinen worked at Tenneco Inc. in the finance department in various capacities including strategic planning, plant controller and accounting manager. Mr. Treinen earned a B.B.A. in Accounting from the University of Iowa.

## **Available Information**

The SEC maintains a website that contains reports, proxy and information statements, and other information regarding issuers, including the Company, that file electronically with the SEC. The public can obtain any documents that the Company files with the SEC at <http://www.sec.gov>. The Company files annual reports, quarterly reports, proxy statements and other documents with the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934 (Exchange Act). The public may read and copy any materials that the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

Innophos also makes available free of charge through its website ([www.innophos.com](http://www.innophos.com)) the Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and, if applicable, amendments to those reports filed or furnished pursuant to the Exchange Act as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the SEC.

## **ITEM 1A. RISK FACTORS**

*Investing in our company involves a high degree of risk of varying origins, including from our operations and financial matters. If any of the following risks or uncertainties actually occurs, our business, prospects, financial condition and results of operations could be materially and adversely affected.*

### **Risks Related to Our Business Operations**

#### ***Raw Materials Availability and Pricing***

Our principal raw materials consist of phosphate rock, sulfur and sulfuric acid, MGA, PPA and energy (principally natural gas and electricity). Our raw materials are generally purchased under long-term supply contracts typically priced according to predetermined formulae dependent on price indices or market prices. The prices we pay under these contracts generally lag the market prices of the underlying raw material. In periods of increasing market prices, these long-term supply contracts tend to be favorable to the Company, possibly by material amounts. Conversely, in periods of decreasing market prices, these long-term supply contracts tend to be unfavorable to the Company, possibly by material amounts. We do not typically engage in futures or other derivatives contracts to hedge against fluctuations in future prices. These effects may also be amplified in the case of supply contracts that have multiple-year durations. The Company may enter into sales contracts where the selling prices for our products are fixed for a period of one year, exposing us to volatility in raw materials prices that we acquire on a spot market basis.

Various market conditions can affect the price and supply of our raw materials. Because phosphate rock is also used globally for fertilizer production, the cost of that material is heavily influenced by demand conditions in the fertilizer market and freight costs, which traditionally have been volatile, and both of which escalated rapidly during 2007 and 2008, although they have declined since the fourth quarter of 2008. We obtain substantially all our phosphate rock from OCP, a state-owned mining company in Morocco under a long-term supply agreement. Our supply of that material could be affected by capacity constraints, political unrest, or weather conditions in the areas where our supplier operates. That agreement renews automatically for successive five-year periods beginning with September 10, 2010, but either party has an opportunity to terminate it by giving not less than one year's written notice prior to any periodic renewal date. Neither party thus far has given any such notice, although, as discussed below, important parts of the contract are in dispute. Since renewal of this contract after 2010 is uncertain, Innophos has been exploring alternatives for phosphate rock supplies around the world. We are in active discussions with several suppliers. These may be on long-term arrangements with



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historical market index pricing similar to OCP or be based on more current market prices. If our agreement with OCP were not renewed at the end of its current term, we cannot guarantee that all our production needs in Mexico (at least when measured at historic levels) could be met from alternative rock sources or downstream intermediate products, such as MGA, or, if they could be met from those sources, that we could do so without significant purchases at spot market prices. Nevertheless, based on conditions known thus far, management believes that alternative phosphate rock sources alone could provide a significant portion of our needs in Mexico if the OCP contract were not renewed. To some extent, the size of any shortfall would depend on operating levels in Mexico at the time.

As previously disclosed, after we failed to reach an accord through negotiation, in December 2008, our Mexican subsidiary filed a request for binding arbitration with the International Chamber of Commerce, International Court of Arbitration, or ICC, in Paris, France to determine the phosphate rock pricing formulae for 2008 and 2009 under our OCP contract. We cannot predict any detailed timing of the arbitral process or its outcome, but expect it could take up to a year to obtain an award. The range of differing prices proposed by the parties when compared with interim prices paid by the Company for 2008 would not result in a material potential liability. That range for 2009 is material. Accordingly, we cannot give assurances that the 2009 pricing outcome from the arbitration will be favorable to Innophos, or that the effects of an unfavorable outcome to us may not be magnified by declining pricing conditions in the spot market for phosphate rock compared to prices determined under our OCP contract. With regard to 2009 pricing, however, management believes at this stage the most likely outcome of arbitration would be in line with, or less than, management's Recent Trends and Outlook discussion under Management's Discussion and Analysis of Results of Operations and Financial Condition in this Report on Form 10-K.

Natural gas prices have experienced significant volatility in the past several years. Wide fluctuations in natural gas prices may result from relatively minor changes in the supply and demand, market uncertainty, and other factors, both domestic and foreign, that are beyond our control. In addition, natural gas is often a substitute for petroleum-based energy supplies and natural gas prices are positively correlated with petroleum prices. Future increases in the price of petroleum (resulting from increased demand, political instability or other factors) may result in significant additional increases in the price of natural gas. We typically purchase natural gas at spot market prices for use at our facilities which exposes us to that price volatility, except in those instances where, from time to time, we enter into longer term, fixed-price natural gas contracts.

Most of our raw materials are supplied to us by either one or a small number of suppliers. Some of those suppliers rely, in turn, on sole or limited sources of supply for raw materials included in their products. Failure of our suppliers to maintain sufficient capability to meet changes in demand or to overcome unanticipated interruptions in their own sources of supply from *force majeure* conditions, such as disaster or political unrest, may prevent them from continuing to supply raw materials as we require them, or at all. Our inability to obtain sufficient quantities of sole or limited source raw materials or to develop alternative sources on a timely basis if required could result in increased costs in our operations or our inability to properly maintain our existing level of operations. A planned outage at our Coatzacoalcos, Mexico facility in the fourth quarter of 2007, for example, had to be extended as a result of incidents disrupting our local sulfuric acid supply at a time when we were unable to make up the shortfall from other sources. In January 2009, due to a rapid drop in fertilizer demand, a third party supplier temporarily idled its North Carolina complex producing PPA for us, requiring us to run our Geismar, LA facility at full capacity and adjust our production plans. See Management's Discussion and Analysis of Financial Condition and Results of Operations Year Ended December 31, 2008 compared to the Year Ended December 31, 2007 in this Report on Form 10-K.

### ***Environmental, Product Regulations and Sustainability Initiative Concerns***

Our operations involve the use, handling, processing, storage, transportation and disposal of hazardous materials and some of our products are ingredients in foods, nutritional supplements or pharmaceutical excipients that are used in finished products consumed or used by humans or animals. As a result, we are subject to extensive and frequently changing environmental and other regulatory requirements and periodic inspection by federal, state, and local authorities, including the U.S. Environmental Protection Agency, or EPA, the FDA, and the USDA, as well as other regulatory authorities and those with jurisdiction over our foreign operations. Our operations also expose us to the risk of claims for environmental remediation and restoration or for exposure to hazardous materials. Our production facilities require various operating permits that are subject to renewal or modification. Violations of environmental laws, regulations, or permits may result in restrictions being imposed on operating activities, substantial fines, penalties, damages, the rescission of operating permits, third-party claims for property damage or personal injury, or other costs.

Maintaining compliance with health and safety and environmental laws and regulations has resulted in ongoing costs for us. Currently, we are involved in several compliance and remediation efforts and agency inspections concerning health, safety and environmental matters.

EPA has indicated that compliance at facilities in the phosphate industry is a high enforcement priority. After several years of expressing various concerns (without issuing any notice of violation) about aspects of our Geismar, LA operations, in March 2008, we received a letter from the Department of Justice, or DOJ, indicating that EPA had referred the case for civil enforcement, contending, among other things, that





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we do not qualify for certain exemptions we have claimed, and alleging that we violate RCRA at Geismar by failing to manage two materials appropriately. Although the letter stated that EPA/DOJ intended to seek unspecified penalties and corrective action, it proposed discussions to explore possible resolution, which we undertook and are pursuing. During the fourth quarter of 2008, the DOJ/EPA demanded that Innophos and its neighboring interconnected supplier, PCS, undertake certain interim measures to address DOJ/EPA's chief environmental concerns. We and PCS have initiated joint technical efforts to explore solutions to the government concerns. Based on our contact with the agencies to date in 2009, we have determined it is probable that one of the process modifications will need to be undertaken in the next several months, and likewise probable that the capital expenditure and future operating expense of that modification will not be material unless the DOJ adds terms and conditions that could result in the parties not reaching agreement. However, the second measure sought by DOJ/EPA does not have a readily available, technologically recognized solution. Even though the companies have begun substantial technical work in an attempt to develop a feasible approach to address DOJ/EPA's concerns, we cannot guarantee that our technical efforts will be successful, whether either party would be willing to implement solutions or, depending on those factors and the agencies' position, whether this matter will be settled with DOJ/EPA or will require litigation. Should litigation become necessary to defend our operations at Geismar as compliant with environmental laws and regulations, no assurance can be given as to its outcome.

Since similar action has been taken by EPA/DOJ with regard to PCS's interconnected plant at Geismar from which we obtain acid raw material, it is possible that, in the event of further enforcement, PCS's operations could be interrupted for an extended time. The impact of any such occurrence would likely be material to our operations, as our Geismar facility may not be able to operate economically under current market conditions without raw materials from that supplier's plant. Depending upon the facts and circumstances of, and developments arising from, any non-compliance, our long-term raw material supply contract with PCS at Geismar also may be adversely affected. That contract provides important protections that should safeguard Innophos from adverse financial or operating consequences either through continued operations at Geismar or alternative supplies from PCS. Nevertheless, we cannot guarantee that the contract provides full protection against losses we may suffer, or that our operating costs would not increase by a material amount, as a result of the provision.

Some existing environmental laws and regulations impose liability and responsibility on present and former owners, operators or users of facilities and sites for contamination at those locations without regard to causation or knowledge of contamination. Many of our sites have an extended history of industrial use. Soil and groundwater contamination have been detected at some of our sites, and additional contamination might occur or be discovered at these sites or other sites (including sites to which we may have sent hazardous waste) in the future. We continue to investigate, monitor or clean-up contamination at most of these sites. Due to the uncertainties associated with environmental investigations and clean-ups and the ongoing nature of the investigations and clean-ups at our sites, we cannot predict precisely the nature, cost, and timing of our future remedial obligations with respect to our sites.

Additional laws or regulations focused on phosphate-based products may be implemented in the future. For example, a number of states within the U.S. and the Canadian provinces are moving to effectively ban the use of phosphate-based products in consumer automatic dishwashing detergents. In 2006, the trade association that includes major manufacturers of consumer automatic dishwashing detergents began actively to support these efforts in the U.S. and Canada, increasing the likelihood they would become widespread and leading to effectiveness of non-phosphate legislation generally beginning in 2010. This trend and related changes in consumer preferences could have a significant impact on our business to the extent we are not able to react in a timely and adequate manner to our customers' reformulations and resulting market changes by adjusting our sales and manufacturing plans and anticipating the corresponding responses made by our competitors. Furthermore, although already banned in consumer laundry detergents in many U.S. States, phosphates are still permitted for those applications in many Latin American regions. We cannot be sure that such a ban for use in consumer laundry detergents may not be implemented in some or all of these Latin American markets in the future, or that the same effect may not result from manufacturers reformulating generally after the US and Canadian bans become more widespread. Additional laws, regulations or distribution policies focused on reduced use of other phosphate-based products could occur in the future. For example, a global retailer, as part of a corporate sustainability initiative, issued a statement indicating its intent to reduce phosphates in laundry and dish detergents by 70% in its Latin American and Canadian stores. Also, some jurisdictions have threatened to further regulate or ban the use of polyphosphoric acid and orthophosphoric acid in asphalt road construction. During 2008, such restrictions were implemented in New York State, but reversed in Nebraska. Such a ban, if instituted in multiple jurisdictions or throughout the U.S. and Canada, could have a significant impact on our business.

### ***Increased Costs and Pricing May Accelerate Substitution of Competing Products***

Prices for raw materials necessary to manufacture our products, particularly phosphate rock and sulfur, rose dramatically from mid-2007 through most of 2008, although signs of falling demand and prices for some raw materials, particularly sulfur, are being seen in 2009. We can only recover cost escalation of the magnitude we witnessed in 2008 through pricing actions on our part. Although we were successful in recovering costs and enhancing margins through price increases in 2008, there can be no assurance we will be able to do so in the future. See Item 7, Management's Discussion and Analysis of Results of Operations and Financial Condition - Recent Trends and Outlook.



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As the costs and prices of our products correspondingly rise, certain of those products, particularly those directed at end use markets such as the detergent and oral care markets (where their portion of the end product cost is often larger), face an increasing threat of substitution from cost factors alone. Under circumstances where the costs of known and acceptable substitute non-phosphate chemistries become economically viable for a significant portion of our end use markets, our customers may decide to utilize the substitute chemistries to control their costs. If higher costs and prices result in such substitutions for major products and markets and we are not able to shift our manufacturing capabilities to alternate products we can sell profitably, we could face a loss of volumes, revenues and/or profits from this kind of cost-driven substitution. Although we cannot estimate the pricing levels at which cost substitution will affect us (since it depends on variables such as the duration of price escalations, the availability and costs of our products relative to the substitutes, and future marketing and pricing decisions made by our customers), we believe, based on our understanding of where substitutions become feasible, at least 40% of our current end use markets could be exposed to some level of potential cost substitution. We cannot be sure that actions we take to reduce the effects of cost driven substitution will be effective, nor that those effects ultimately will not be material to our results of operations or financial position.

### ***Competitive Factors***

We face significant competition in each of our markets. In the specialty chemicals industry, competition is based upon a number of considerations, including product differentiation and innovation, product quality, technical service, and supply reliability. In addition, in some markets, our products are subject to price competition due to factors such as competition from low-cost producers, import competition, excess industry capacity and consolidation among our customers and competitors. New products or technologies developed by competitors may also have an adverse impact on our competitive position. Future expansions could have a negative impact on our competitive position.

Innophos Mexican production is sold across Latin America where, from time to time, it faces strong competition from Chinese materials produced by the thermal method, a process more heavily dependent on energy which may be cost advantaged during periods of low energy costs. The current collapse in energy prices, when combined with depressed domestic markets and relaxed export controls in China, has resulted in a shift in Chinese specialty phosphate products into American markets, and has put heavy pressure on our Mexican operations. In the event that prices for Chinese products remain low for an extended time and we do not succeed in our arbitration with OCP concerning 2009 or future prices for phosphate rock, it is possible that our Mexican operations could be unable to compete effectively with Chinese phosphate products and thus become uneconomic.

From time to time, we have experienced pricing pressure, particularly from significant customers and often coincident with periods of overcapacity in the markets in which we compete. The pricing environment for 2009, in line with worldwide economic slowdown, substitutions and increased import presence, appears to be taking on that character. In the past, we have taken steps to reduce costs and resist possible price reductions by structuring our contracts and developing strong value-oriented non-price related customer service relationships. However, price reductions in the past have adversely affected our sales and margins, and if we are not able to offset price pressure when it arises through improved operating efficiencies, reduced expenditures and other means, we may be subject to those same effects in the future.

### ***Supplier Contract Concentration***

Our business activities depend on long-term or renewable contracts to supply materials or products. In particular, we rely to a significant degree on single-source supply contracts and some of these contractual relationships may be with a relatively limited number of suppliers. Although most of our supplier relationships are typically the result of multiple contractual arrangements of varying terms, in any given year, one or more of these contracts may come up for renewal. In addition, from time to time, we enter into toll manufacturing agreements or other arrangements to produce minimum quantities of product for a certain duration. If we experience delays in delivering contracted production, we may be subject to contractual liabilities to the buyers to whom we have promised the products.

### ***Changing Technologies***

Our future results will depend on our ability to continue to introduce new products and applications that offer distinct value for our customers. Many of our products could be affected by technological change and new product introductions and enhancements. For example: technical grade STPP (used as a builder in automatic dishwasher detergents) may be substituted by a new builder; Specialty Acids products, such as Polyphosphoric Acid (used in asphalt modification applications), may be substituted by polymers; or Specialty Salts products, such as Calcium Phosphates (used in Calcium fortification), may be substituted by other sources of Calcium such as Calcium Carbonate. We expect to continue to enhance our existing products, to identify, develop, and manufacture new products with improved capabilities, and to make improvements in our productivity in order to maintain our competitive position. We also intend to devote resources to the development of new technologically advanced products and systems and to continue to devote a substantial amount of expenditures to the research and development functions of our business. However, we cannot assure you that we will be successful in achieving our goals in those regards.



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***Reliance on Rhodia***

We depend on Rhodia's ability to perform its obligations under our 2004 acquisition agreements, primarily to indemnify us (or provide security) against potential liabilities whether asserted or yet to be asserted. However, Rhodia has experienced financial difficulties in recent years, and recently stated it was under significant margin pressure due to the global recession. There is no assurance that Rhodia will be able to fund its obligations to us when, as and if required. In February 2008, New York State's highest court affirmed a declaratory judgment we won in the lower courts holding Rhodia liable for taxes asserted by the Mexican National Waters Commission, or CNA, for fresh water extraction, or Fresh Water Claims, at our Coatzacoalcos, Mexico facility dating back to the per