INNOSPEC INC.
Form 10-K
February 18, 2011
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2010

Commission file number 1-13879

INNOSPEC INC.

(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	**98-0181725** (I.R.S. Employer Identification No.)
8375 South Willow Street **Littleton** **Colorado** (Address of principal executive offices)	**80124** (Zip Code)

Registrant s telephone number, including area code: **(303)-792-5554**

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

Title of each class	Name of each exchange on which registered
N/A	N/A

Securities registered pursuant to Section 12(g) of the Act: **Common stock, par value $0.01 per share**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ¨
No x

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 Web site, 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 ¨
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. [ ]

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 the definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨
Accelerated filer	x
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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of the most recently completed second fiscal quarter (June 30, 2010) was approximately $124 million, based on the closing price of the common shares on the NASDAQ Stock Market on June 30, 2010. Shares of common stock held by each officer and director and by each beneficial owner who owns 5% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for any other purpose.

As of February 11, 2011, 23,586,382 shares of the registrant s common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Innospec Inc. s Proxy Statement for the Annual Meeting of Stockholders to be held on May 11, 2011 are incorporated by reference into Part III of this Form 10-K.

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CAUTIONARY STATEMENT RELATIVE TO FORWARD-LOOKING STATEMENTS

FORWARD-LOOKING STATEMENTS

This Form 10-K contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts included or incorporated herein may constitute forward-looking statements. Such forward-looking statements include statements (covered by words like expects , anticipates , may , believes or similar words or expressions), for example, which relate to operating performance, events or developments that we expect or anticipate will or may occur in the future (including, without limitation, any of the Company s guidance in respect of sales, gross margins, pension liabilities and charges, net income, growth potential and other measures of financial performance). Although forward-looking statements are believed by management to be reasonable when made, caution should be exercised not to place undue reliance on such statements because they are subject to certain risks, uncertainties and assumptions, including in respect of the general business environment, regulatory actions or changes. If the risks or uncertainties materialize or assumptions prove incorrect or change, our actual performance or results may differ materially from those expressed or implied by such forward-looking statements and assumptions. You are urged to carefully review and consider the cautionary statements and other disclosures, including specifically those under the heading Risk Factors . The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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PART I

Item 1 Business

When we use the terms the Corporation , Company , Registrant , we , us , and our , we are referring to Innospec I
its consolidated subsidiaries (Innospec) unless otherwise indicated or the context otherwise requires.

General

Innospec develops, manufactures, blends and markets fuel additives, personal care and fragrance products and other specialty chemicals. Our products are sold primarily to oil refineries, personal care and fragrance companies, and other chemical and industrial companies throughout the world. Our fuel additives help improve fuel efficiency, boost engine performance and reduce harmful emissions. Our specialty chemicals provide effective technology-based solutions for our customers processes or products focused in the Personal Care; Household, Industrial & Institutional; and Fragrance Ingredients markets.

Our principal executive offices are in Littleton, Colorado. We became an independent company on May 22, 1998, when we were spun off from our then parent corporation Chemtura Corporation, previously known as Great Lakes Chemical Corporation. We changed our name from Octel Corp. to Innospec Inc. on January 30, 2006. On March 21, 2006 we transferred the listing of our common stock from the New York Stock Exchange (NYSE) to the National Association of Securities Dealers Automated Quotations Stock Market (NASDAQ).

Segmental Information

Innospec divides its business into three distinct segments for both management and reporting purposes: Fuel Specialties, Active Chemicals and Octane Additives. The Fuel Specialties and Active Chemicals businesses operate in markets where we actively seek growth opportunities but their end customers are different. The Octane Additives business is characterized by declining demand. For financial information about each of our segments, see Note 3 of the Notes to the Consolidated Financial Statements.

Fuel Specialties

Our Fuel Specialties business develops, manufactures, blends and markets a range of specialty chemical products used as additives to a wide range of fuels. The business specializes in supplying fuel additives that help improve fuel efficiency, boost engine performance and reduce harmful emissions. The business products are used in the efficient operation of automotive, marine and aviation engines, power station generators, and heating and diesel particulate filter systems.

Before 2005 the business had grown through a program of acquisitions. More recently growth in the Fuel Specialties business has been driven by new product development to address what

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we believe are the key drivers in demand for fuel additives. These key drivers include increased focus on fuel economy, changing engine technology and legislative developments. We have devoted substantial resources to the development of new and improved products that may be used to improve fuel efficiency. Accordingly in our Fuel Specialties segment 35% of our sales in 2010 were derived from products developed during the previous five years.

Active Chemicals

Our Active Chemicals business provides effective technology-based solutions for our customers processes or products focused in the Personal Care; Household, Industrial & Institutional; and Fragrance Ingredients markets.

Historically the business had grown through a program of acquisitions. This program included the acquisition of Finetex, Inc. in January 2005, Innospec Widnes Limited in August 2004, and Innospec Leuna GmbH in June 2004. Effective January 1, 2007 the businesses of Finetex, Inc. and ProChem Chemicals, Inc. were merged into Innospec Active Chemicals LLC. More recently, the business has grown through the development and marketing of innovative products to the personal care and fragrance industries.

The focus for our Active Chemicals business is to develop high performance products from its technology base in a focused number of markets.

Octane Additives

Our Octane Additives business, which is the world s only producer of tetra ethyl lead (TEL), comprises sales of TEL for use in automotive gasoline and trading in respect of our environmental remediation business.

Sales of the Octane Additives business are now concentrated in a relatively small number of customers and therefore could decline in any one year with unpredictable volatility and severity. The average rate of decline in volume terms in demand for TEL in the last five years was approximately 10% per annum. We continue to manage the decrease in the sales of TEL for use in automotive gasoline to maximize the cash flow through the decline.

Our environmental remediation business assists customers to manage the clean up of the associated redundant plants as refineries complete the move from leaded fuel.

Geographical Area

Financial information with respect to our domestic and foreign operations is contained in Note 3 of the Notes to the Consolidated Financial Statements.

Strategy

Our strategy is to develop new and improved technologies to continue to strengthen and increase our market positions within our Fuel Specialties and Active Chemicals businesses.

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Taking the segments together, in addition to the average organic revenue growth of 11% per annum, and average operating income growth of 28% per annum, in these businesses since 2005, we also actively continue to assess potential strategic acquisitions, partnerships and other opportunities that would enhance our customer offering. We focus on opportunities that would extend our technology base, geographical coverage or product portfolio. We believe that focusing on the Fuel Specialties and Active Chemicals sectors, in which the Company has existing experience, expertise and knowledge, provides the opportunities for positive returns on investment with lower operating risk.

Working Capital

The nature of our customers businesses generally requires us to hold appropriate amounts of inventory in order to be able to respond quickly to customers needs. We therefore require corresponding amounts of working capital for normal operation. We do not, however, believe that this is materially different to what our competitors do (with the exception of cetane number improvers, in which case we maintain high enough levels of inventory, as required, to retain our position as market leader in sales of these products).

The purchase of large tranches of some raw materials for our Fuel Specialties business does create some significant variation in working capital requirements, but these are planned and well managed by the business.

We do not believe that our terms of sale, or terms of purchase, differ markedly from those of our competitors.

Raw Materials and Product Supply

We use a variety of raw materials and chemicals in our manufacturing and blending processes and believe that sources for these are adequate for our current operations. Our major purchases are cetane number improvers, various solvents and ethylene.

These purchases account for a substantial portion of the Company s variable manufacturing costs. These materials are, with the exception of ethylene in Germany, readily available from more than one source. Although ethylene is, in theory, available from several sources, it is not permissible to transport ethylene by road in Germany. As a result, we source it via a direct pipeline from a neighboring site, making it effectively a single source. Ethylene is used as a primary raw material in products representing approximately 8% of the Company s sales.

We use long-term contracts (generally with fixed costs or formula based costs) to help ensure availability and continuity of supply, and to manage the risk of cost increases. For some raw materials the risk of cost increases is managed with commodity swaps.

The chemical industry, in general, is experiencing some tightness in the supply of certain commodity materials. We continue to monitor the situation and adjust our procurement strategies as we deem appropriate. The Company forecasts its raw material requirements substantially in advance, and seeks to build long-term relationships and contractual positions with supply partners to safeguard its raw material positions. In addition, the Company operates an extensive risk management program which seeks to source all key raw materials from multiple sources, and to develop other contingency plans.

Intellectual Property

Our intellectual property, including trademarks, patents and licenses, forms a significant part of the Company s competitive edge, particularly in the Fuel Specialties and Active Chemicals businesses. The Company does not, however, consider its business as a whole to be dependent on any one trademark, patent or license.

The Company has a portfolio of trademarks and patents, both granted and in the application stage, covering products and processes in several jurisdictions. The majority of these patents were developed by the Company and, subject to maintenance obligations including the payment of renewal fees, have at least 10 years life remaining.

The trademark Innospec and the Innospec device in Classes 1, 2 and 4 of the International Classification of Goods and Services for the Purposes of the Registration of Marks are registered in all countries or jurisdictions in which the Company has a significant market presence. The Company also has trademark registrations in all countries or jurisdictions in which it has a significant market presence for the following: Stadis® (a range of conductivity improvers), Ortholeum® (a range of lubricant additives), Valvemaster® (a range of anti valve seat recession additives), Legal Diesel® (a range of diesel fuel additives), Satacen® (a range of iron-based organo-metallic fuel borne catalysts), Enviomet® (a range of biodegradable chelating agents), Natrlquest® (a range of biodegradable chelants for personal care), Iselux (a range of innovative, sulfate-free surfactants for personal care) and Finsolv® (a range of benzoate esters for personal care and cosmetic products).

We actively protect our inventions, new technologies, and product developments by filing patent applications and maintaining trade secrets. In addition, we vigorously participate in patent opposition proceedings around the world, where necessary, to secure a technology base free from infringement of our intellectual property.

Customers

Fuel Specialties: Our customers are national oil companies, multinational oil companies and fuel retailers.

Active Chemicals: Our customers range from large multinational companies and manufacturers of personal care and household products, to specialty chemical manufacturers operating in niche industries.

Octane Additives: Sales of TEL for use in automotive gasoline are made principally to the retail refinery market which comprises state owned refineries focused in the Middle East and

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Northern Africa. Our environmental remediation business then serves these customers to manage the clean up of the associated redundant plants as refineries complete the move away from leaded fuel.

We have sales contracts with customers using fixed or formula based prices, as appropriate, to maintain our gross profits.

In 2010 the Company had one significant customer in the Fuel Specialties business, Royal Dutch Shell plc and its affiliates (Shell), who accounted for $67.8 million (10%) of net group sales. In 2009 and 2008, Shell accounted for $76.1 million (13%) and $84.6 million (13%) of net group sales, respectively.

Competition

Fuel Specialties: The Fuel Specialties market is fragmented and characterized by a small number of competitors in each submarket. The competitors in each submarket differ with no one company holding a dominant position in the Fuel Specialties market. We consider our competitive edge to be our proven technical development capacity, independence from major oil companies and strong long-term relationships with refinery customers.

Active Chemicals: We operate in three principal markets within Active Chemicals Personal Care; Household, Industrial & Institutional; and Fragrance Ingredients. The Personal Care and Household, Industrial & Institutional markets are both highly fragmented, and the Company experiences substantial competition from a large number of multinational and specialty chemical suppliers in each geographical region in which we operate. The Fragrance Ingredients market is more concentrated, with a small number of principal competitors. Our competitive position in all three markets is based on us supplying a superior, diverse product portfolio which solves particular customer problems or enhances the performance of new or existing products. In a number of Specialty Chemicals markets, we also supply niche product lines, where we enjoy market-leading positions.

Octane Additives: Our Octane Additives business is the world s only producer of TEL and accordingly is the only supplier of TEL for use in automotive gasoline. The business therefore competes with marketers of products and processes that provide alternative ways of enhancing octane performance in automotive gasoline.

Research, Development, Testing and Technical Support

Research, product/application development and technical support (R&D) provide the basis for the growth of our Fuel Specialties and Active Chemicals businesses. Accordingly, the Company s R&D activity has been, and will continue to be, focused on the development of new products and formulations. Technical support is provided for all of our business segments.

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Our principal R&D facilities are located in Newark, Delaware; Spencer, North Carolina; and Ellesmere Port and Widnes, United Kingdom. Expenditures to support R&D services to customers were $17.6 million, $16.4 million and $14.8 million in 2010, 2009 and 2008, respectively.

We consider that our proven technical capability provides us with a significant competitive edge. In the last three years, the Fuel Specialties business has developed new detergent, cold flow, stabilizers, anti-foulants, lubricity and combustion improver products, in addition to the introduction of many new cost effective fuel additive packages. This proven technical capability is now also instrumental in us producing innovative new products within our Active Chemicals business including Iselux and Statsafe®.

Health, Safety and Environmental Matters

We are subject to environmental laws in all of the countries in which we conduct business. Management believes that the Company is in material compliance with all applicable environmental laws and has made appropriate provision for the continued costs of compliance with environmental laws.

The principal site giving rise to environmental remediation liabilities is the Octane Additives manufacturing site at Ellesmere Port, which is the last ongoing manufacturer of TEL. There are also environmental remediation liabilities on a much smaller scale in respect of our other manufacturing sites in the U.S. and Europe. At Ellesmere Port there is a continuing remediation program related to certain manufacturing units that have been closed. We regularly review the future expected costs of remediation and the current estimate is reflected in Note 12 of the Notes to the Consolidated Financial Statements.

We record environmental liabilities relating to the retirement of assets and environmental clean up when they are probable and costs can be estimated reasonably. This involves anticipating the program of work and the associated future expected costs, and so involves the exercise of judgment by management.

It is possible that new laws and regulations may be introduced in the future that could result in additional compliance costs and prevent or inhibit the development, distribution and sale of our products. The European Union (EU) has approved additional legislation known as the Registration, Evaluation and Authorization of Chemical Substances Regulations (REACH) which requires most of the Company s products to be registered with the European Chemicals Agency. Under this legislation the Company has to demonstrate that its products are appropriate for their intended purposes. During this registration process and period the Company will incur expense to test and register its products. The Company estimates that the cost of complying with REACH will be approximately $8 million over the next 7 years. While the Company expects that its products will be approved for registration after testing it is possible that certain products may not ultimately be registered if the test data proves unsatisfactory. If that happens, the sale of some of the Company s products may be restricted or prohibited in the EU.

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The Company may also be subject to legislation or treaties, including those relating to global warming, climate change, or carbon intensity, which could adversely impact its costs or its ability to develop, manufacture and sell products. The Company maintains an active risk management program which seeks to identify and mitigate threats to its products and facilities from such changes.

Employees

The Company had approximately 850 employees in 20 countries as at December 31, 2010.

Available Information

We file with the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934, as amended (the Exchange Act) our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports, proxy statements and other documents. The public may read and copy any materials that we file with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may also obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet web site at www.sec.gov that contains reports, proxy and information statements, and other information that registrants, including the Company, file electronically with the SEC.

Our corporate web site is www.innospecinc.com. We make available, free of charge, on or through this web site our annual, quarterly and current reports, and any amendments to those reports, as soon as reasonably practicable after electronically filing such material with, or furnishing it to, the SEC. In addition, Innospec s Corporate Governance Guidelines, Code of Ethics and Director Independence standards, and the written charters for the committees of Innospec s Board of Directors are available on this web site under Investor Relations Corporate Governance and in print upon request by writing to: Corporate Secretary, Innospec Inc., 8375 South Willow Street, Littleton, Colorado, 80124.

The Company routinely posts important information for investors on its web site (under Investor Relations). The Company uses this web site as a means of disclosing material, non-public information and for complying with its disclosure obligations under SEC Regulation FD (Fair Disclosure). Accordingly, investors should monitor the Investor Information portion of the Company s web site, in addition to following the Company s press releases, SEC filings, public conference calls, presentations and webcasts.

None of the above available information forms part of this filing on Form 10-K, unless specifically incorporated by reference elsewhere in this Form 10-K.

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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 experienced or implied by forward-looking statements made in this Annual Report on Form 10-K. Investing in our securities involves risks and accordingly investors should carefully evaluate these risks, including specifically those risk factors described below, before deciding to invest in our securities. Except as otherwise indicated, these risk factors may or may not occur and we cannot predict the likelihood of any such factor occurring. Other risk factors may exist that we do not presently consider significant based on information that is currently available to us. In addition, new risks may emerge at any time, and we cannot currently predict those risks or estimate the extent to which they may affect our future performance.

We are subject to regulation of our international operations that could adversely affect our business and results of operations.

Due to our global operations, we are subject to many laws governing international commercial activity, conduct and relations, including those that prohibit improper payments to government officials, restrict where and with whom we can do business, and limit the products, software, and technology that we can supply to certain countries and customers. These laws include but are not limited to the U.S. Foreign Corrupt Practices Act (FCPA), the U.S. sanctions and assets control programs administered by the U.S. Department of the Treasury, and the U.S. export control laws such as the Export Administration Regulations, as well as equivalent laws and regulations in other countries relevant to our business operations. For example, a number of the countries in which we operate are known to experience corruption and our operations there are subject to the risks of an unauthorized payment or other improper activity by one of our employees or agents, which could expose us to a liability under relevant laws, such as the FCPA, the United Kingdom anti-bribery laws, and other equivalent anti-bribery laws. Similarly, unauthorized activity or conduct by employees or agents in or with foreign countries could cause us to be in violation of sanctions and assets control programs or export control laws. Violations of any of these types of laws, which are often complex in their application, may result in criminal or civil penalties that could have a material adverse effect on our business, financial condition and results of operations.

As we have previously disclosed, the Company has been the subject of investigations by U.S. and United Kingdom government authorities into certain legacy transactions conducted by the Company under the FCPA and certain other laws and regulations as further discussed in Legal Proceedings , and in the first quarter of 2010 entered into a $40.2 million settlement with the relevant government authorities to resolve all matters relating to the investigations. It is possible that as a result of such settlement, the Company could suffer loss of business, adverse financial impact, administrative costs, damage to reputation and adverse consequences on financing for current or future business opportunities.

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We may be required to make additional cash contributions to the defined benefit pension plan that we operate in the United Kingdom and recognize greater pension charges.

The Company maintains a contributory defined benefit pension plan (the Plan) covering a number of its current and former employees in the United Kingdom. The Plan is closed to future service accrual but has a large number of deferred and current pensioners. A full triennial actuarial valuation of the Plan was performed as at December 31, 2008 and an update performed as at December 31, 2010, the results of which are reflected in these consolidated financial statements. At December 31, 2010 the underlying plan asset value and Projected Benefit Obligation (PBO) were $672.3 million and $684.0 million, respectively, resulting in a deficit of $11.7 million.

Movements in the underlying plan asset value and PBO are dependent on actual return on investments as well as our assumptions in respect of the discount rate, annual member mortality rates, future return on assets, future pension increases and future inflation. A change in any one of these assumptions could impact the plan asset value, PBO and pension cost recognized in the income statement. Such changes could adversely impact our results of operations and financial position.

Since April 2010 the Company has been contributing £5.8 million ($9.1 million) per calendar year to the Plan in accordance with a 10-year actuarial deficit recovery plan agreed with the trustees. Accordingly, the Company expects its annual cash contribution for 2011 to be approximately $9 million.

In addition, should future investment returns prove insufficient to meet future obligations, or should future obligations increase due to actuarial factors or changes in pension legislation, then the Company may be required to make additional cash contributions. This could adversely impact our results of operations, financial position and cash flows.

Competition and market conditions may adversely affect our operating results.

Certain markets in which the Company s businesses operate are subject to significant competition. The Company competes on the basis of a number of factors including, but not limited to, product quality and performance, specialized product lives, customer relationships and service, and regulatory and toxicological expertise. For some of our products our competitors are larger than us and may have greater access to financial, technological and other resources. As a result, these competitors may be better able to adapt to changes in conditions within the industries in which the Company operates, fluctuations in the costs of raw materials or changes in global economic conditions. Competitors may also be able to introduce new products with enhanced features that may cause a decline in the demand and sales of our products. Consolidation of customers or competitors, or economic problems of customers, in the market areas in which the Company operates may cause a loss of market share for the Company s products, place downward pressure on prices, result in payment delays or non-payment and declining plant utilization rates. Any of these risks could adversely impact our results of operations, financial position and cash flows.

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We could be adversely affected by technological changes in our industry.

Our ability to maintain or enhance our technological capabilities, develop and market products and applications that meet changing customer requirements, and successfully anticipate or respond to technological changes in a cost effective and timely manner will likely impact our future business success. The Company competes on the basis of a number of factors including, but not limited to, product quality and performance. For some of our products our competitors are larger than us and may have greater access to financial, technological and other resources. Competitors may be able to introduce new products with enhanced features that may cause a decline in the demand and sales of our products, and accordingly could adversely impact our results of operations, financial position and cash flows.

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

Our principal customers are major multinational and state owned oil companies, and large multinational manufacturers of personal care and household products. These industries are characterized by concentration of a few large participants. The loss of a significant customer, a material reduction in purchases by a significant customer, or non-renewal of a significant customer contract, could adversely impact our results of operations, financial position and cash flows.

Our reliance on a small number of significant stockholders may have a material adverse impact on our stock price.

Approximately 35% of the Company s common stock is held by three stockholders. A decision by any of these stockholders to sell all or a significant part of its holding in the Company, or a sudden or unexpected disposition of Company stock, could result in a significant decline in the Company s stock price which could in turn adversely impact our ability to access equity markets which in turn could adversely impact our results of operations, financial position and cash flows.

We may have additional tax liabilities.

We are subject to income taxes and state taxes in the U.S., as well as numerous foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation could be materially different to that which is reflected in our consolidated financial statements. Should any tax authority take issue with our estimates, this could adversely impact our results of operations, financial position and cash flows.

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Our success depends on our management team and other key personnel, the loss of any of whom could disrupt our business operations.

Our future success will depend in substantial part on the continued services of our senior management. The loss of the services of one or more of our key personnel could impede implementation of our business plan and result in reduced profitability. Our future success will also depend on the continued ability to attract, retain and motivate highly-qualified technical, sales and support staff. We cannot guarantee that we will be able to retain our key personnel or that we will be able to attract, assimilate or retain qualified personnel in the future. If we are unsuccessful in our efforts in this regard, this could adversely impact our results of operations, financial position and cash flows.

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

The Company generates a portion of its revenues and incurs some operating costs in currencies other than the U.S. dollar. In addition, the financial position and results of operations of some of our foreign 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. Fluctuations in exchange rates between these foreign currencies and the U.S. dollar will affect the recorded levels of our assets and liabilities, to the extent that such figures reflect the inclusion of foreign assets and liabilities which are translated into U.S. dollars for presentation in our consolidated financial statements, as well as our results of operations.

The primary foreign currencies in which we have exchange rate fluctuation exposure are the European Union euro and British pound sterling. We cannot accurately predict the nature or extent of future exchange rate variability amongst these currencies or relative to the U.S. dollar. While the Company takes steps to manage currency exposure, including entering into hedging transactions, it cannot eliminate all exposure to future exchange rate variability. Exchange rates between these currencies and the U.S. dollar have fluctuated significantly in recent years and may continue to do so in the future, which could adversely impact our results of operations, financial position and cash flows.

Sharp and unexpected fluctuations in the cost of our raw materials and energy could adversely affect our profit margins.

We use a variety of raw materials, chemicals and energy in our manufacturing and blending processes. Many of the raw materials that we use are derived from petrochemical-based feedstocks which can be subject to periods of rapid and significant cost instability. These fluctuations in cost can be caused by political instability in oil producing nations and elsewhere, or other factors influencing global supply and demand of these materials, over which we have little or no control. We use long-term contracts (generally with fixed costs or formula based costs) to help ensure availability and continuity of supply, and to manage the

risk of cost increases. We have entered into hedging arrangements for certain raw materials, but do not typically enter into hedging arrangements for all raw materials, chemicals or energy costs. Should the costs of raw materials, chemicals or energy increase, and should we not be able to pass on these cost increases to our customers, then operating margins and cash flows from operating activities would be adversely impacted. Should raw material costs increase significantly, then the Company s need for working capital could similarly increase. Any of these risks could adversely impact our results of operations, financial position and cash flows.

A disruption in the supply of raw materials or transportation services would have a material adverse impact on our results of operations.

The transportation industry is in a situation where supply and demand are currently broadly in balance. However, the chemical industry, in general, is experiencing some tightness in the supply of certain commodity materials. When we identify a situation where an imbalance may occur or is occurring in raw materials or transportation services we may build certain inventories of strategic importance. Any significant disruption in the supply of either of these could affect our ability to obtain raw materials or transportation services at accessible costs, if at all, which could adversely impact our results of operations, financial position and cash flows.

Continuing adverse global economic conditions could materially affect our current and future businesses.

The ongoing concern about the stability of the markets generally and the strength of counterparties specifically has led many lenders and institutional investors to reduce, and in many cases cease to provide, credit to businesses and consumers. These factors have led to a substantial and continuing decrease in spending by businesses and consumers, and a corresponding decrease in global infrastructure spending. The availability, cost and terms of credit have been, and may continue to be, adversely affected by the foregoing factors and these circumstances have produced, and may in the future result in, illiquid markets and wider credit spreads. Continued turbulence in the U.S. and international markets and economies, the generally restricted environment for credit, and prolonged declines in business and consumer spending could adversely impact our results of operations, financial position and cash flows.

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

We serve global markets and accordingly operate in certain countries which do not have stable economies or governments. Specifically, we trade in countries experiencing political and economic instability in the Middle East, Northern Africa, Asia Pacific, Eastern Europe and South America regions. Our international operations are subject to international business risks including, but not limited to, unsettled political conditions, risk of expropriation, import and export restrictions, exchange controls, national and regional labor strikes, high or unexpected taxes, government royalties and restrictions on repatriation of earnings or proceeds from liquidated assets of foreign subsidiaries. The occurrence or imposition of any, or a combination, of these factors could adversely impact our results of operations, financial position and cash flows.

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Failure to protect our intellectual property rights could adversely affect our future performance and cash flows.

Our intellectual property, including trademarks, patents and licenses, forms a significant part of the Company s competitive edge. We therefore depend on our ability to develop and protect our intellectual property rights to distinguish our products from those of our competitors. Failure to develop or protect our intellectual property rights may result in the loss of valuable technologies, or our having to pay other companies for infringing on their intellectual property rights. Measures taken by us to protect our intellectual property may be challenged, invalidated, circumvented or rendered unenforceable. We may also face patent infringement claims from our competitors which may result in substantial litigation costs, claims for damages or a tarnishing of our reputation even if we are successful in defending against these claims, which may cause our customers to switch to our competitors. The occurrence of any, or a combination, of these events could adversely impact our results of operations, financial position and cash flows.

We are subject to extensive government regulation.

We are subject to regulation by local, state, federal and foreign government authorities. In some circumstances these authorities must approve our products, manufacturing processes and facilities before we may sell certain products. Many of the Company s products are required to be registered with the U.S. Environmental Protection Agency and with comparable government agencies in the European Union and elsewhere. We are also subject to ongoing reviews of our products, manufacturing processes and facilities by government authorities including the requirement to produce product data.

In order to obtain regulatory approval of certain new products we must, amongst other things, demonstrate to the relevant authorities that the product is appropriate and effective for its intended uses, and that we are capable of manufacturing the product in accordance with applicable regulations. This approval process can be costly, time consuming, and subject to unanticipated and significant delays. Accordingly, we cannot provide assurance that approvals will be granted 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 income from those products. It is possible that new laws and regulations may be introduced in the future that could result in additional compliance costs and prevent or inhibit the development, distribution and sale of our products. While the Company expects that its products will obtain regulatory approval it is possible that certain products may not. In such an outcome some of the Company s products may be restricted or prohibited in the jurisdiction where approval cannot be obtained, which could adversely impact our results of operations, financial position and cash flows.

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

In addition to matters described in more detail in Item 3 of Part I (Legal Proceedings), we are occasionally involved in legal proceedings that result from, and are incidental to, the conduct of our business, including employee and product liability claims. We have insurance coverage to mitigate anticipated potential damages in a wide variety of such proceedings, however, if our insurance did not cover such claims, this could adversely impact our results of operations, financial position and cash flows.

Unexpected environmental matters could have a substantial adverse impact on our results of operations.

The Company operates a number of manufacturing sites. As such, it is subject to extensive federal, state, local and foreign environmental, health and safety laws and regulations concerning emissions to the air, discharges to land and water and the generation, handling, treatment and disposal of hazardous waste and other materials on these sites. The Company is also required to obtain various environmental permits and licenses, many of which require periodic notification and renewal.

The Company s historic operations, and the historic operations of companies that have previously operated on sites that the Company has acquired, pose the risk of environmental contamination. Discovery of unexpected contamination may result in fines or criminal sanctions being imposed against the Company or may require the Company to pay material remediation or fines to address the effects and to remediate this contamination.

The Company further anticipates that certain production facilities may cease production over the medium to long-term. On closure of some of our production operations in the future, we expect to be subject to environmental laws that will require these facilities to be safely decommissioned and a degree of environmental remediation to be undertaken. The degree of environmental remediation required will depend on the plans for the future use of the operating sites that are affected and the environmental legislation in force at the time. The Company has currently made a decommissioning and remediation provision based on the Company s current known obligations, the anticipated plans for those sites and existing environmental legislation. Should there be unexpected or unknown contamination at these facilities, or the Company s future plans for the sites or environmental legislation change, then current provisions may prove inadequate and this could adversely impact our results of operations, financial position and cash flows.

The terms of our finance facility may restrict our ability to incur additional indebtedness or to otherwise expand our business.

The Company s finance facility contains restrictive clauses which may constrain our activities and limit our operational and financial flexibility. The facility obliges the lenders to comply with a request for utilization of finance unless there is an event of default outstanding. Events of default are defined in the finance facility and include a material adverse change to our business, properties, assets, financial condition or results of operations. The facility contains a number of restrictions that limit our ability, amongst other things, and subject to certain limited exceptions, to incur additional indebtedness, pledge our assets as security, guarantee obligations of third parties, make investments, undergo a merger or consolidation, dispose of assets, or materially change our line of business.

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In addition, the finance facility requires the Company to meet certain financial ratios defined therein including net debt to EBITDA and net interest expense to EBITDA. EBITDA is a non-GAAP measure of liquidity defined in the finance facility. The ability to meet these financial covenants depends upon the future successful operating performance of the businesses. If the Company fails to meet agreed financial covenants then it would be in technical default under the finance facility and the maturity of the Company s outstanding debt could be accelerated unless we were able to obtain waivers from our lenders. If the Company were found to be in default under the finance facility, this could adversely impact our results of operations, financial position and cash flows.

The Company may choose to refinance some of the existing debt before the end of the remaining term of the current finance facility. Should the Company not be able to secure refinancing on satisfactory terms this could adversely impact our ability to capitalize on future business opportunities.

We may not be able to consummate, finance or successfully integrate future acquisitions, partnerships or other opportunities into our business, which could hinder our strategy or result in unanticipated expenses and losses.

It is part of our stated strategy that we intend to pursue strategic acquisitions, partnerships and other opportunities to complement and expand our existing businesses. Our ability to implement this component of our strategy will be limited by our ability to identify appropriate acquisitions, partnerships or other opportunities and limited by financial resources, including our available cash and borrowing capacity and the financial markets. The success of these transactions will depend on our ability to integrate assets and personnel acquired in these transactions, apply our internal controls processes to these acquired businesses and cooperate with our strategic partners. The expense incurred in consummating acquisitions, partnerships or other opportunities, the time it takes to integrate an acquisition, or our failure to integrate businesses successfully, could result in unanticipated expenses and losses. 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. Furthermore, we may not realize the degree or timing of benefits we anticipate when we first enter a transaction. Any of these risks could adversely impact our results of operations, financial position and cash flows.

Our business is subject to the risk of production or transportation disruptions, the occurrence of any of which would adversely affect our results of operations.

We are subject to hazards common to chemical manufacturing, blending, storage, handling and transportation including fires, explosions, mechanical failure, extreme weather, transportation interruptions, remediation, chemical spills and the release or discharge of toxic or hazardous substances. These hazards could result in loss of life, property damage, environmental contamination and temporary or permanent production cessation. Any, or a combination, of these factors could adversely impact our results of operations, financial position and cash flows.

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Strikes or other forms of work stoppage or slowdown could disrupt our business and lead to increased costs.

Adverse labor relations or contract negotiations that do not result in an agreement could result in strikes or slowdowns. These disruptions could decrease our production and sales or impose additional costs to resolve disputes and adversely impact our results of operations, financial position and cash flows.

Failure to implement our common information system platform successfully could adversely affect our ability to conduct business.

We intend to commence a company-wide implementation in 2011 of a new information system platform. The platform provider is well established in the market. The implementation will be a phased, risk-managed, site deployment and follow a multistage user acceptance program with the existing platform providing a fallback position. There is a risk that the new information system platform may cost more than projected or we may not realize its anticipated benefits. Either, or a combination, of these factors could adversely impact our results of operations, financial position and cash flows.

Domestic or international natural disasters or terrorist attacks may disrupt our operations, decrease the demand for our products or otherwise have an adverse impact on our business.

Chemical related assets, and U.S. corporations such as ourselves, may be at greater risk of future terrorist attacks than other possible targets in the U.S., United Kingdom and throughout the world. Extraordinary events such as natural disasters may negatively affect local economies, including those of our customers or suppliers. The occurrence of such events cannot be predicted though they can be expected to continue to adversely impact the economy in general and our specific markets. The resulting damage from such an event could include loss of life, property damage or site closure. Any, or a combination, of these factors could adversely impact our results of operations, financial position and cash flows.

The inability of counterparties to meet their contractual obligations could have a substantial adverse impact on our results of operations.

The Company sells a range of specialty chemicals to customers around the world. Credit limits, ongoing credit evaluation and account monitoring procedures are used to minimize bad debt risk. Collateral is not generally required. The Company uses derivatives, including interest rate swaps, commodity swaps and foreign currency forward exchange contracts, in the normal course of business to manage market risks. The Company enters into derivative instruments with a diversified group of major financial institutions in order to monitor the exposure to non-performance of such instruments. The Company has in place a financing facility with a syndicate of banks.

The Company remains subject to market and credit risks including the ability of counterparties to meet their contractual obligations and the potential non-performance of counterparties to

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deliver contracted commodities or services at the contracted price. The inability of counterparties to meet their contractual obligations could have an adverse impact on results of operations, financial position and cash flows.

Our Octane Additives business could decline faster than expected.

The average rate of decline in volume terms in demand for TEL in the last five years was approximately 10% per annum. Net sales and gross profit of our Octane Additives business accounted for approximately 11% and 17%, respectively, of our consolidated sales and gross profit in 2010. The remaining sales of the Octane Additives business are now concentrated in a relatively small number of customers and therefore could decline with unpredictable volatility and severity and adversely impact the Company s future results of operations, financial position and cash flows. There could also be an accelerated impairment of Octane Additives business goodwill, and impairment of Octane Additives intangible assets and property, plant and equipment, as the forecast discounted cash flows from that business would be reduced. The Company expects that it will cease all sales of TEL for use in automotive gasoline in 2012.

Item 1B Unresolved Staff Comments

None.

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Item 2 Properties

A summary of the Company s principal properties is shown in the following table. Each of these properties is owned by the Company except where otherwise noted:

Location	***Business and Business Segment***	***Operations***
Littleton, Colorado [(1)]	Innospec Inc. and Innospec Fuel Specialties LLC Fuel Specialties and Active Chemicals	Corporate Headquarters Business Teams Sales/Administration
Newark, Delaware [(1)]	Innospec Fuel Specialties LLC Fuel Specialties	Sales/Administration Research & Development
High Point, North Carolina	Innospec Active Chemicals LLC Active Chemicals	Manufacturing/Administration Research & Development
Spencer, North Carolina	Innospec Active Chemicals LLC Active Chemicals	Manufacturing/Administration Research & Development
Ellesmere Port, United Kingdom	Innospec Limited Fuel Specialties, Active Chemicals and Octane Additives	European Headquarters Business Teams Sales/Manufacturing/Administration Research & Development Fuel Technology Center
Singapore, Singapore [(1)]	Innospec Asia Pacific Pte Ltd Fuel Specialties and Active Chemicals	Asia-Pacific Headquarters Business Teams Sales/Administration
Widnes, United Kingdom	Innospec Widnes Limited Active Chemicals	Manufacturing/Administration Research & Development
Herne, Germany	Innospec Deutschland GmbH Fuel Specialties	Sales/Manufacturing/Administration Research & Development
Leuna, Germany	Innospec Leuna GmbH Fuel Specialties and Active Chemicals	Sales/Manufacturing/Administration Research & Development
Vernon, France	Innospec France SA Fuel Specialties	Sales/Manufacturing/Administration