

INNOSPEC INC.
Form 10-Q
August 09, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2011

OR

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

For the transition period from to

Commission file number 1-13879

INNOSPEC INC.

(Exact name of registrant as specified in its charter)

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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

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

Indicate by check mark whether the registrant 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 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
Non-accelerated filer (Do not check if a smaller reporting company) 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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding as of August 5, 2011
Common Stock, par value \$0.01	23,749,742

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CAUTIONARY STATEMENT RELATIVE TO FORWARD-LOOKING STATEMENTS

This Form 10-Q 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. Additional information regarding risks, uncertainties and assumptions relating to the Company and affecting our business operations and prospects are described in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, and other reports filed with the U.S. Securities and Exchange Commission. You are urged to carefully review and consider the cautionary statements and other disclosures made in those filings, 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.

Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1 Financial Statements****INNOSPEC INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME****(Unaudited)**

(in millions, except share and per share data)	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Net sales	\$ 186.5	\$ 168.4	\$ 371.8	\$ 331.9
Cost of goods sold	(128.4)	(114.4)	(260.9)	(226.5)
Gross profit	58.1	54.0	110.9	105.4
Operating expenses:				
Selling, general and administrative	(30.5)	(24.1)	(54.5)	(51.4)
Research and development	(4.7)	(4.5)	(9.0)	(8.5)
Restructuring charge	0.0	(0.3)	0.0	(8.5)
Impairment of Octane Additives segment goodwill	(0.5)	(0.5)	(1.1)	(1.1)
Profit on disposal	0.0	0.2	0.0	0.2
Total operating expenses	(35.7)	(29.2)	(64.6)	(69.3)
Operating income	22.4	24.8	46.3	36.1
Other net income/(expense)	7.9	(10.8)	13.2	(10.9)
Interest expense	(1.0)	(1.2)	(2.0)	(2.5)
Interest income	0.2	0.1	0.3	0.2
Income before income taxes	29.5	12.9	57.8	22.9
Income taxes	(4.9)	(0.9)	(11.7)	(3.5)
Net income	\$ 24.6	\$ 12.0	\$ 46.1	\$ 19.4
Earnings per share:				
Basic	\$ 1.04	\$ 0.50	\$ 1.95	\$ 0.82
Diluted	\$ 1.00	\$ 0.48	\$ 1.88	\$ 0.78
Weighted average shares outstanding (in thousands):				
Basic	23,726	23,781	23,691	23,732
Diluted	24,519	25,005	24,523	24,915

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

Table of Contents**INNOSPEC INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(in millions, except share and per share data)	June 30 2011 (Unaudited)	December 31 2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 99.0	\$ 107.1
Short-term investments	4.4	4.2
Trade and other accounts receivable (less allowances of \$2.1 and \$2.1, respectively)	96.8	84.2
Inventories:		
Finished goods	87.2	78.2
Work in progress	2.4	1.8
Raw materials	52.8	42.3
Total inventories	142.4	122.3
Prepaid expenses	6.5	4.1
Total current assets	349.1	321.9
Property, plant and equipment	135.1	128.3
Less accumulated depreciation	(86.2)	(79.6)
Net property, plant and equipment	48.9	48.7
Goodwill	142.6	143.6
Intangible assets	16.8	19.0
Deferred finance costs	0.1	0.5
Deferred income taxes	12.1	12.7
Other non-current assets	2.5	1.9
Total assets	\$ 572.1	\$ 548.3

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

Table of Contents**INNOSPEC INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS (CONTINUED)**

(in millions, except share and per share data)	June 30 2011 (Unaudited)	December 31 2010
<u>Liabilities and Stockholders' Equity</u>		
Current liabilities:		
Accounts payable	\$ 57.5	\$ 45.9
Current portion of accrued liabilities	79.1	85.7
Accrued income taxes	2.7	6.1
Current portion of long-term debt	33.0	15.0
Current portion of plant closure provisions	4.0	3.9
Current portion of unrecognized tax benefits	2.2	2.2
Current portion of deferred income	0.1	0.1
Total current liabilities	178.6	158.9
Accrued liabilities, net of current portion	13.5	13.6
Long-term debt, net of current portion	0.0	32.0
Plant closure provisions, net of current portion	23.4	23.6
Unrecognized tax benefits, net of current portion	6.5	6.4
Pension liability	7.8	11.7
Other non-current liabilities	0.4	0.5
Deferred income, net of current portion	1.1	0.9
Commitments and contingencies	0.0	0.0
<u>Stockholders' Equity</u>		
Common stock, \$0.01 par value, authorized 40,000,000 shares, issued 29,554,500 shares	0.3	0.3
Additional paid-in capital	285.9	286.3
Treasury stock (5,807,284 and 5,851,298 shares at cost, respectively)	(66.5)	(64.8)
Retained earnings	256.6	210.5
Accumulated other comprehensive loss	(135.5)	(131.6)
Total stockholders' equity	340.8	300.7
Total liabilities and stockholders' equity	\$ 572.1	\$ 548.3

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

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INNOSPEC INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in millions)	Six Months Ended June 30	
	2011	2010
<u>Cash Flows from Operating Activities</u>		
Net income	\$ 46.1	\$ 19.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7.5	7.7
Impairment of Octane Additives segment goodwill	1.1	1.1
Deferred income taxes	0.6	1.3
Profit on disposal of property, plant and equipment	0.0	(0.2)
Changes in working capital:		
Trade and other accounts receivable	(11.6)	(1.5)
Inventories	(19.2)	5.2
Prepaid expenses	(2.4)	(1.4)
Accounts payable and accrued liabilities	(0.7)	(11.0)
Excess tax benefit from stock based payment arrangements	(1.2)	0.0
Accrued income taxes	(3.6)	(8.1)
Movement on plant closure provisions	(0.2)	(0.1)
Cash contributions to defined benefit pension plan	(4.6)	(6.0)
Non-cash expense of defined benefit pension plan	0.2	14.1
Stock option compensation	1.6	0.0
Movements on other non-current assets and liabilities	(2.1)	(0.1)
Net cash provided by operating activities	11.5	20.4
<u>Cash Flows from Investing Activities</u>		
Capital expenditures	(4.0)	(3.6)
Proceeds on disposal of property, plant and equipment	0.0	0.2
Purchase of short-term investments	(1.9)	(5.0)
Sale of short-term investments	1.8	1.7
Net cash (used in) investing activities	(4.1)	(6.7)
<u>Cash Flows from Financing Activities</u>		
Net receipt of revolving credit facility	1.0	6.0
Repayment of term loan	(15.0)	(10.0)
Excess tax benefit from stock based payment arrangements	1.2	0.0
Issue of treasury stock	0.7	0.1
Repurchase of common stock	(4.1)	(0.2)
Net cash (used in) financing activities	(16.2)	(4.1)
Effect of foreign currency exchange rate changes on cash	0.7	(4.5)
Net change in cash and cash equivalents	(8.1)	5.1
Cash and cash equivalents at beginning of period	107.1	68.6
<u>Cash and cash equivalents at end of period</u>	\$ 99.0	\$ 73.7

Amortization of deferred finance costs of \$0.4 million (2010 \$0.8 million) are included in depreciation and amortization in the cash flow statement but in interest expense in the income statement.

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The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

Table of Contents**INNOSPEC INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**

(Unaudited)

(in millions)	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders Equity
Balance at December 31, 2010	\$ 0.3	\$ 286.3	\$ (64.8)	\$ 210.5	\$ (131.6)	\$ 300.7
Net income				46.1		46.1
Changes in cumulative translation adjustment					(3.5)	(3.5)
Changes in unrealized (losses)/gains on derivative instruments, net of tax					0.0	0.0
Treasury stock re-issued		(2.0)	2.4			0.4
Treasury stock repurchased			(4.1)			(4.1)
Stock option compensation		1.6				1.6
Amortization of actuarial net losses, net of tax					0.1	0.1
Amortization of prior service credit, net of tax					(0.5)	(0.5)
Balance at June 30, 2011	\$ 0.3	\$ 285.9	\$ (66.5)	\$ 256.6	\$ (135.5)	\$ 340.8

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(in millions)	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Net income	\$ 24.6	\$ 12.0	\$ 46.1	\$ 19.4
Changes in cumulative translation adjustment	(4.0)	(1.3)	(3.5)	(3.9)
Changes in unrealized (losses)/gains on derivative instruments, net of tax of \$0.0 million, \$0.2 million, \$0.0 million and \$0.5 million, respectively	(0.2)	(0.7)	0.0	(1.2)
Amortization of actuarial net losses, net of tax of \$0.0 million, \$(0.3) million, \$0.0 million and \$(0.7) million, respectively	0.0	0.9	0.1	1.9
Gain on pension plan amendment, net of tax of \$0.0 million, \$(4.8) million, \$0.0 million and \$(4.8) million, respectively	0.0	12.3	0.0	12.3
Amortization of prior service credit, net of tax of \$0.1 million, \$0.1 million, \$0.2 million and \$0.1 million, respectively	(0.3)	(0.2)	(0.5)	(0.2)
Total comprehensive income	\$ 20.1	\$ 23.0	\$ 42.2	\$ 28.3

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

Table of Contents**INNOSPEC INC. AND SUBSIDIARIES****NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****NOTE 1 BASIS OF PRESENTATION**

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and notes necessary for a comprehensive presentation of financial position, results of operations and cash flows.

It is our opinion, however, that all adjustments (consisting of normal, recurring adjustments, unless otherwise disclosed) have been made which are necessary for the financial statements to be fairly stated. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K filed on February 18, 2011.

The results for the interim period are not necessarily indicative of the results to be expected for the full year.

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

During the second quarter, 2011, the Company revised the classification of certain amortization of intangible assets expenses in its results for 2011 and comparable information for 2010. Previously, these expenses were disclosed separately within operating expenses. This has no impact on 2011 or any prior periods' reported net sales, income before income taxes, net income, earnings per share, net cash provided by operating activities or any balance sheet category. The classification of expenses of \$1.2 million for the three months ended March 31, 2011, and \$4.7 million for the year ended December 31, 2010, with respect to amortization of intangible assets has been revised from operating expenses to an increase in costs of goods sold of \$0.8 million and \$3.1 million, respectively, and an increase in selling expenses of \$0.4 million and \$1.6 million, respectively. The impact on gross profit and selling, general and administrative expenses for the previously reported quarters is provided below:

(in millions)	2011
	First
	Quarter
<i>Previously reported:</i>	
Gross profit	\$ 53.6
SG&A expenses	(23.6)
Amortization of intangible assets	(1.2)
<i>Revised classification:</i>	
Gross profit	52.8
SG&A expenses	\$ (24.0)

	2010				
	First	Second	Third	Fourth	Full Year
	Quarter	Quarter	Quarter	Quarter	
<i>Previously reported:</i>					
Gross profit	\$ 52.2	\$ 54.7	\$ 55.4	\$ 54.9	\$ 217.2
SG&A expenses	(26.9)	(23.7)	(28.2)	(33.1)	(111.9)
Amortization of intangible assets	(1.2)	(1.1)	(1.2)	(1.2)	(4.7)
<i>Revised classification:</i>					
Gross profit	51.4	54.0	54.6	54.1	214.1
SG&A expenses	\$ (27.3)	\$ (24.1)	\$ (28.6)	\$ (33.5)	\$ (113.5)

Table of Contents**INNOSPEC INC. AND SUBSIDIARIES****NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 2 SEGMENTAL REPORTING**

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 segments both operate in markets where we actively seek growth opportunities but their end customers are different. The Octane Additives segment is characterized by declining demand.

The Company evaluates the performance of its segments based on operating income. The following table analyzes sales and other financial information by the Company's reportable segments:

(in millions)	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Net sales:				
Fuel Specialties	\$ 113.3	\$ 104.2	\$ 240.4	\$ 217.0
Active Chemicals	48.7	38.1	95.2	75.5
Octane Additives	24.5	26.1	36.2	39.4
	\$ 186.5	\$ 168.4	\$ 371.8	\$ 331.9
Gross profit:				
Fuel Specialties	\$ 31.1	\$ 32.1	\$ 67.5	\$ 69.8
Active Chemicals	13.7	8.1	25.4	16.1
Octane Additives	13.3	13.8	18.0	19.5
	\$ 58.1	\$ 54.0	\$ 110.9	\$ 105.4
Operating income:				
Fuel Specialties	\$ 12.3	\$ 17.1	\$ 34.6	\$ 39.2
Active Chemicals	9.1	3.6	16.7	7.7
Octane Additives	8.1	11.6	10.3	18.3
Pension charge	(0.1)	(2.1)	(0.2)	(5.9)
Corporate costs	(6.5)	(4.8)	(14.0)	(13.8)
	22.9	25.4	47.4	45.5
Restructuring charge	0.0	(0.3)	0.0	(8.5)
Impairment of Octane Additives segment goodwill	(0.5)	(0.5)	(1.1)	(1.1)
Profit on disposal	0.0	0.2	0.0	0.2
Total operating income	22.4	24.8	46.3	36.1
Other net income/(expense)	7.9	(10.8)	13.2	(10.9)
Interest expense	(1.0)	(1.2)	(2.0)	(2.5)
Interest income	0.2	0.1	0.3	0.2
Income before income taxes	\$ 29.5	\$ 12.9	\$ 57.8	\$ 22.9

Table of Contents**INNOSPEC INC. AND SUBSIDIARIES****NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table presents a summary of the depreciation and amortization charges incurred by the Company's reportable segments:

(in millions)	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Depreciation:				
Fuel Specialties	\$ 0.6	\$ 0.6	\$ 1.2	\$ 1.2
Active Chemicals	1.1	1.1	2.3	2.3
Octane Additives	0.2	0.2	0.4	0.4
Corporate	0.4	0.3	0.9	0.7
	\$ 2.3	\$ 2.2	\$ 4.8	\$ 4.6
Amortization:				
Fuel Specialties	\$ 0.5	\$ 0.5	\$ 1.1	\$ 1.1
Active Chemicals	0.4	0.4	0.7	0.7
Octane Additives	0.2	0.2	0.5	0.5
	\$ 1.1	\$ 1.1	\$ 2.3	\$ 2.3

NOTE 3 PENSION PLANS

The Company sponsors a contributory defined benefit pension plan (the Plan) covering a number of its current and former employees in the United Kingdom. The components of the net periodic cost were as follows:

(in millions)	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Service cost	\$ (0.4)	\$ (0.2)	\$ (0.8)	\$ (1.2)
Interest cost on projected benefit obligation	(9.3)	(9.8)	(18.3)	(20.4)
Expected return on plan assets	9.3	8.8	18.4	18.0
Amortization of prior service credit	0.4	0.3	0.7	0.3
Amortization of actuarial net losses	(0.1)	(1.2)	(0.2)	(2.6)
	\$ (0.1)	\$ (2.1)	\$ (0.2)	\$ (5.9)

The Company closed the Plan to future service accrual with effect from March 31, 2010 and accordingly we recorded a non-cash curtailment loss of \$8.2 million in the first quarter of 2010. During the second quarter of 2010 the Company implemented a pension increase exchange (PIE) program for current pensioners, effective April 1, 2010, which reduced the projected benefit obligation (PBO) by \$17.1 million. This reduction in PBO resulted in a prior service credit which is being amortized using the straight-line method over the remaining life expectancy of Plan pensioners of 15 years commencing April 1, 2010. The PIE program provided pensioners with the option of receiving a one-off immediate increase to their pension in lieu of future non-statutory increases. During the fourth quarter of 2010 the Company implemented an enhanced transfer value (ETV) program for deferred pensioners which reduced the PBO by \$15.7 million and resulted in a settlement loss of \$1.1 million. The ETV program provided deferred pensioners with the option of transferring their existing pension entitlement from the Plan to another vehicle in exchange for an enhancement to the standard terms available for such a transfer.

Table of Contents**INNOSPEC INC. AND SUBSIDIARIES****NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company expects its annual cash contribution to the Plan for 2011 to be approximately \$9 million (2010 \$15.5 million).

A full triennial actuarial valuation of the Plan was performed as at December 31, 2008 and an update performed as at December 31, 2010. Following guidance issued by the United Kingdom government during 2010, and agreement from the Plan trustees, the Company changed the inflation rate measure used in the December 31, 2010 update from the Retail Prices Index to the Consumer Prices Index resulting in a reduction in actuarial net losses on an accounting basis of approximately \$47 million. At June 30, 2011, the Company has a pension liability of \$7.8 million recorded in its balance sheet.

NOTE 4 INTANGIBLE ASSETS

(in millions)	Six Months Ended	
	June 30	
	2011	2010
Gross cost at January 1	\$ 48.1	\$ 48.1
Exchange effect	0.2	0.2
Gross cost at June 30	48.3	48.3
Accumulated amortization at January 1	(29.1)	(24.4)
Amortization expense	(2.3)	(2.3)
Exchange effect	(0.1)	(0.2)
Accumulated amortization at June 30	(31.5)	(26.9)
Net book amount at June 30	\$ 16.8	\$ 21.4

Ethyl

An intangible asset of \$28.4 million was recognized in the second quarter of 2007 in respect of Ethyl foregoing their entitlement effective April 1, 2007 to a share of the future income stream under the sales and marketing agreements to market and sell tetra ethyl lead. In 2008 contract provisions no longer deemed necessary of \$6.3 million were offset against the intangible asset. The amount attributed to the Octane Additives reporting segment is being amortized straight-line to December 31, 2012 and the amount attributed to the Fuel Specialties reporting segment is being amortized straight-line to December 31, 2017. An amortization expense of \$1.0 million was recognized in the first half year of 2011 (2010 \$0.9 million) in cost of goods sold.

Others

The remaining intangible assets of \$26.0 million relate to those recognized in the acquisition accounting in respect of technology, customer relationships and patents. These assets are being amortized straight-line over periods of up to 13 years. In the first half year of 2011 amortization expenses of \$0.5 million and \$0.8 million were recognized in cost of goods sold and selling, general and administrative expenses, respectively (2010 \$0.6 million and \$0.8 million, respectively).

Table of Contents**INNOSPEC INC. AND SUBSIDIARIES****NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 5 GOODWILL**

(in millions)	Six Months Ended	
	June 30	
	2011	2010
At January 1		
Gross cost	\$ 674.1	\$ 674.3
Accumulated Octane Additives segment goodwill impairment losses	(232.0)	(229.8)
	442.1	444.5
Impairment of Octane Additives segment goodwill	(1.1)	(1.1)
Exchange effect	0.3	(0.4)
At June 30	\$ 441.3	\$ 443.0
Gross cost	\$ 674.4	\$ 673.9
Accumulated Octane Additives segment goodwill impairment losses	(233.1)	(230.9)
	441.3	443.0
Accumulated amortization at January 1	(298.5)	(298.5)
Exchange effect	(0.2)	0.0
Accumulated amortization at June 30	(298.7)	(298.5)
Net book amount at June 30	\$ 142.6	\$ 144.5
Fuel Specialties and Active Chemicals segments goodwill	\$ 139.1	\$ 138.8
Octane Additives segment goodwill	3.5	5.7
	\$ 142.6	\$ 144.5

Impairment of Octane Additives segment goodwill

Our Octane Additives segment is the world's only producer of tetra ethyl lead (TEL). The Octane Additives segment comprises sales of TEL for use in automotive gasoline and trading in respect of our environmental remediation business. Worldwide use of TEL has declined since 1973 following the enactment of the U.S. Clean Air Act of 1970 and similar legislation in other countries. The trend of countries exiting the leaded gasoline market has resulted in an average rate of decline in volume terms in demand for TEL in the last five years of approximately 10% per annum.

In light of the continuing decline in the Octane Additives market globally, as the Company makes sales of Octane Additives in each quarter, the remaining sales and corresponding cash flows that can be derived from the Octane Additives segment are reduced, and accordingly the fair value of the Octane Additives segment is reduced. As a result, the Company determined that quarterly impairment tests be performed from January 1, 2004 and any impairment charge arising be recognized in the relevant quarter. Given the quantum and predictability of the remaining future cash flows from the Octane Additives segment, the Company expects goodwill impairment charges to be recognized in the income statement on an approximate straight-line basis to December 31, 2012.

Table of Contents**INNOSPEC INC. AND SUBSIDIARIES****NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 6 TAXATION**

A roll-forward of unrecognized tax benefits and associated accrued interest and penalties is as follows:

(in millions)	Interest and Penalties	Unrecognized Tax Benefits	Total
Opening balance at January 1, 2011	\$ 0.3	\$ 8.3	\$ 8.6
Additions for tax positions of prior periods	0.1	0.0	0.1
Closing balance at June 30, 2011	0.4	8.3	8.7
Current	(0.2)	(2.0)	(2.2)
Non-current	\$ 0.2	\$ 6.3	\$ 6.5

All of the \$8.7 million of unrecognized tax benefits, and interest and penalties, would impact our effective tax rate if recognized.

We recognize accrued interest and penalties associated with uncertain tax positions as part of income taxes in our consolidated statements of income.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. As at June 30, 2011, the Company's subsidiaries in the U.S. are subject to state tax audits in various states. The Company does not anticipate that adjustments arising out of these state tax audits would result in a material change to its financial position as at June 30, 2011.

The Company and its U.S. subsidiaries remain open to examination by the IRS for years 1998 onwards due to the net operating losses in the period 1998 to 2002, although no examination is currently underway. The Company's subsidiaries in foreign tax jurisdictions are open to examination including France (2008 onwards), Germany (2005 onwards), Switzerland (2009 onwards) and the United Kingdom (2007 onwards).

NOTE 7 EARNINGS PER SHARE

Basic earnings per share is based on the weighted average number of common shares outstanding during the period. Diluted earnings per share includes the effect of options that are dilutive and outstanding during the period. Per share amounts are computed as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Numerator (in millions):				
Net income available to common stockholders	\$ 24.6	\$ 12.0	\$ 46.1	\$ 19.4
Denominator (in thousands):				
Weighted average common shares outstanding	23,726	23,781	23,691	23,732
Dilutive effect of stock options and awards	793	1,224	832	1,183
Denominator for diluted earnings per share	24,519	25,005	24,523	24,915

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Net income per share, basic	\$ 1.04	\$ 0.50	\$ 1.95	\$ 0.82
Net income per share, diluted	\$ 1.00	\$ 0.48	\$ 1.88	\$ 0.78

In the three and six months ended June 30, 2011, there were no anti-dilutive options to be excluded from the calculation of diluted earnings per share (2010 64,102 and 65,078, respectively).

Table of Contents**INNOSPEC INC. AND SUBSIDIARIES****NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 8 STOCKHOLDERS EQUITY AND SHARE BASED COMPENSATION PLANS**

At June 30, 2011, the Company had authorized common stock of 40,000,000 shares (December 31, 2010 40,000,000). Issued shares at June 30, 2011, were 29,554,500 (December 31, 2010 29,554,500) and treasury stock amounted to 5,807,284 shares (December 31, 2010 5,851,298).

The Company has five active stock option plans, two of which provide for the grant of stock options to employees, one provides for the grant of stock options to non-employee directors, and another provides for the grant of stock options to key executives on a matching basis provided they use a proportion of their annual bonus to purchase common stock in the Company on the open market. The fifth plan is a savings plan which provides for the grant of stock options to all Company employees provided they commit to make regular savings over a pre-defined period which can then be used to purchase common stock upon vesting of the options. The stock options have vesting periods ranging from 24 months to 6 years and in all cases stock options granted expire within 10 years of the date of grant. All grants are at the sole discretion of the Compensation Committee of the Board of Directors. Grants may be priced at market value or at a premium or discount. The aggregate number of shares of common stock reserved for issuance which can be granted under the plans is 2,640,000.

The fair value of these options is calculated using the Black-Scholes model. In some cases certain performance related options are dependent upon external factors such as the Company's share price. The fair value of these options is calculated using a Monte Carlo model.

The following assumptions were used to determine the fair value of options calculated using the Black-Scholes model:

	2011	2010
Dividend yield	0.2%	1.0%
Expected life	5 years	5 years
Volatility	78.3%	82.3%
Risk free interest rate	1.22%	1.36%

The following table summarizes the transactions of the Company's stock option plans for the three and six months ended June 30, 2011:

**Number of
Shares**