

Innophos Holdings, Inc.  
Form 10-Q  
November 14, 2007  
Table of Contents

---

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

---

**FORM 10-Q**

---

(Mark One)

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

For the quarterly period ended September 30, 2007

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 001-33124

---

**INNOPHOS HOLDINGS, INC.**

(Exact Name of Registrant as Specified in its Charter)

---

Delaware  
(State or Other Jurisdiction of

Incorporation or Organization)

259 Prospect Plains Road

20-1380758  
(I.R.S. Employer

Identification No.)

08512

Edgar Filing: Innophos Holdings, Inc. - Form 10-Q

**Cranbury, New Jersey**  
**(Address of Principal Executive Offices)** **(Zip Code)**  
**Registrant's Telephone Number, Including Area Code: (609) 495-2495**

---

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

As of November 1, 2007, the registrant had 20,866,891 shares of common stock outstanding

---

**Table of Contents**

**TABLE OF CONTENTS**

	<b>Page</b>
<b><u>PART I</u></b>	
Item 1. <u>Financial Statements</u>	3
Item 2. <u>Management's Discussion and Analysis of Results of Operations and Financial Condition</u>	26
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risks</u>	35
Item 4. <u>Controls and Procedures</u>	36
<b><u>PART II</u></b>	
Item 1. <u>Legal Proceedings</u>	37
Item 1A. <u>Risk Factors</u>	40
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	41
Item 3. <u>Defaults Upon Senior Securities</u>	41
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	41
Item 5. <u>Other Information</u>	41
Item 6. <u>Exhibits</u>	41
<u>Signatures</u>	42

**Table of Contents****PART I****ITEM 1. FINANCIAL STATEMENTS****INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES****Condensed Consolidated Balance Sheets (Unaudited)**

(In thousands, except per share amounts, share amounts or where otherwise noted)

	September 30, 2007	December 31, 2006
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 15,444	\$ 31,760
Accounts receivable - trade	59,560	56,316
Inventories	79,321	70,569
Other current assets	18,219	13,652
<b>Total current assets</b>	<b>172,544</b>	<b>172,297</b>
Property, plant and equipment, net	267,537	277,222
Goodwill	47,268	47,268
Intangibles and other assets, net	65,045	68,533
<b>Total assets</b>	<b>\$ 552,394</b>	<b>\$ 565,320</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 1,445	\$ 1,524
Accounts payable, trade and other	39,296	30,879
Other current liabilities	41,328	40,200
<b>Total current liabilities</b>	<b>82,069</b>	<b>72,603</b>
Long-term debt	387,055	398,276
Other long-term liabilities	31,405	33,729
<b>Total liabilities</b>	<b>500,529</b>	<b>504,608</b>
Commitments and contingencies (note 9)		
Stockholders' equity:		
Common stock, par value \$.001 per share; authorized 100,000,000; issued and outstanding 20,845,419 and 20,270,463 shares	21	20
Paid-in capital	100,845	109,796
Retained deficit	(46,893)	(45,288)
Other comprehensive loss	(2,108)	(3,816)
<b>Total stockholders' equity</b>	<b>51,865</b>	<b>60,712</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 552,394</b>	<b>\$ 565,320</b>

See notes to condensed consolidated financial statements



**Table of Contents****INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES****Condensed Consolidated Statement of Operations (Unaudited)**

(In thousands, except per share amounts, share amounts or where otherwise noted)

	Three months ended September 30,	Three months ended September 30,
	2007	2006
Net sales	\$ 146,451	\$ 140,619
Cost of goods sold	116,714	117,883
<b>Gross profit</b>	<b>29,737</b>	<b>22,736</b>
Operating expenses:		
Selling, general and administrative	11,284	10,748
Research & development expenses	479	478
<b>Total operating expenses</b>	<b>11,763</b>	<b>11,226</b>
Operating income	17,974	11,510
Interest expense, net	9,256	13,346
Foreign exchange losses (gains)	41	(453)
Other (income) expense, net	(158)	294
Income (loss) before income taxes	8,835	(1,677)
Provision for income taxes	3,204	3,282
Net income (loss)	\$ 5,631	(4,959)
Preference distribution to Class L shareholders		487
Net loss attributable to Class A shareholders		\$ (5,446)
Per share data (see Note 1):		
Income (loss) per share:		
Basic		
Common	\$ 0.27	
Class L		\$ 0.18
Class A		\$ (0.57)
Diluted		
Common	\$ 0.26	
Class L		\$ 0.18
Class A		\$ (0.57)
Weighted average shares outstanding:		
Basic		
Common	20,723,650	
Class L		2,677,158
Class A		9,593,305
Diluted		
Common	21,370,809	
Class L		2,677,158

Edgar Filing: Innophos Holdings, Inc. - Form 10-Q

Class A			9,593,305
Dividends paid per share of common stock	\$	0.17	
Dividends declared per share of common stock	\$	0.17	

See notes to condensed consolidated financial statements

**Table of Contents****INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES****Condensed Consolidated Statement of Operations (Unaudited)**

(In thousands, except per share amounts, share amounts or where otherwise noted)

	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Net sales	\$ 435,043	\$ 410,235
Cost of goods sold	352,381	342,246
<b>Gross profit</b>	<b>82,662</b>	<b>67,989</b>
Operating expenses:		
Selling, general and administrative	39,781	31,928
Research & development expenses	1,565	1,244
<b>Total operating expenses</b>	<b>41,346</b>	<b>33,172</b>
Operating income	41,316	34,817
Interest expense, net	32,614	39,607
Foreign exchange losses (gains)	16	(657)
Other (income) expense, net	(256)	276
Income (loss) before income taxes	8,942	(4,409)
Provision for income taxes	10,547	3,678
Net loss	\$ (1,605)	(8,087)
Preference distribution to Class L shareholders		1,426
Net loss attributable to Class A shareholders		\$ (9,513)
Per share data (see Note 1):		
Income (loss) per share:		
Basic		
Common	\$ (0.08)	
Class L		\$ 0.53
Class A		\$ (0.99)
Diluted		
Common	\$ (0.08)	
Class L		\$ 0.53
Class A		\$ (0.99)
Weighted average shares outstanding:		
Basic		
Common	20,645,900	
Class L		2,677,567
Class A		9,594,768
Diluted		
Common	20,645,900	
Class L		2,677,567
Class A		9,594,768



## Edgar Filing: Innophos Holdings, Inc. - Form 10-Q

Dividends paid per share of common stock	\$	0.45
Dividends declared per share of common stock	\$	0.51

See notes to condensed consolidated financial statements

**Table of Contents****INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Cash Flows (Unaudited)**

(Dollars in thousands)

	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Cash flows from operating activities		
Net loss	\$ (1,605)	\$ (8,087)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	34,477	35,103
Amortization of deferred financing charges	3,910	3,007
Deferred income tax benefit	(1,517)	(2,615)
Deferred profit sharing	488	(222)
Stock-based compensation-restricted stock	694	
Non-cash interest for floating rate senior notes		13,179
Changes in assets and liabilities:		
Increase in accounts receivable	(3,244)	(5,252)
(Increase)/decrease in inventories	(8,752)	8,991
(Increase)/decrease in other current assets	(4,567)	2,130
Increase/(decrease) in accounts payable	8,417	(2,749)
Increase/(decrease) in other current liabilities	1,128	(13,013)
Changes in other long-term assets and liabilities	958	2,659
<b>Net cash provided from operating activities</b>	<b>30,387</b>	<b>33,131</b>
Cash flows from investing activities:		
Capital expenditures	(23,012)	(9,626)
Purchase of assets	(2,120)	
<b>Net cash used for investing activities</b>	<b>(25,132)</b>	<b>(9,626)</b>
Cash flows from financing activities:		
Proceeds from exercise of stock options	896	
Proceeds from issuance of senior unsecured notes	66,000	
Principal repayment of floating rate senior notes	(60,800)	
Principal payments of term-loan	(16,500)	(19,500)
Deferred financing costs	(1,815)	
Dividends paid	(9,352)	
<b>Net cash used for financing activities</b>	<b>(21,571)</b>	<b>(19,500)</b>
Net change in cash	(16,316)	4,005
Cash and cash equivalents at beginning of period	31,760	61,403
Cash and cash equivalents at end of period	\$ 15,444	\$ 65,408

See notes to condensed consolidated financial statements

**Table of Contents****INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES****Statements of Stockholders' Equity and Other Comprehensive Income (Loss) (Unaudited)**

(Dollars and shares in thousands)

	Number of Common Shares	Stock \$0.001 Par Value	Retained Deficit	Paid-in Capital	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders Equity
Balance, December 31, 2006	20,270	\$ 20	\$ (45,288)	\$ 109,796	\$ (3,816)	\$ 60,712
Net loss			(1,605)			(1,605)
Liability adjustments for our pension and post-retirement plan amendments, (net)					1,708	1,708
Net loss and other comprehensive income, net of tax						103
Proceeds from issuance of stock	575	1		895		896
Adjustment to initial public offering expenses				125		125
Stock compensation				694		694
Dividends declared				(10,665)		(10,665)
Balance, September 30, 2007	20,845	\$ 21	\$ (46,893)	\$ 100,845	\$ (2,108)	\$ 51,865

See notes to condensed consolidated financial statements

---

**Table of Contents**

**INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements (Unaudited)**

**(Dollars in thousands, except where noted)**

**1. Basis of Statement Presentation:**

**Summary of Significant Accounting Policies**

Innophos Holdings, Inc. is the parent of Innophos Investments Holdings, Inc., which owns 100% of Innophos, Inc; all are incorporated under the laws of the State of Delaware. On June 10, 2004, Innophos entered into a definitive purchase and sale agreement with affiliates of Rhodia to acquire certain assets and equity interests related to Rhodia's North American specialty phosphates business, referred to herein as the Phosphates Business. The acquisition of the Phosphates Business from Rhodia, referred to herein as the Acquisition, was consummated on August 13, 2004, at a closing purchase price of \$473.4 million. A working capital dispute relating to the August 13, 2004 closing balance sheet was settled in June 2007 with no further adjustment to the closing purchase price.

***Interim Financial Statements***

The accompanying unaudited condensed consolidated financial statements of Innophos Holdings, Inc. and Subsidiaries ( Company ) have been prepared in accordance with generally accepted accounting principles for interim financial reporting and do not include all disclosures required by generally accepted accounting principles for annual financial reporting, and should be read in conjunction with the audited consolidated and combined financial statements of the Company at December 31, 2006 and for the three years then ended.

The accompanying unaudited condensed consolidated financial statements of the Company reflect all adjustments, consisting only of normal recurring accruals, which management considers necessary for a fair statement of the results of operations for the interim periods and is subject to year end adjustments. The results of operations for the interim periods are not necessarily indicative of the results for the full year. The December 31, 2006 condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

***Initial Public Offering***

In November 2006, the Company completed an initial public offering ( IPO ) in which the Company sold 8,000,000 issued shares of Common Stock at the price of \$12.00 per share (before underwriting discounts and commissions). Prior to that offering, our capital structure was revised to convert two previously outstanding classes of common stock into our current single class Common Stock and was also modified by a reverse stock split affecting the then outstanding shares. Prior to the offering, there was no established trading market for our equity securities. The shares and earnings per share calculations have been retro-actively adjusted for all periods presented to reflect the reverse stock split.

***Stock Options***

Effective January 1, 2006, we adopted SFAS No. 123(R), Share-Based Payment. The Company was required to use the prospective transition method, therefore, prior period results were not restated. Prior to the adoption of SFAS 123(R), stock-based compensation expense related to stock options was not recognized in the results of operations if the exercise price was at least equal to the market value of the common stock on the grant date, in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees.

In connection with its initial public offering, the Company effected a recapitalization, through an amendment to our certificate of incorporation to declare a reverse stock split to reduce the number of Class A Common Stock and Class L Common Stock and reclassify the Class A Common Stock and the Class L Common Stock to a single class of Common Stock. As a result of the recapitalization, the historical stock option strips originally granted on April 1, 2005 were converted, as required under the terms of the original plan, to 1,116,944 stock options of the new class of Common Stock currently outstanding with the same vesting schedule. The exercise price is \$2.55 per option. The Company accounts for the stock option plan using the intrinsic value method in accordance with APB Opinion No. 25, Accounting for Stock Issued to Employees. The valuation method that the Company used under SFAS No. 123 dictated the transition method that the Company used under SFAS No. 123(R). As permitted under SFAS No. 123, the Company valued its stock options at the grant date using the minimum value method. Because the

## Edgar Filing: Innophos Holdings, Inc. - Form 10-Q

Company used the minimum value method under SFAS No. 123, we adopted SFAS No. 123(R) using the prospective transition method and therefore, prior periods were not restated and we have not recognized in the financial statements the remaining compensation cost calculated under the minimum value method. The determination of the fair value of the underlying common stock used to determine the exercise prices for the stock options granted on April 1, 2005 was performed contemporaneously with the issuance of these common stock option grants.

**Table of Contents****INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (Unaudited)****(Dollars in thousands, except where noted)**

Under the prospective transition method, only new awards (or awards modified, repurchased, or cancelled after the effective date) are accounted for under the provisions of SFAS No. 123(R). The Company will continue to account for the outstanding awards under APB 25 until they are settled or modified. Upon the adoption of SFAS No. 123(R) and through December 31, 2006 the Company did not modify any existing stock option awards that were granted under SFAS No. 123. In the third quarter of 2007 the Company made a modification to its existing stock option awards granted under APB 25, however the modification did not result in any incremental fair value adjustment and, thus, no compensation expense.

On May 24, 2007 the two independent directors of the Company were granted a total of 4,424 stock options which were fully vested with an exercise price of \$15.37. These options are accounted for under the provisions of SFAS No. 123(R). The compensation expense to these immediate vesting options was approximately \$18.

A summary of stock option activity during the nine months ended September 30, 2007, is presented below:

	Number of Options	Weighted Average Exercise Price
Outstanding at January 1, 2007	1,116,944	\$ 2.55
Granted	4,424	15.37
Forfeited	(65,649)	2.55
Exercised	(401,388)	2.55
Outstanding at September 30, 2007	654,331	\$ 2.64
Exercisable at September 30, 2007	362,329	\$ 2.71

***Restricted Stock***

On November 2, 2006, the Company's Board of Directors awarded 173,568 shares of restricted stock with a fair value of \$2.1 million to directors and certain executive officers. These awards accounted for under SFAS 123(R) are classified as equity awards and vest over nine quarters in equal installments of 11.11% per quarter beginning January 1, 2007. Declared dividends are paid on the restricted stock which has already been converted into an equivalent number of shares of common stock. The related compensation expense is based on the date of grant share price of \$12. The compensation expense is amortized on a straight-line basis over the requisite service period. The Company recognized approximately \$0.3 million and \$0.7 million of compensation expense in the three and nine months ended September 30, 2007 and will record approximately \$0.2 million of compensation expense during the remainder of 2007. As of September 30, 2007, there are 115,713 unvested shares and 57,855 shares which have vested.

***Earnings (Loss) Per Share***

The Company accounts for earnings per share in accordance with SFAS No. 128, Earnings Per Share and related guidance, which requires two calculations of earnings per share (EPS) to be disclosed: basic EPS and diluted EPS. The Company presented EPS information in the periods prior to the IPO using the two-class method as the Class L shares participated in distributions together with the Class A shares after the payment of the Class L preferential rights. The Class L common stock had preferential rights over the Class A common stock whereby the Class L common stock was entitled to receive their original investment plus a 10% yield compounded quarterly on their original investment before the Class A common stock participated in company distributions. After payment of all preferential rights attributable to the Class L common stock, each share of the Class A common stock and Class L common stock participated ratably in all distributions by the Company to the shareholders.

of its capital stock.

**Table of Contents****INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (Unaudited)****(Dollars in thousands, except where noted)**

The numerator in calculating Class L basic and diluted EPS is equal to the Class L preference amount of \$487 and \$1,426 for the three and nine months ended September 30, 2006. The Company did not allocate remaining losses in accordance with EITF 03-6, Participating Securities and the Two-Class Method under SFAS No. 128, because of Class L preferential rights over Class A. The numerator in calculating Class A basic and dilutive EPS is an amount equal to consolidated net (loss) increased for the aforementioned Class L preference amount.

The following is the allocation of earnings (loss) used in the calculation of earnings per share:

	<b>Three Months Ended September 30, 2007</b>	<b>Three Months Ended September 30, 2006</b>	<b>Nine Months Ended September 30, 2007</b>	<b>Nine Months Ended September 30, 2006</b>
Net income (loss) available to common shareholders	\$ 5,631	\$ (4,959)	\$ (1,605)	\$ (8,087)
Allocation of net income (loss) to common shareholders:				
Class A		\$ (5,446)		\$ (9,513)
Class L		\$ 487		\$ 1,426



**Table of Contents****INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (Unaudited)****(Dollars in thousands, except where noted)**

As a result of the Company's net loss, the computation of diluted weighted average shares excludes options to purchase shares of common stock for the three months ended September 30, 2006 and the nine months ended September 30, 2006 and 2007 as inclusion of such shares would be anti-dilutive. For the three months ended September 30, 2007 approximately 122,884 common shares related to options outstanding under the Company's Stock Incentive Plans, were excluded from the computation of diluted earnings per share, as the effect would have been anti-dilutive. The following is a reconciliation of the basic number of common shares outstanding to the diluted number of common and common stock equivalent shares outstanding:

	Three Months Ended September 30,	Three Months Ended September 30,	Nine Months Ended September 30,	Nine Months Ended September 30,
	2007	2006	2007	2006
Weighted average number of common and potential common shares outstanding:				
Basic number of single class common shares outstanding	20,723,650		20,645,900	
Dilutive effect of stock equivalents	647,159			
Diluted number of weighted average single class common shares outstanding	21,370,809		20,645,900	
Weighted average number of common and potential common Class A shares outstanding:				
Basic number of common Class A shares outstanding		9,593,305		9,594,768
Dilutive effect of stock option grants				
Diluted number of common and potential common Class A shares outstanding		9,593,305		9,594,768
Weighted average number of common and potential common Class L shares outstanding:				
Basic number of common Class L shares outstanding		2,677,158		2,677,567
Dilutive effect of stock option grants				
		2,677,158		2,677,567

Edgar Filing: Innophos Holdings, Inc. - Form 10-Q

Diluted number of common and potential common Class L shares outstanding

	Three Months Ended September 30,	Three Months Ended September 30,	Nine Months Ended September 30,	Nine Months Ended September 30,
	2007	2006	2007	2006
Earnings (loss) per common share:				
Income (loss) per common share - Basic	\$ 0.27		\$ (0.08)	
Income (loss) per common share - Diluted	\$ 0.26		\$ (0.08)	
Class A - Basic		\$ (0.57)		\$ (0.99)
Class A - Diluted		\$ (0.57)		\$ (0.99)
Class L - Basic		\$ 0.18		\$ 0.53
Class L - Diluted		\$ 0.18		\$ 0.53

---

**Table of Contents**

**INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements (Unaudited)**

**(Dollars in thousands, except where noted)**

***Dividends***

Dividends paid per share for the three months ended September 30, 2007 included a cash dividend of \$0.17 per share (\$3,544 in the aggregate) declared on June 29, 2007 and paid on July 31, 2007 to holders of record on July 13, 2007.

Dividends paid per share for the nine months ended September 30, 2007 included a cash dividend of \$0.11 per share (\$2,275 in the aggregate) declared on December 18, 2006 and paid on January 30, 2007 to holders of record on January 15, 2007, a cash dividend of \$0.17 per share (\$3,533 in the aggregate) declared on March 29, 2007 and paid on April 30, 2007 to holders of record on April 13, 2007 and a cash dividend of \$0.17 per share (\$3,544 in the aggregate) declared on June 29, 2007 and paid on July 31, 2007 to holders of record on July 13, 2007.

Dividends declared per share for the three months ended September 30, 2007 included a cash dividend of \$0.17 per share (\$3,547 in the aggregate) declared on September 28, 2007 and paid on October 31, 2007 to holders of record on October 12, 2007.

Dividends declared per share for the nine months ended September 30, 2007 included a cash dividend of \$0.17 per share (\$3,533 in the aggregate) declared on March 29, 2007 and paid on April 30, 2007 to holders of record on April 13, 2007, a cash dividend of \$0.17 per share (\$3,544 in the aggregate) declared on June 29, 2007 and paid on July 31, 2007 to holders of record on July 13, 2007 and a cash dividend of \$0.17 per share (\$3,547 in the aggregate) declared on September 28, 2007 and paid on October 31, 2007 to holders of record on October 12, 2007.

***Income Taxes***

Effective January 1, 2007, the Company adopted FASB Interpretation No. 48 ( FIN 48 ), Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109. This interpretation prescribes a model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that it has taken or expects to take on a tax return. The Company does not have any material uncertain income tax positions therefore the adoption of FIN 48 had no effect on its consolidated financial position or results of operations. If any material uncertain tax positions did arise, the Companies policy is to accrue associated penalties in selling, general and administrative expenses and to accrue interest as part of net interest expense. All of the tax years since the Company s inception in 2004 are subject to examination by the Canadian, Mexican and United States revenue authorities. The Company does not anticipate that total unrecognized tax benefits will significantly change prior to September 30, 2008.

***Employee Termination Benefits***

The Company does not have a written severance plan for its Mexican operations, nor does it offer similar termination benefits to affected employees in all Mexican restructuring initiatives however, Mexican law requires payment of certain minimum termination benefits. Accordingly, in situations where minimum statutory termination benefits must be paid to the affected employees, the Company records employee severance costs associated with these restructuring activities in accordance with SFAS No. 112, Employer s Accounting for Postemployment Benefits. Charges associated with these activities are recorded when the payment of benefits is probable and can be reasonably estimated. In all other situations where the Company pays out termination benefits in Mexico, including supplemental benefits paid in excess of statutory minimum amounts and benefits offered to affected employees based on management s discretion, the Company records these termination costs in accordance with SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities.

The timing of the recognition of charges for employee severance costs depends on whether the affected employees are required to render service beyond their legal notification period in order to receive the benefits. If affected employees are required to render service beyond their legal notification period, charges are recognized ratably over the future service period. Otherwise, charges are recognized when a specific plan has been confirmed by management and required employee communication requirements have been met.

***Recently Issued Accounting Standards***

## Edgar Filing: Innophos Holdings, Inc. - Form 10-Q

The Financial Accounting Standards Board (FASB) recently issued SFAS No. 157 and SFAS No. 159, and ratified EITF 06-11 all of which are summarized below.

**Table of Contents****INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (Unaudited)****(Dollars in thousands, except where noted)**

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, which for the Company is January 1, 2008. The Company is currently assessing the impact this statement may have on its consolidated financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is expected to expand the use of fair value measurement, which is consistent with the Board's long-term measurement objectives for accounting for financial instruments. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007, which for the Company is January 1, 2008. The Company is currently assessing the impact this statement will have on its consolidated financial position or results of operations.

In June 2007, the FASB ratified Emerging Issues Task Force (EITF) Issue No. 06-11, Accounting for the Income Tax Benefits of Dividends on Share-Based Payment Awards (EITF 06-11). EITF 06-11 provides that tax benefits associated with dividends on share-based payment awards be recorded as a component of additional paid-in capital. EITF 06-11 is effective, on a prospective basis, for fiscal years beginning after December 15, 2007. The Company does not anticipate the adoption of EITF 06-11 will have a material effect on its consolidated financial position or results of operations.

**2. Inventories:**

Inventories consist of the following:

	September 30, 2007	December 31, 2006
Finished products	\$ 51,116	\$ 46,789
Raw materials	19,973	17,129
Spare parts	8,232	6,651
	\$ 79,321	\$ 70,569

Inventory reserves as of September 30, 2007 and December 31, 2006 were \$9,789 and \$7,471, respectively.

**3. Other Current Assets:**

Other current assets consist of the following:

	September 30, 2007	December 31, 2006
Creditable taxes (value added taxes)	\$ 6,774	\$ 243
Prepaid income taxes	162	2,718
Prepays	11,190	10,585
Other	93	106

\$ 18,219 \$ 13,652

**Table of Contents****INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (Unaudited)****(Dollars in thousands, except where noted)****4. Intangibles and Other Assets, net:**

Intangibles and other assets consist of the following:

	Useful life (years)	September 30, 2007	December 31, 2006
Developed technology and application patents, net of accumulated amortization of \$5,917 for 2007 and \$4,500 for 2006	10-20	30,683	32,100
Customer relationships, net of accumulated amortization of \$1,827 for 2007 and \$1,240 for 2006	5-15	9,503	8,861
Tradenames and license agreements, net of accumulated amortization of \$2,022 for 2007 and \$1,536 for 2006	5-20	7,338	7,764
Capitalized software, net of accumulated amortization of \$1,658 for 2007 and \$1,210 for 2006	3-5	1,857	2,089
Non-compete agreement, net of accumulated amortization of \$32 for 2007 and \$714 for 2006	5	599	
<b>Total Intangibles</b>		<b>\$ 49,980</b>	<b>\$ 50,814</b>
Deferred financing costs, net of accumulated amortization of \$ 15,287 for 2007 and \$11,377 for 2006		\$ 12,460	\$ 14,555
Deferred income taxes		2,082	2,779
Other assets		523	385
<b>Total other assets</b>		<b>\$ 15,065</b>	<b>\$ 17,719</b>
		<b>\$ 65,045</b>	<b>\$ 68,533</b>

**5. Other Current Liabilities:**

Other current liabilities consist of the following:

	September 30, 2007	December 31, 2006
Payroll related	\$ 8,014	\$ 8,902
Interest	5,273	6,641
Interest, floating rate senior notes		1,039
Freight and rebates	6,673	4,668
Benefits and pensions	5,426	5,087
Taxes	7,567	4,418
Legal	430	307
Dividends payable	3,544	2,230
Non-trade payable		1,310

Edgar Filing: Innophos Holdings, Inc. - Form 10-Q

Other	4,401	5,598
	<b>\$ 41,328</b>	<b>\$ 40,200</b>



**Table of Contents****INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (Unaudited)****(Dollars in thousands, except where noted)****6. Debt and Interest:**

Short-term borrowings and long-term debt consist of the following:

	September 30, 2007	December 31, 2006
Senior credit facility	\$ 132,500	\$ 149,000
Senior subordinated notes	190,000	190,000
Senior unsecured notes	66,000	
Floating rate senior notes		60,800
	\$ 388,500	\$ 399,800
Less current portion	1,445	1,524
	\$ 387,055	\$ 398,276

The senior credit facility provides for interest based upon a fixed spread above the banks' prime lending rate or the LIBOR lending rate. The borrowings under the term loan portion of the senior credit facility bear interest at September 30, 2007 at 7.4%. The amount outstanding on the term loan facility as of September 30, 2007 was \$132.5 million.

There was no amount outstanding on the revolving portion of the senior credit facility at September 30, 2007. The Company has issued approximately \$4.1 million of letters of credit under the sub-facility as of September 30, 2007.

The Company is required within five days from the issuance of the 2007 annual financial statements to make a prepayment of the term loan in an amount equal to 75% of the excess cash flow (as defined in our credit agreement) in addition to the quarterly principal payments. The Company made principal payments of \$8.0 million, \$0.5 million and \$8.0 million on March 30, 2007, June 29, 2007 and September 28, 2007, respectively. \$15.4 million of these payments were considered prepayments resulted in the accelerated write off of deferred financing charges in the first and third quarters of 2007 of approximately \$0.2 million and \$0.1 million, respectively. The amount recorded as current portion of long term debt is the required principal payments for the term loan.

In April 2006, Innophos, Inc. executed two rate cap derivative instruments each with a notional amount of \$100 million. The terms of the first instrument is a rate cap of 7%, a referenced index based on a three month LIBOR and an expiration date of this instrument is April 2009. The fair value of this rate cap derivative instrument is \$2 as of September 30, 2007. The second rate cap instrument is a rate cap of 7%, a referenced index based on a one month LIBOR and an expiration date of this instrument is April 2008. The fair value of this rate cap derivative instrument is \$0 as of September 30, 2007.

On April 16, 2007, the Company issued and sold to qualified institutional buyers relying on Rule 144A under the Securities Act of 1933, as amended, a total of \$66.0 million in principal amount of its Senior Unsecured Notes due April 15, 2012. The Senior Unsecured Notes were sold pursuant to a Purchase Agreement dated April 11, 2007, or the Purchase Agreement, between Innophos and Credit Suisse Securities (USA) LLC, or the Initial Purchaser, and issued under the provisions of an Indenture dated as of April 16, 2007, or the Notes Indenture, between Innophos and U.S. Bank National Association, as trustee, or the Trustee.

The Senior Unsecured notes accrue interest from the issue date at a rate of 9 1/2% per annum, payable semi-annually in arrears on April 15 and October 15 of each year, commencing October 15, 2007. Innophos Holdings, Inc. is dependent on the earnings and distributions from Innophos, Inc. and subsidiaries to fund this obligation.

## Edgar Filing: Innophos Holdings, Inc. - Form 10-Q

The proceeds from the sale of the Senior Unsecured notes, together with \$0.5 million of cash on hand, were applied to pay expenses and redeem the entire remaining outstanding amount of Floating Rate Senior Notes due 2015 (including the payment of principal, premium and accrued interest) issued by our wholly-owned subsidiary, Innophos Investments Holdings, Inc. Fees and expenses related to the Senior Unsecured notes offering were approximately \$1.8 million. This amount was recorded as deferred financing costs and will be amortized over the life of the Senior Unsecured notes using the effective interest method.

**Table of Contents****INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (Unaudited)****(Dollars in thousands, except where noted)**

On April 16, 2007, Innophos Investments Holdings, Inc. called for the redemption of the remaining \$60.8 million in principal of its Floating Rate Senior Notes due 2015 effective May 17, 2007. The redemption of the Floating Rate Senior Notes resulted in an approximate \$1.5 million charge to earnings for the acceleration of deferred financing charges and a \$1.8 million charge to earnings for the call premium. The \$3.3 million charge was recorded in interest expense for the three months ended June 30, 2007.

In connection with the redemption of the Floating Rate Senior Notes, the Company and its lenders amended the senior credit facility to permit the Company to, among other things, (i) incur up to \$120.0 million in unsecured indebtedness of Innophos Holdings, Inc. or Innophos Investments Holdings, Inc., including the notes offered in the refinancing and any other future debt issuances, (ii) redeem the entire outstanding amount of the Company's Floating Rate Senior Notes, as well as any premiums and penalties resulting from such redemption, (iii) service the interest on the notes offered hereby through Innophos, Inc. making payments of such amounts to Innophos Investments Holdings, Inc. and Innophos Holdings, Inc. and (iv) to permit Innophos, Inc. to make payments to Innophos Investments Holdings, Inc. and Innophos Holdings, Inc. for the payment by Innophos Holdings, Inc. of dividends on its common stock of \$0.75 per share (adjusted pro-rata for any future stock splits) up to a maximum of \$17.5 million per year.

As of September 30, 2007, the Company was in full compliance with all debt covenant requirements.

Total interest cash payments by the Company for all indebtedness for the nine months ended September 30, 2007 and September 30, 2006 was \$32,633 and \$29,615, respectively.

**Interest expense, net consists of the following:**

	Three months ended		Nine months ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
Interest expense	\$ 9,007	13,136	\$ 30,225	\$ 38,444
Deferred financing cost	838	808	3,910	3,007
Interest income	(214)	(598)	(1,146)	(1,844)
Less: amount capitalized for capital projects	(375)		(375)	
<b>Total interest expense, net</b>	<b>\$ 9,256</b>	<b>\$ 13,346</b>	<b>\$ 32,614</b>	<b>\$ 39,607</b>

**7. Other Long-term liabilities:**

Other long-term liabilities consist of the following:

	September 30, 2007	December 31, 2006
Environmental liabilities	\$ 1,100	1,100
Profit sharing liabilities	1,615	1,127
Deferred income taxes	19,297	21,511
Pension and post retirement liabilities (US and Canada only)	4,461	6,035
Other Liabilities	4,932	3,956

\$ 31,405 \$ 33,729

**Table of Contents****INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (Unaudited)****(Dollars in thousands, except where noted)****8. Income Taxes:**

A reconciliation of the U.S statutory rate and income tax follows:

	Nine months ended September 30, 2007		Nine months ended September 30, 2006	
	Income /(loss) before Income taxes	Income tax expense/ (benefit)	Income /(loss) before Income taxes	Income tax expense/ (benefit)
US	\$ (23,646)	210	\$ (18,523)	\$ 210
Canada/Mexico	32,588	10,337	14,114	3,468
<b>Total</b>	<b>\$ 8,942</b>	<b>10,547</b>	<b>(4,409)</b>	<b>3,678</b>
Current income taxes		12,064		\$ 6,293
Deferred income taxes		(1,517)		(2,615)
<b>Total</b>		<b>\$ 10,547</b>		<b>\$ 3,678</b>

  

	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Income tax expense (benefit) at the U.S. statutory rate	\$ 3,130	\$ (1,543)
State income taxes (net of federal tax effect)	64	59
Foreign tax rate differential	(827)	(1,383)
Change in valuation allowance	8,150	5,699
Non-deductible permanent items	287	57
Other	(257)	789
<b>Provision for (benefit from) income taxes</b>	<b>\$ 10,547</b>	<b>\$ 3,678</b>

Income taxes paid were \$6,338 and \$8,206 for the nine months ended September 30, 2007 and September 30, 2006, respectively.

Pursuant to Section 382 of the Internal Revenue Code, as amended, the annual utilization of the Company's U.S. net operating loss carryforwards may be limited, if the Company experiences a change in ownership of more than 50% within a three year period. The Company believes it has experienced an ownership change on April 2, 2007 that limits the utilization of net operating losses to offset future taxable income. The Company maintains a full valuation allowance for its U.S. net deferred tax assets and net operating loss carryforwards as realization of the U.S. net deferred tax asset is not reasonably assured. Therefore, as a result of the full valuation allowance for the U.S. net deferred tax assets, the Company believes that the ownership change pursuant to Section 382 will not have a financial statement impact.

**9. Commitments and Contingencies**

***Environmental***

The Company's operations are subject to extensive and changing federal and state environmental laws and regulations. The Company's manufacturing sites have an extended history of industrial use, and soil and groundwater contamination have or may have occurred in the past and might occur or be discovered in the future.

Environmental efforts are difficult to assess for numerous reasons, including the discovery of new remedial sites, discovery of new information and scarcity of reliable information pertaining to certain sites, improvements in technology, changes in environmental laws and regulations, numerous possible remedial techniques and solutions, difficulty in assessing the involvement of and the financial capability of other potentially responsible parties and the extended time periods over which remediation occurs. Other than the items listed below, the Company is not aware of material environmental liabilities which are reasonably probable and estimable. As the Company's environmental contingencies are more clearly determined, it is reasonably possible that amounts accrued may be necessary. However, management does not believe, based on current information, that environmental remediation requirements will have a material impact on the Company's results of operations, financial position or cash flows.

**Table of Contents**

**INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements (Unaudited)**

**(Dollars in thousands, except where noted)**

Under the Agreement of Purchase and Sale between the Company and several affiliates within the Rhodia S.A. Group according to which the Company acquired the Phosphates Business and related assets, the Company has certain rights of indemnification from the sellers for breach of representations, warranties, covenants and other agreements. With respect to undisclosed environmental matters, such indemnification rights are subject to certain substantial limitations and exclusions.

Future environmental spending is probable at our site in Nashville, Tennessee, the eastern portion of which had been used historically as a landfill, and a western parcel previously acquired from a third party, which reportedly had housed, but no longer does, a fertilizer and pesticide manufacturing facility. We have an estimated liability with a range of \$0.9-\$1.2 million. The remedial action plan has yet to be finalized, and as such, the Company has recorded a liability, which represents the Company's best estimate, of \$1.1 million as of September 30, 2007.

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 inspection matters concerning health and safety and environmental matters. The EPA has indicated that compliance at facilities in the phosphate industry is a high enforcement priority. In 2004, the EPA conducted a multi-media inspection and in 2005 followed up on issues regarding compliance with air, water and hazardous waste regulations at our Geismar, Louisiana plant. In August 2006, we received a report in connection with that inspection identifying certain areas of concern raised by the EPA under its hazardous waste regulations. We believe that we operate our Geismar facility in material compliance with all applicable environmental laws and regulations, including those of the EPA, and have responded to those concerns by explaining how in our judgment our operations meet applicable regulations or exclusions. In March 2007, we received a further EPA request for additional information concerning hazardous waste, air pollution controls and materials handling at the Geismar plant. We have provided the requested information in a timely manner. Nevertheless, we could incur significant expenses pursuant to new laws, regulations or governmental policies, or new interpretations of existing laws, regulations or governmental policies, or as a result of the development or discovery of new facts, events, circumstances or conditions at any of our facilities.

***Litigation***

***Mexican CNA Water Tax Claims***

On November 1, 2004, Innophos Fosfatados received notice from the CNA of claims relating to extraction and use of fresh water, or Fresh Water Claims, at our Coatzacoalcos, Veracruz, Mexico plant from 1998-2002. As initially assessed by the CNA, the claims total approximately \$31.0 million at current exchange rates as of October 25, 2007, including basic charges of \$10.7 million and \$20.3 million for interest, inflation and penalties.

Management believes that Innophos Fosfatados has valid bases for challenging the Fresh Water claims, and we are vigorously defending that matter as explained herein.

***CNA Administrative Proceedings; Appeals.*** On January 17, 2005, Innophos Fosfatados filed documents with the CNA seeking revocation and dismissal of all Fresh Water Claims made by that agency. On August 29, 2005, the CNA rejected the substantive challenges as to the Fresh Water Claims (although the CNA agreed that certain corrections were required as to its surcharge calculations), confirming the original claims. On November 3, 2005, Innophos Fosfatados filed an appeal with the Mexican Federal Court of Fiscal and Administrative Justice. Our appeal remains pending, and it is not known when it will be decided by the court.

***Rhodia Indemnification.*** Under the terms of the Rhodia Agreement according to which our business was purchased, we believe we are entitled to be indemnified fully against a number of contingencies, including claims for Taxes (as defined in the Rhodia Agreement) such as those asserted by the CNA, as well as any additional duties, taxes and charges which may be assessed by the CNA for periods after 2002. Rhodia has acknowledged its responsibility for the Fresh Water Claims, but under a different indemnification obligation, asserting that the applicable indemnification is for breach of representations and warranties, which would subject the liabilities relating to the CNA claims to a deductible amount of \$15.9 million and a limit of \$79.5 million above that. Nevertheless, Rhodia has assumed control of the defense of the CNA claims.

## Edgar Filing: Innophos Holdings, Inc. - Form 10-Q

On December 16, 2004, we sued Rhodia in New York State Supreme Court (New York County) seeking a determination that we are entitled to full indemnification under the Rhodia Agreement. On June 13, 2005, the court granted us summary judgment, declaring that the CNA claims were Taxes under the Rhodia Agreement and that Rhodia was obligated to provide any necessary security to guarantee the claims to the Mexican government. Rhodia appealed the decision



---

**Table of Contents**

**INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements (Unaudited)**

**(Dollars in thousands, except where noted)**

to the Appellate Division, First Department, which affirmed the lower court's rulings in our favor on March 22, 2007. Rhodia then filed for leave to appeal to New York's highest court, the Court of Appeals, on the issue of the CNA claims as Taxes. On May 29, 2007, Rhodia's motion was granted. Briefing of the Rhodia appeal has been completed, but argument before the court likely will not be heard until 2008. Rhodia did not seek an appeal on the issue of its responsibility for security.

*Further Proceedings.* A final determination of the CNA Fresh Water matter may require appeals to the Mexican Supreme Court and remands to the CNA or to lower courts, a process that might continue for several years. In the event that the appeals were to be decided against us, we could be required to pay a judgment for the entire amount claimed.

If the CNA Fresh Water Claims were sustained for the period 1998-2002, it is possible that CNA would seek to claim similar higher duties, fees and other charges for fresh water extraction and usage from 2003 on into the future. Management estimates that such charges would be approximately \$8.7 million of additional basic charges to date, excluding interest, inflation, and penalties, and, under current operating conditions, approximately \$1.7 million of additional basic charges per year. We believe Rhodia would be responsible to indemnify us fully for those additional Taxes arising on or before the August 2004 closing, and for post-closing losses caused by breaches of covenants, which we have claimed.

Based upon advice of counsel and our review of the CNA Fresh Water Claims, the facts and applicable law, we have determined that liability is reasonably possible, but is neither probable nor reasonably estimable. Accordingly, we have not established a liability on the balance sheet as of September 30, 2007. As additional information is gained, we will reassess the potential liability and establish the amount of any loss reserve as appropriate. The ultimate liability amount could be material to our results of operations and financial condition. Furthermore, Rhodia has a significant amount of debt, a non-investment grade credit rating and has reported losses in recent fiscal years. As a result, we cannot be sure we will ultimately collect any amounts due from Rhodia under our Rhodia Agreement indemnification rights.

A series of claims by CNA concerning salt water extraction and use for 1998 and 1999 totaling approximately \$107 million (including interest, inflation and penalties), was nullified in a unanimous order of the Mexican Court of Fiscal and Administrative Justice, determined to be final and unappealable as of July 10, 2007.

*Mexican Water Recycling System PAMCAR Agreement*

Innophos Fosfatados is the successor to the PAMCAR Agreement which required specified improvements at the Coatzacoalcos plant to be completed by December 31, 2004. Under the terms of the PAMCAR Agreement and subject to its compliance, the CNA temporarily exempted Innophos Fosfatados from the payment of certain waste water discharge duties, taxes and related charges that normally would have been payable. On January 10, 2005, after bringing on line newly installed water recycling equipment, Innophos Fosfatados notified the CNA of its position that it complied with the applicable requirements of the PAMCAR Agreement as of December 31, 2004.

Innophos Fosfatados' waste water discharges had been the subject of an earlier study by the National University of Mexico, which concluded in October 2004 that the discharges did not adversely affect the receiving water bodies or the environment. In addition to a previous request by Innophos Fosfatados to update the relevant waste water discharge permit with new operating information, in October 2004, Innophos Fosfatados filed a petition with the CNA to reflect the results of the university study and to revise upward the discharge limits which its operations (including as improved by the water recycling installation) could satisfy. In 2005, Innophos Fosfatados received a new Concession Title (containing a waste water discharge permit and limits) granting the requested relief as to all discharge limits.

Although there has been no formal action, CNA regional officials may take the position that compliance with the PAMCAR Agreement was to be determined by the previous Concession Title which contained a permit with stricter discharge limits. Consequently, while Mexican counsel has advised us that, as a matter of applicable law, compliance should be determined upon the new, revised, discharge limits, CNA regional officials could find that Innophos Fosfatados was not in compliance for the duration of the PAMCAR Agreement. In that event, the exempted taxes, duties and related charges through December 31, 2004, could be reinstated. We estimate that the amount of exempted duties and related charges through December 31, 2004 may range up to \$10.6 million at current exchange rates as of October 25, 2007 (including inflation and

## Edgar Filing: Innophos Holdings, Inc. - Form 10-Q

interest). In addition, we have been advised it is possible under applicable law that a penalty could be imposed of up to an additional \$11.3 million at current exchange rates as of October 25, 2007. We believe that the above amounts represent the upper range of possible liability based on a finding of noncompliance involving pH levels rather than phosphorus, and, accordingly, could be significantly reduced. We do not know whether the CNA will make a finding of noncompliance as to any aspect of the PAMCAR Agreement or what discharge limits would constitute the basis for a finding of noncompliance as to water quality requirements.

---

**Table of Contents**

**INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements (Unaudited)**

**(Dollars in thousands, except where noted)**

Based upon currently available information and advice of counsel, we would take appropriate steps to challenge any claim stemming from an alleged violation of the PAMCAR Agreement before the CNA and/or Mexican courts, and if any such claim were presented, evaluate potential indemnification rights against Rhodia. Based upon advice of counsel and our review of the CNA claims, the facts and applicable law, we have determined that liability is reasonably possible, but is neither probable nor reasonably estimable. Accordingly, we did not establish a liability on the balance sheet as of September 30, 2007.

*SCT Concession Title*

In late March 2007, Innophos Fosfatados received a follow up to an earlier request for information from the SCT related to our Concession Title to use national port facilities for the Coatzacoalcos plant. Innophos Fosfatados had been granted a 20 year Concession Title in 1993 covering land, pier and water areas, and the SCT is the agency with authority to oversee compliance with that Concession Title, including the payment of required taxes and fees, and to take enforcement action, including revocation or refusal to renew a Concession Title. In our review of the matter, we determined that there was a probable liability and complied with the SCT demand that we undertake a regularization (that is, a settlement) of omitted or insufficient payments of taxes and fees under the Concession Title. By July 2007 we had completed an updated appraisal of the pier-related facilities, made required filings and paid approximately \$2.0 million which was included in cost of goods sold for the second fiscal quarter of 2007. The payments consisted of approximately \$1.7 million for the periods November 1996 through August 13, 2004 and approximately \$0.3 million for the periods August 14, 2004 through May 2007. By completing the regularization process, management was informed by the agency that no penalties would be imposed. Although the appraisal we obtained which established values for the taxes and fees due may be accepted by the SCT for settlement purposes, the SCT is entitled, and we believe likely, to order a new appraisal of the port facilities, which could result in a further adjustment of amounts due on our account, which management believes would not be material.

We believe the liability arising from the SCT regularization, to the extent applicable to periods prior to the August 2004 closing of the acquisition, is fully indemnified by Rhodia under the Rhodia Agreement. We have put Rhodia on notice and made a demand for indemnification amounting to a total of \$1.7 million of pre-acquisition Tax claims. We also believe we are indemnified under other provisions of the Rhodia Agreement, subject to satisfaction of any applicable deductibles, for some or all of the remaining amounts of the regularization payments for periods after the closing and likewise have made a claim for those amounts. Thus far, Rhodia has maintained that the SCT charges are not Taxes as defined under the Rhodia Agreement and that otherwise there are defenses to the SCT claims. Therefore, although we intend to pursue indemnification from Rhodia vigorously, it is possible that we will not prevail in any required legal action or that Rhodia will not be able to pay us if we do. The SCT related claims are considered a gain contingency and therefore no receivable has been recorded as of September 30, 2007.

*U.S. Department of Justice STPP Investigation*

On September 11, 2007, we received a letter from the United States Department of Justice, or DOJ, disclosing that it was conducting an investigation of potential antitrust violations in the STPP (sodium tripolyphosphate) industry. The letter transmitted a grand jury *subpoena* issued by the United States District Court for the Northern District of California to produce documents and other materials relating to our STPP business focusing on the period from January 1, 2002 through December 31, 2005. We believe that the DOJ investigation is just getting underway and understand that other STPP producers have received similar subpoenas.

We are cooperating fully with the DOJ investigation and complying with the subpoena.

Management believes based on all information available at this time, that there is no contingent liability. Accordingly, we have not established a liability on the balance sheet as of September 30, 2007.

We acquired our STPP business in August 2004 as part of the transactions under the Rhodia Agreement. In the event there were to be a claim resulting in liability, we would evaluate potential indemnification rights against Rhodia under the Rhodia Agreement, based upon the facts and circumstances giving rise to such claim.



**Table of Contents**

**INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements (Unaudited)**

**(Dollars in thousands, except where noted)**

*Other Legal Matters*

In June 2005, Innophos Canada, Inc. was contacted by representatives of The Mosaic Company (a division of Cargill Corporation), or Mosaic, seeking a meeting to discuss the status of an ongoing remedial investigation and clean-up Mosaic is conducting at its currently closed fertilizer manufacturing site located north of Innophos Canada's Pt. Maitland, Ontario Canada plant site. The remediation is being overseen by the Provincial Ministry of Environment, or MOE. Mosaic stated that, in its view, we and Rhodia (our predecessor in interest prior to 2004) were responsible for some phosphorus compound contamination at a rail yard between the Innophos Canada, Inc. and Mosaic sites, and will be asked to participate in the clean-up. We have determined that this contingent liability is neither probable nor estimable at this time, but liability is reasonably possible. We have notified Rhodia of the Mosaic claim under the Rhodia Agreement, and we will seek all appropriate indemnification.

In addition, we are party to legal proceedings that arise in the ordinary course of our business. Except as to the matters specifically discussed, we do not believe that these legal proceedings represent probable or reasonably possible liabilities. However, these matters cannot be predicted with certainty and an unfavorable resolution of one or more of them could have a material adverse effect on our business, results of operations, financial condition, and/or cash flows.

*Other contingencies*

The Company is a party to a 2004 Registration Rights Agreement with Bain Capital and others. On May 30, 2007, as required in response to a demand under that agreement, the Company filed a registration statement with the U.S. Securities and Exchange Commission covering 5.0 million shares of its common stock proposed to be offered to the public through underwriters by selling stockholders under the agreement. Under the Registration Rights Agreement, the Company would be required to bear the costs of such an offering, except for underwriting discounts and commissions, although the Company will not receive proceeds from it. On August 9, 2007, due to adverse market conditions, Bain Capital requested us to withdraw the registration statement. The request was filed with the SEC on August 10, 2007.

**Table of Contents****INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (Unaudited)****(Dollars in thousands, except where noted)****10. Pension:**

Net periodic benefit expense for the United States plans for the three months ended September 30, 2007:

	Pension Plan	2007 Other post-retirement benefits	Total
Service cost	\$ 40	\$ 84	\$ 124
Interest cost	41	34	75
Expected return on assets	(24)		(24)
Amortization of prior service cost	(6)	72	66
Amortization of unrecognized (gains)/losses	1	(27)	(26)
Curtailment expense for plan amendment			
Net periodic benefit expense	\$ 52	\$ 163	\$ 215

Net periodic benefit expense for the United States plans for the three months ended September 30, 2006:

	Pension Plan	2006 Other post-retirement benefits	Total
Service cost	\$ 91	83	\$ 174
Interest cost	29	24	53
Expected return on assets	(4)	72	68
Amortization of prior service cost	34		34
Amortization of unrecognized (gains)/losses		(35)	(35)
Net periodic benefit expense	\$ 150	\$ 144	\$ 294

Net periodic benefit expense for the United States plans for the nine months ended September 30, 2007:

	Pension Plan	2007 Other post-retirement benefits	Total
Service cost	\$ 165	\$ 252	\$ 417
Interest cost	102	104	206
Expected return on assets	(44)		(44)
Amortization of prior service cost	43	216	259
Amortization of unrecognized (gains)/losses	1	(81)	(80)

Edgar Filing: Innophos Holdings, Inc. - Form 10-Q

Curtailment expense for plan amendment	203		203
Net periodic benefit expense	\$ 470	\$ 491	\$ 961

Net periodic benefit expense for the United States plans for the nine months ended September 30, 2006:

	Pension Plan	2006 Other post-retirement benefits	Total
Service cost	\$ 273	249	\$ 522
Interest cost	87	72	159
Expected return on assets	(12)	216	204
Amortization of prior service cost	102		102
Amortization of unrecognized (gains)/losses		(105)	(105)
Net periodic benefit expense	\$ 450	\$ 432	\$ 882

**Table of Contents****INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (Unaudited)****(Dollars in thousands, except where noted)**

We made our entire cash contributions of \$1.9 million for our U.S. defined contribution plan during the first quarter of 2007 for the plan year 2006. We made cash contributions to our U.S. defined benefit pension plan of \$0.7 million during the nine months ended September 30, 2007.

On April 26, 2007, the Company and the Union for the hourly employees at our Nashville facility agreed that it would freeze its defined benefit pension plan (the Plan) as of August 1, 2007. The accrual of additional benefits or increase in the current level of benefits under the Plan will cease as of August 1, 2007, after which the Nashville union employees will participate in the Company's existing non contributory defined contribution benefit plan. As of January 1, 2007, Plan assets were less than the projected benefit obligation. Freezing of the Plan was accounted for as a curtailment under SFAS No. 88, Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits. The Company remeasured the pension obligation during the three months ended June 30, 2007 and as a result, reduced the projected benefit obligation by \$1.2 million and recognized \$1.4 million largely attributable to the recognition of prior service cost, resulting in a net curtailment loss of \$0.2 million to earnings.

Net periodic benefit expense for the Canadian plans for the three months ended September 30, 2007:

	<b>Pension Plan</b>	<b>2007 Other post-retirement benefits</b>	<b>Total</b>
Service cost	\$ 79	20	\$ 99
Interest cost	144	17	161
Expected return on assets	(193)		(193)
Amortization of initial transition obligation		11	11
Amortization of unrecognized losses	16	4	20
Net periodic benefit expense	\$ 46	\$ 52	\$ 98

Net periodic benefit expense for the Canadian plans for the three months ended September 30, 2006:

	<b>Pension Plan</b>	<b>2006 Other post-retirement benefits</b>	<b>Total</b>
Service cost	\$ 54	12	\$ 66
Interest cost	95	11	106
Expected return on assets	(101)		(101)
Amortization of initial transition obligation		4	4
Amortization of unrecognized losses	18	8	26
Net periodic benefit expense	\$ 66	\$ 35	\$ 101



**Table of Contents****INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (Unaudited)****(Dollars in thousands, except where noted)**

Net periodic benefit expense for the Canadian plans for the nine months ended September 30, 2007:

	Pension Plan	2007 Other post-retirement benefits	Total
Service cost	\$ 185	46	\$ 231
Interest cost	338	39	377
Expected return on assets	(453)		(453)
Amortization of initial transition obligation		25	25
Amortization of unrecognized losses	38	10	48
Net periodic benefit expense	\$ 108	\$ 120	\$ 228

Net periodic benefit expense for the Canadian plans for the nine months ended September 30, 2006:

	Pension Plan	2006 Other post-retirement benefits	Total
Service cost	\$ 162	36	\$ 198
Interest cost	285	33	318
Expected return on assets	(303)		(303)
Amortization of initial transition obligation		12	12
Amortization of unrecognized losses	54	24	78
Net periodic benefit expense	\$ 198	\$ 105	\$ 303

We made cash contributions to our Canadian defined benefit plan of \$1.2 million during the nine months ended September 30, 2007. We expect to make cash contributions to our Canadian defined benefit plans of \$0.3 million during the remainder of 2007.

**11. Early Cancellation of Rhodia Sales Agency Agreement:**

Effective June 30, 2007 Innophos and Rhodia, Inc. completed a transaction, which resulted in the early cancellation of the companies' 2004 pharmaceutical global sales agency agreement, and the acquisition of related business assets by Innophos. Under the 2004 agreement, which had a term of 10 years, Rhodia and its affiliates provided sales, marketing, R&D and technical services for Innophos' calcium phosphate pharmaceutical excipients and nutritional supplement products.

The early cancellation, mutually agreed upon by the parties, will result in Innophos directly marketing those products through its own sales organization, and assuming all product development activities. Rhodia agreed to five year global non-competition and non-solicitation covenants with respect to the products and applications involved, and conveyed certain contracts, R&D equipment, patents, trade names, and intellectual property rights to Innophos.

## Edgar Filing: Innophos Holdings, Inc. - Form 10-Q

The overall transaction resulted in payments by Innophos to Rhodia of \$9.0 million, subject to certain minor post-closing adjustments which will occur during the transition period. The transaction resulted in a charge of approximately \$6.3 million to selling, general and administrative expenses in the second quarter of 2007 related to the contract cancellation value. Prepaid transition costs of \$0.6 million and the business related assets, both tangible and intangible, of \$2.1 million were also recorded in the second quarter of 2007. The lives of the business related assets were between five and seven years. In 2006, the commissions paid by Innophos to Rhodia under this agreement totaled \$3.7 million.

**Table of Contents****INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (Unaudited)****(Dollars in thousands, except where noted)****12. Segment Reporting:**

The Company discloses certain financial and supplementary information about its reportable segments, revenue by products and revenues by geographic area. Operating segments are defined as components of an enterprise about which separate discrete financial information is evaluated regularly by the chief operating decision maker, in order to decide how to allocate resources and assess performance. The primary key performance indicators for the chief operating decision maker are Sales and Operating Income. The Company reports its operations in three reporting segments United States, Mexico and Canada, each of which sells the entire portfolio of products.

<b>For the three months ended September 30, 2007</b>	<b>United States</b>	<b>Mexico</b>	<b>Canada</b>	<b>Eliminations</b>	<b>Total</b>
Sales	\$ 82,768	\$ 56,659	\$ 7,024	\$	\$ 146,451
Intersegment sales	5,588	7,969	12,705	(26,262)	
<b>Total sales</b>	<b>88,356</b>	<b>64,628</b>	<b>19,729</b>	<b>(26,262)</b>	<b>146,451</b>
Operating income	\$ 4,302	\$ 13,318	\$ 354		\$ 17,974

<b>For the three months ended September 30, 2006</b>	<b>United States</b>	<b>Mexico</b>	<b>Canada</b>	<b>Eliminations</b>	<b>Total</b>
Sales	\$ 82,195	\$ 51,045	\$ 7,379	\$	\$ 140,619
Intersegment sales	6,665	6,590	16,464	(29,719)	
<b>Total sales</b>	<b>88,860</b>	<b>57,635</b>	<b>23,843</b>	<b>(29,719)</b>	<b>140,619</b>
Operating income	\$ 1,706	\$ 9,139	\$ 665		\$ 11,510

<b>For the nine months ended September 30, 2007</b>	<b>United States</b>	<b>Mexico</b>	<b>Canada</b>	<b>Eliminations</b>	<b>Total</b>
Sales	\$ 242,946	\$ 170,072	\$ 22,025	\$	\$ 435,043
Intersegment sales	19,722	21,158	42,034	(82,914)	
<b>Total sales</b>	<b>\$ 262,668</b>	<b>\$ 191,230</b>	<b>\$ 64,059</b>	<b>\$ (82,914)</b>	<b>\$ 435,043</b>
Operating income	\$ 1,766	\$ 36,465	\$ 3,085	\$	\$ 41,316

<b>For the nine months ended September 30, 2006</b>	<b>United States</b>	<b>Mexico</b>	<b>Canada</b>	<b>Eliminations</b>	<b>Total</b>
Sales	\$ 240,785	\$ 147,604	\$ 21,846	\$	\$ 410,235
Intersegment sales	24,759	16,947	47,508	(89,214)	
<b>Total sales</b>	<b>\$ 265,544</b>	<b>\$ 164,551</b>	<b>\$ 69,354</b>	<b>\$ (89,214)</b>	<b>\$ 410,235</b>
Operating income	\$ 13,437	\$ 19,735	\$ 1,645	\$	\$ 34,817

Edgar Filing: Innophos Holdings, Inc. - Form 10-Q

Geographic Revenues	Three months ended		Nine months ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
US	\$ 75,232	75,783	\$ 220,381	221,136
Mexico	31,092	31,960	98,477	96,169
Canada	7,462	7,495	23,528	23,906
Other foreign countries	32,665	25,381	92,657	69,024
<b>Total</b>	<b>\$ 146,451</b>	<b>\$ 140,619</b>	<b>\$ 435,043</b>	<b>\$ 410,235</b>

**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION & RESULTS OF OPERATIONS**

*This discussion contains forward-looking statements about our markets, the demand for our products and services and our future results. We based these statements on assumptions that we consider reasonable. Actual results may differ materially from those suggested by our forward-looking statements for various reasons including those discussed in the Risk Factors as contained in our 2006 Annual Report on Form 10-K and Forward-Looking Statements sections of that report.*

**Overview**

Innophos Holdings, Inc. is the parent of Innophos Investments Holdings, Inc., which owns 100% of Innophos, Inc; all are incorporated under the laws of the State of Delaware. On June 10, 2004, Innophos entered into a definitive purchase and sale agreement with affiliates of Rhodia to acquire certain assets and equity interests related to Rhodia's North American specialty phosphates business, referred to herein as the Phosphates Business. The acquisition of the Phosphates Business from Rhodia, referred to herein as the Acquisition, was consummated on August 13, 2004, at a closing purchase price of \$473.4 million. A working capital dispute relating to the closing balance sheet was settled in June 2007 with no further adjustment to the closing purchase price.

**Below is a summary chart of the corporate structure of our direct subsidiaries.**

**Table of Contents****Historical Performance***Results of Operations*

The following table sets forth a summary of the Company's operations and their percentages of total revenue for the periods indicated.

	Three months ended September 30,		Three months ended September 30,	
	2007		2006	
	Amount	%	Amount	%
Net sales	\$ 146.4	100.0	\$ 140.6	100.0
Cost of goods sold	116.7	79.7	117.9	83.9
Gross profit	29.7	20.3	22.7	16.1
Operating expenses: Selling, general and administrative	11.2	7.7	10.7	7.6
Research & Development Expenses	0.5	0.3	0.5	0.4
Operating income	18.0	12.3	11.5	8.2
Interest expense, net	9.3	6.4	13.4	9.5
Foreign exchange losses/(gains), net	0.1	0.1	(0.5)	(0.4)
Other (income) expense	(0.2)	(0.1)	0.3	0.2
Provision for income taxes	3.2	2.2	3.3	2.3
Net income (loss)	\$ 5.6	3.8	\$ (5.0)	(3.6)

	Nine months ended September 30,		Nine months ended September 30,	
	2007		2006	
	Amount	%	Amount	%
Net sales	\$ 435.0	100.0	\$ 410.2	100.0
Cost of goods sold	352.3	81.0	342.2	83.4
Gross profit	82.7	19.0	68.0	16.6
Operating expenses: Selling, general and administrative	39.8	9.1	31.9	7.8
Research & Development Expenses	1.6	0.4	1.3	0.3
Operating income	41.3	9.5	34.8	8.5
Interest expense, net	32.6	7.5	39.6	9.7
Foreign exchange losses/(gains), net			(0.7)	(0.2)
Other (income) expense	(0.2)	(0.0)	0.3	0.1
Provision for income taxes	10.5	2.4	3.7	0.9
Net loss	\$ (1.6)	(0.4)	\$ (8.1)	(2.0)

*Three months ended September 30, 2007 compared to the three months ended September 30, 2006**Net Sales*

Net sales represent the selling price of the products, net of any customer-related rebates, plus freight and any other items invoiced to customers. Net sales for the three months ended September 30, 2007 were \$146.4 million, an increase of \$5.8 million, or 4.1%, as compared to \$140.6

## Edgar Filing: Innophos Holdings, Inc. - Form 10-Q

million for the same period in 2006. Volume and mix impacts upon revenue had a negative impact of 3.6% or \$5.0 million that occurred primarily in STPP & Other Products due to timing on an export GranularTripleSuperPhosphate (GTSP) shipment that was delayed into early October to optimize material handling. Sales price impact on revenue had a positive impact of 7.7% or \$10.8 million that occurred primarily in STPP & Other Products.

The following table illustrates for the three months ended September 30, 2007 the percentage changes in net sales by reportable segment compared with the same period in 2006, including the effect of price and volume/mix impacts upon revenue:

	<b>Price</b>	<b>Volume/Mix</b>	<b>Total</b>
United States	(1.1%)	1.8%	0.7%
Canada	(0.2%)	(4.6%)	(4.8%)
Mexico	23.0%	(12.0%)	11.0%

**Table of Contents**

The following table illustrates for the three months ended September 30, 2007 the percentage changes for net sales by major product lines compared with the same period in 2006, including the effect of price and volume/mix impacts upon revenue:

	Price	Volume/Mix	Total
Purified Phosphoric Acid	1.3%	0.3%	1.6%
Specialty Salts and Specialty Acids	1.0%	3.0%	4.0%
STPP & Other Products	26.3%	(19.6%)	6.7%

*Gross Profit*

Gross profit represents net sales less cost of goods sold. Gross profit for the three months ended September 30, 2007 was \$29.7 million, an increase of \$7.0 million, or 30.8%, as compared to \$22.7 million for the same period in 2006. Gross profit percentage increased to 20.3% for the three months ended September 30, 2007 versus 16.1% for the same period in 2006. The change in gross profit was due to higher selling prices with a favorable impact of \$10.8 million, partially offset by unfavorable sales volume and mix impacts upon revenue, higher raw material and higher freight costs, which had a combined unfavorable impact of \$3.8 million.

*Operating Expenses and Research and Development*

Operating expenses consist primarily of selling, general and administrative, and R&D expenses. For the three months ended September 30, 2007, these costs were \$11.7 million, an increase of \$0.5 million, or 4.5%, as compared to \$11.2 million for the same period in 2006. There was a net favorable variance on all unusual items of \$1.1 million coming from various professional and sponsor fees in the three months ended September 30, 2006. Operating expenses were negatively impacted by \$0.2 million of increased corporate governance costs which include internal audits and our Sarbanes Oxley compliance initiative, \$0.3 million for increased commercial efforts, \$0.3 million for vesting of restricted stock awards, \$0.6 million increased franchise tax, and \$0.2 million of all other costs.

*Operating Income*

Operating income for the three months ended September 30, 2007 was \$18.0 million, an increase of \$6.5 million, or 56.5%, as compared to \$11.5 million for the same period in 2006. Operating income as a percentage of net sales increased to 12.3% versus 8.2% for the same period in 2006.

*Interest Expense, net*

Net interest expense, including deferred financing amortization expense, for the three months ended September 30, 2007 was \$9.3 million, a decrease of \$4.1 million, compared to \$13.4 million for the same period in 2006. This decrease is due to lower interest expense of \$0.9 million as a result of decreased debt level of our Term Loan, \$3.1 million lower bond interest expense from the retirement/refinancing of our Floating Rate Senior Notes, \$0.4 million capitalized interest, and \$0.1 million lower revolver expense. This was partially offset by \$0.4 million lower interest income.

*Foreign Exchange*

Foreign exchange loss for the three months ended September 30, 2007 was \$0.1 million compared to a gain of \$0.5 million for the same period in 2006. The U.S. dollar is the functional currency of our Mexican and Canadian operations. Consequently, foreign exchange gain or loss is recorded on remeasurement of non-U.S. dollar denominated monetary assets and liabilities. Such gains and losses fluctuate from period to period as the foreign currencies strengthen or weaken against the U.S. dollar and the amount of non-U.S. dollar denominated assets and liabilities increases or decreases.

*Provision for Income Taxes*

Provision for income tax expense for the three months ended September 30, 2007 was \$3.2 million compared to \$3.3 million for the comparable period of 2006. Income earned by our subsidiary in Mexico is fully taxable, so increases in our Mexican earnings, as we had in the first three months of 2007, would normally be expected to result in increased income tax expense.

*Net Income*



## Edgar Filing: Innophos Holdings, Inc. - Form 10-Q

Net income for the three months ended September 30, 2007 was \$5.6 million, an increase of \$10.6 million, compared to a net loss of \$5.0 million for the same period in 2006, due to the factors described above.

**Table of Contents***Nine months ended September 30, 2007 compared to the nine months ended September 30, 2006**Net Sales*

Net sales represent the selling price of the products, net of any customer-related rebates, plus freight and any other items invoiced to customers. Net sales for the nine month period ended September 30, 2007 were \$435.0 million, an increase of \$24.8 million, or 6.0%, as compared to \$410.2 million for the comparable period in 2006. Selling price increases had a positive impact of 4.3% or \$17.5 million on sales that occurred primarily in STPP & Other Products. Volume and mix impacts upon revenue had a positive effect of 1.8% or \$7.3 million which occurred primarily in Specialty Salts and Specialty Acids.

The following table illustrates for the nine months ended September 30, 2007 the percentage changes in net sales by reportable segment as compared with the same period for 2006, including the effect of price and volume/mix impacts upon revenue:

	Price	Volume/Mix	Total
United States	(0.4%)	1.3%	0.9%
Canada	(1.5%)	2.3%	0.8%
Mexico	12.7%	2.5%	15.2%

The following table illustrates for the nine months ended September 30, 2007 the percentage changes for net sales by major product lines compared with the comparable period in 2006, including the effect of price and volume/mix impacts upon revenue:

	Price	Volume/Mix	Total
Purified Phosphoric Acid	(0.7%)	0.5%	(0.2%)
Specialty Salts and Specialty Acids	0.6%	3.7%	4.3%
STPP and Other	16.4%	(0.9%)	15.5%

*Gross Profit*

Gross profit represents net sales less cost of goods sold. Gross profit for the nine month period ended September 30, 2007 was \$82.7 million, an increase of \$14.7 million, or 21.6%, as compared to \$68.0 million for the comparable period in 2006. Gross profit percentage increased to 19.0% for the nine month period ended September 30, 2007 versus 16.6% for the comparable period in 2006. The change in gross profit was primarily due to higher selling prices which had a favorable impact of \$17.5 million, as positive volume and mix impacts on revenue were offset by higher raw material, freight, and manufacturing expenses resulting in a net negative variance of \$3.8 million. Gross profit was also positively impacted by \$4.5 million from our planned non-annual major maintenance outages at our Geismar, Louisiana and Coatzacoalcos, Mexico facilities that occurred in the nine month period ending September 30, 2006. Finally, gross profit was negatively impacted by unusual expenses in the current period of \$1.5 million for the involuntary separation of twenty seven people and the fringe benefit buy-back program in Mexico, and a charge of \$2.0 million related to the settlement of certain taxes covering the periods 1996 to 2006 on the Company's port facilities in Mexico.

*Operating Expenses and Research and Development*

Operating expenses in the current period consist primarily of selling, general and administrative and R&D expenses. Operating expenses for the nine month period ended September 30, 2007 were \$41.4 million, an increase of \$8.2 million, or 24.7%, as compared to \$33.2 million for the same period in 2006. The variance is mainly due to \$6.3 million of unusual expense incurred in the current period in connection with the early cancellation of the company's pharma sales agency arrangement with Rhodia, Inc., and the transfer of business related assets and intellectual property to Innophos. There was also a net favorable variance on all other unusual items of \$3.7 million, coming from \$0.5 million of secondary offering preparation costs and CNA legal fees in the current period compared to \$4.2 million of various professional and sponsor fees in the same period of 2006. Operating expenses were also negatively impacted by \$2.2 million of increased corporate governance costs which include internal audits and our Sarbanes Oxley compliance initiative, \$1.2 million for increased commercial and R&D efforts, \$0.7 million for vesting of restricted stock awards, \$0.6 million increased franchise tax, and \$0.9 million of all other costs.

## **Table of Contents**

### *Operating Income*

Operating income for the nine month period ended September 30, 2007 was \$41.3 million, increase of \$6.5 million, or 18.7%, as compared to \$34.8 million for the same period in 2006. Operating income percentage increased to 9.5% for the nine month period ended September 30, 2007 from 8.5% for the comparable period in 2006, as a result of the factors described above.

### *Interest Expense, net*

Net interest expense for the nine month period ended September 30, 2007 was \$32.6 million, a decrease of \$7.0 million, compared to \$39.6 million for the comparable period in 2006. The decrease is due to lower interest expense of \$2.4 million as a result of the decreased debt level of our Term Loan, \$7.5 million lower bond interest expense from the retirement/refinancing of our Floating Rate Senior Notes, \$0.4 million capitalized interest, and \$0.2 million lower other interest expense. This was partially offset by a \$1.8 million call premium for the redemption of our Floating Rate Senior Notes due 2015 and \$1.6 million for related accelerated deferred financing amortization expense, and lower interest income of \$0.7 million. There was a favorable impact of \$0.6 million in deferred financing due to our debt retirement during the same period of 2006.

### *Foreign Exchange*

Foreign exchange gain for the nine month period ended September 30, 2007 was \$0.0 million, a decrease of \$0.7 million, as compared to \$0.7 million for the comparable period in 2006. The U.S. dollar is the functional currency of our Mexican and Canadian operations. Consequently, foreign exchange gain or loss is recorded on remeasurement of non-U.S. dollar denominated monetary assets and liabilities. Such gains and losses fluctuate from period-to-period as the foreign currencies strengthen or weaken against the U.S. dollar and the amount of non-U.S. dollar denominated assets and liabilities increases or decreases.

### *Provision for Income Taxes*

Provision for income tax expense for the nine month period ended September 30, 2007 was \$10.5 million, compared to \$3.7 million for the comparable period of 2006. Income earned by our subsidiary in Mexico is fully taxable, so increases in our Mexican earnings, as we had in the first nine months of 2007, would normally be expected to result in increased income tax expense.

### *Net Loss*

Net loss for the nine month period ended September 30, 2007 was \$1.6 million, a decrease of \$6.5 million, compared to a loss of \$8.1 million for the comparable period in 2006, due to the factors described above.

**Table of Contents****Segment Reporting**

The company reports its operations in three reporting segments - United States, Mexico and Canada, each of which sells the entire portfolio of products. The primary performance indicators for the chief operating decision maker are sales and operating income, with sales on a ship-from basis. The following table sets forth the historical results of these indicators by segment:

	Three months ended September 30, 2007	Three months ended September 30, 2006	Net Sales % Change
<b>Segment Net Sales</b>			
United States	\$ 82,768	\$ 82,195	0.7%
Mexico	56,659	51,045	11.0%
Canada	7,024	7,379	(4.8%)
<b>Total</b>	<b>\$ 146,451</b>	<b>\$ 140,619</b>	<b>4.1%</b>

**Segment Operating Income**

United States	\$ 4,302	\$ 1,706
Mexico	13,318	9,139
Canada	354	665
<b>Total</b>	<b>\$ 17,974</b>	<b>\$ 11,510</b>

**Segment Operating Income % of net sales**

United States	5.2%	2.1%
Mexico	23.5%	17.9%
Canada	5.0%	9.0%

	Nine months ended September 30, 2007	Nine months ended September 30, 2006	Net Sales % Change
<b>Segment Net Sales</b>			
United States	\$ 242,946	\$ 240,785	0.9%
Mexico	170,072	147,604	15.2%
Canada	22,025	21,846	0.8%
<b>Total</b>	<b>\$ 435,043</b>	<b>\$ 410,235</b>	<b>6.0%</b>

**Segment Operating Income**

United States	\$ 1,766	\$ 13,437
Mexico	36,465	19,735
Canada	3,085	1,645
<b>Total</b>	<b>\$ 41,316</b>	<b>\$ 34,817</b>

**Segment Operating Income % of net sales**

United States	0.7%	5.6%
Mexico	21.4%	13.4%
Canada	14.0%	7.5%

*Three months ended September 30, 2007 compared to the three months ended September 30, 2006*

*Segment Net Sales:*

In the United States net sales increased 0.7% for the three months ended September 30, 2007 when compared with the same period in 2006. Selling prices decreased sales by 1.1%, mainly in STPP & Other Products. Volume and mix impact upon revenue was an increase of 1.8%, primarily in Specialty Salts and Specialty Acids.

In Mexico net sales increased 11.0% for the three months ended September 30, 2007 when compared with the same period in 2006. Selling prices increased sales 23.0%, primarily in STPP & Other Products. Volume and mix impact upon revenue was a decrease of 12.0%, primarily in STPP & Other Products due to timing on an export GTSP shipment that was delayed into early October to optimize material handling.

## **Table of Contents**

In Canada net sales decreased 4.8% for the three months ended September 30, 2007 when compared with the same period in 2006. Selling price decreased sales 0.2%, while volume and mix impact upon revenue was a decrease of 4.6%, primarily in STPP & Other Products.

### ***Segment Operating Income % of Net Sales:***

The 3.1% increase in the United States for the three months ended September 30, 2007 compared with the same period in 2006 is mainly due to a favorable volume and mix impact on revenue, and lower raw material prices which were partially offset by lower selling prices.

The 5.6% increase in Mexico for the three months ended September 30, 2007 compared with the same period in 2006 is due to increased selling prices, which were partially offset by decreased volume and mix impacts upon revenue, and increased raw material prices.

The 4.0% decrease in Canada for the three months ended September 30, 2007 compared with the same period in 2006 is due to decreased selling prices and an unfavorable volume and mix impact on revenue.

During the three month period ending September 30, 2007 depreciation and amortization expense was \$6.9 million in the United States, \$0.4 million in Canada, and \$4.4 million in Mexico.

### ***Nine months ended September 30, 2007 compared to the nine months ended September 30, 2006***

#### ***Segment Net Sales:***

In the United States net sales increased 0.9% for the nine months ended September 30, 2007 when compared with the same period in 2006. Selling prices decreased sales 0.4% primarily in Purified Phosphoric Acid. Volume and mix impact upon revenue was an increase of 1.3%, with favorable variances across all product lines.

In Mexico net sales increased 15.2% for the nine months ended September 30, 2007 when compared with the same period in 2006. Selling prices increased sales 12.7%, primarily in STPP & Other Products. Volume and mix impact upon revenue was an increase of 2.5%, primarily in STPP & Other Products and Specialty Salts and Specialty Acids.

In Canada net sales increased 0.8% for the nine months ended September 30, 2007 when compared with the same period in 2006. Selling price decreased sales 1.5% with negative variances across all product lines. Volume and mix impact upon revenue was an increase of 2.3%, primarily in Specialty Salts and Specialty Acids.

#### ***Segment Operating Income % of Net Sales:***

The 4.9% decrease in the United States for the nine months ended September 30, 2007 compared with the same period in 2006 is mainly due to the costs incurred in the current period for the early cancellation of the company's pharma sales agency arrangement with Rhodia, Inc., and the transfer of business related assets and intellectual property to Innophos. Higher raw material costs and increased corporate governance costs have also contributed to the margin decline, as changes in selling prices and sales volume/mix have had minimal impacts on profits.

The 8.0% increase in Mexico for the nine months ended September 30, 2007 compared with the same period in 2006 is due to favorable selling prices and higher volume and mix impacts upon revenue partially offset by the increased cost associated with the involuntary separation of 27 personnel and the fringe benefit buy-back program, and expense of \$2.0 million related to settlement of certain taxes covering the periods 1996 to 2006 on the company's port facilities in Mexico. There was a favorable impact due to costs incurred in March 2006 associated with the planned non-annual sulfuric acid maintenance outage that occurred at our Coatzacoalcos facility.

The 6.5% increase in Canada for the nine months ended September 30, 2007 compared with the same period in 2006 is due to positive volume and mix impacts upon revenue, and lower manufacturing costs including depreciation and amortization expense which exceeded lower selling prices.

During the nine month period ending September 30, 2007 depreciation and amortization expense was \$20.2 million in the United States, \$1.2 million in Canada, and \$13.1 million in Mexico.



**Table of Contents****Liquidity and Capital Resources**

The following table sets forth a summary of the Company's cash flows for the periods indicated.

	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Operating Activities	\$ 30.4	\$ 33.1
Investing Activities	(25.1)	(9.6)
Financing Activities	(21.6)	(19.5)

*Nine months ended September 30, 2007 compared to nine months ended September 30, 2006*

Net cash provided by operating activities was \$30.4 million for the nine months ended September 30, 2007 as compared to \$33.1 million for the same period in 2006, a decrease of \$2.7 million. The decrease in operating activities is due to unfavorable changes of \$10.4 million in non-cash items affecting net income, and \$1.7 million in non-current accounts, partially offset by favorable changes of \$6.5 million in net income, as described earlier, and a \$2.9 million favorable change in net working capital.

Non-cash items affecting net income were unfavorable by \$10.4 million primarily due to our election to pay cash interest on our Floating Rate Senior Notes, and the April 2007 refinancing of these notes to cash paying notes which was partially offset by increased deferred financing expense resulting from the refinancing, and decreased benefit from deferred taxes.

Changes in non-current accounts had an unfavorable impact on cash of \$1.7 million. This was mainly due to increased long term liabilities in 2006 which were mostly pension related.

The change in net working capital is a use of cash of \$7.0 million in 2007 compared to a use in 2006 of \$9.9 million, a decrease in the use of cash of \$2.9 million. Increases in accounts receivable, inventories, and other current assets exceeded increases in accounts payable and other liabilities in 2007, leading to the \$7.0 million use of cash. The increased use of cash is mainly related to accumulation of inventories in anticipation of the planned Coatzacoalcos plant maintenance turnarounds in October 2007. In 2006, reductions in accounts payable and other liabilities along with increased accounts receivable exceeded the reductions in inventory and other assets, leading to the \$9.9 million use of cash.

Net cash used for investing activities was \$25.1 million for the nine months ended September 30, 2007, compared to \$9.6 million for the same period in 2006, an increase in the use of cash of \$15.5 million. This is mainly due to increased capital spending related to the cogeneration project in Coatzacoalcos, Mexico, and the purchase of certain assets from Rhodia related to the early cancellation of our 2004 ten-year pharma sales agency agreement. As of September 30, 2007, the Company has expended approximately \$14 million of the \$16 million projected total for the cogeneration project which is on budget and on schedule.

Net cash from financing activities for the nine months ended September 30, 2007 was a use of \$21.6 million, compared to a use of \$19.5 million in for the same period in 2006, an increase in the use of cash of \$2.1 million. This is due to a \$9.4 million payment of dividends, partially offset by \$3.0 million lower Term Loan principal payments in 2007, \$0.9 million in proceeds from stock option exercises, and \$3.4 million net related to the issuance of the Senior Unsecured Notes, the related deferred financing costs, and the redemption of the Floating Rate Senior Notes.



**Table of Contents**

On April 16, 2007 Innophos Holdings, Inc. issued \$66.0 million of 9.5% Senior Unsecured notes due 2012 which had net proceeds of \$64.4 million after fees. The proceeds plus approximately \$0.5 million of cash on hand were used for full redemption of the \$60.8 million Floating Rate Senior notes issued by Innophos Investments Holdings, Inc. and to pay related expenses.

The Company and the Union in Mexico reached an agreement, which was ratified by the Union on March 27, 2007. As a result, the Company paid approximately \$0.9 million for the severance and benefits for the elimination of 27 personnel and approximately \$0.5 million for benefit reductions for continuing employees, all in the second quarter of 2007.

Contractual Obligations	Total	Years ending December 31,					
		2007	2008	2009	2010	2011	Thereafter
Senior credit facility (1)	132,500	361	1,445	35,396	95,298	0	0
2004 Senior Subordinated Notes Due 2014 (2)	318,577	16,863	16,862	16,863	16,862	16,863	234,264
Future service pension benefits	6,737	368	419	499	570	619	4,262
Other (3)	516,637	42,851	44,801	44,801	44,801	44,801	294,582
Operating leases	21,657	4,994	3,944	3,249	2,819	2,233	4,418
Senior Unsecured Notes Due 2012 (4)	97,350	3,135	6,270	6,270	6,270	6,270	69,135
<b>Total</b>	<b>1,093,458</b>	<b>68,572</b>	<b>73,741</b>	<b>107,078</b>	<b>166,620</b>	<b>70,786</b>	<b>606,661</b>

- (1) Amounts do not include variable rate interest payments, any voluntary principal prepayments, and excess cash flow requirements as defined by the credit agreement. Estimated annual interest payments would be approximately \$9.9 million assuming a 7.4% interest rate. The Company made payments of \$8.0 million on March 30, 2007, \$0.5 million on June 29, 2007 and \$8.0 million on September 28, 2007. Amounts exclude the \$50.0 million revolving portion of the senior credit facility which has issued approximately \$4.1 million of letters of credit under the sub-facility which reduces the available credit to \$45.9 million as of September 30, 2007.
- (2) Amounts include fixed rate interest payments at 8.875% for years 2007 and thereafter.
- (3) Represents minimum annual purchase commitments to buy raw materials from suppliers that extend after 2011.
- (4) Represents the \$66.0 million Senior Unsecured notes due 2012 which were issued on April 16, 2007. Amounts include fixed rate interest payments at 9.5% for years 2007 and thereafter.

**Other**

In October 2007, Coatzacoalcos had two planned shutdowns – one non-annual turnaround to maintain its sulfuric acid unit and to perform scheduled cogeneration tie-in work, and one annual maintenance turnaround of one train of its merchant green acid, or MGA, unit. During these outages, the facility also suffered unplanned downtime in other production units due to a shortage of sulfuric acid from our local suppliers, caused by terrorist actions which affected natural gas distribution and sulfur production in Mexico, and from our international suppliers due to tight international sulfuric acid markets.

We now expect the full cost of the outages to reduce fourth quarter pre-tax operating income by up to \$9 - \$10 million, which is up to \$4 - \$5 million worse than management's expectations, due to higher raw material replacement costs, expanded scope of maintenance and margin impact from lost production.

All Coatzacoalcos production units have been up and running under normal operating and supply availability conditions since October 30, 2007.

In other respects, management expects fourth quarter 2007 performance to be similar to that of the second and third quarters, allowing for seasonal factors.

## Edgar Filing: Innophos Holdings, Inc. - Form 10-Q

On September 7, 2007 the Department of Commerce (Commerce) announced its affirmative preliminary determination that Chinese producers/exporters have sold sodium hexametaphosphate (SHMP) in the United States at 183.15% less than fair value. This determination was in response to our filing in February 2007 of an antidumping case against Chinese imports of SHMP which represented approximately 3% of our 2006 sales revenue. The petition was filed jointly with ICL Performance Products, the only other domestic U.S. producer. Commerce is scheduled to issue its final determination in this investigation in early 2008. If the final determination agrees with the preliminary determination a duty of 183.15% would be imposed on Chinese SHMP imports into the United States.

---

## **Table of Contents**

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to certain market risks as part of our ongoing business operations. Primary exposures include changes in interest rates, as borrowings under our senior credit facility will bear interest at floating rates based on LIBOR or the base rate, in each case plus an applicable borrowing margin. We will manage our interest rate risk by balancing the amount of fixed-rate and floating-rate debt. For fixed-rate debt, interest rate changes do not affect earnings or cash flows. Conversely, for floating-rate debt, interest rate changes generally impact our earnings and cash flows, assuming other factors are held constant.

At September 30, 2007, we had \$256.0 million principal amount of fixed-rate debt and \$182.5 million of available floating-rate debt, including \$50.0 million under our revolving credit facility. Based on \$132.5 million outstanding as floating rate debt as borrowings under our senior credit facility, an immediate increase of one percentage point would cause an increase to cash interest expense of approximately \$1.3 million per year. As all of the business for Innophos Holdings, Inc. is transacted through Innophos, Inc. and its subsidiaries, Innophos Holdings, Inc. is dependent on the earnings and the distribution of funds from Innophos, Inc. and subsidiaries.

Changes in economic conditions could result in higher interest rates, thereby increasing our interest expense and other operating expenses and reducing our funds available for capital investment, operations or other purposes. In addition, a substantial portion of our cash flow must be used to service debt, which may affect our ability to make future acquisitions or capital expenditures. We may from time to time use interest rate protection agreements to minimize our exposure to interest rate fluctuation. However, there can be no assurance that hedges will achieve the desired effect. We may experience economic loss and a negative impact on earnings or net assets as a result of interest rate fluctuations.

We do not currently hedge our commodity or currency rate risks. In April 2006, we entered into two interest rate cap derivative instruments each with a notional amount of \$100 million with rate caps of 7%, one with a referenced index based on a three month LIBOR expiring in April 2009 and one based on a one month LIBOR expiring in April 2008.

We believe that our concentration of credit risk related to trade accounts receivable is limited since these receivables are spread among a number of customers and are geographically dispersed. No one customer accounted for more than 10% of our sales in the last 3 years.

#### **Foreign Currency Exchange Rates**

The U.S. dollar is the functional currency of the Canadian and Mexican operations. Accordingly, these operations' monetary assets and liabilities are translated at current exchange rates, non-monetary assets and liabilities are translated at historical exchange rates, and revenue and expenses are translated at average exchange rates and at historical exchange rates for the related revenue and expenses of non-monetary assets and liabilities. All translation gains and losses are included in net income.

Our principal source of exchange rate exposure in our foreign operations consists of expenses, such as labor expenses, which are denominated in the foreign currency of the country in which we operate. A decline in the value of the U.S. dollar relative to the local currency would generally cause our operational expenses (particularly labor costs) to increase (conversely, a decline in the value of the foreign currency relative to the U.S. dollar would cause these expenses to decrease). We believe that normal exchange rate fluctuations consistent with recent historical trends would have a modest impact on our expenses, and would not materially affect our financial condition or results of operations. Nearly all of our sales are denominated in U.S. dollars and our exchange rate exposure in terms of sales revenues is minimal.

#### **Inflation and changing prices**

Our costs and expenses will be subject to inflation and price fluctuations. Significant price fluctuations in raw materials, freight, and energy costs, could have a material effect on our financial condition and results of operations.

#### **Off-Balance Sheet Arrangements**

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

**Table of Contents**

**ITEM 4. CONTROLS AND PROCEDURES**

The Company maintains disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934) that are designed to provide reasonable assurance that information required to be reported in the Company's consolidated financial statements and filings is recorded, processed, summarized and reported within the periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

As of September 30, 2007, the Company completed an evaluation under the supervision and with the participation of the Company's management, including the Company's principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that the Company's disclosure controls and procedures are effective.

For the year ending December 31, 2007, pursuant to Section 404 of the Sarbanes-Oxley Act, management will be required to deliver a report that assesses the effectiveness of our internal controls over financial reporting and our auditors will be required to independently certify the effectiveness of our internal controls over financial reporting. As such, we have been implementing the appropriate processes, document the system of internal control over key processes, assess their design, remediate any deficiencies identified and test their functionality.

There have been no changes in our internal control over financial reporting during or with respect to the third quarter of 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

---

**Table of Contents**

**PART II**

**ITEM 1. LEGAL PROCEEDINGS**

*Mexican CNA Water Tax Claims*

On November 1, 2004, Innophos Fosfatados received notice from the CNA of claims relating to extraction and use of fresh water, or Fresh Water Claims, at our Coatzacoalcos, Veracruz, Mexico plant from 1998-2002. As initially assessed by the CNA, the claims total approximately \$31.0 million at current exchange rates as of October 25, 2007, including basic charges of \$10.7 million and \$20.3 million for interest, inflation and penalties.

Management believes that Innophos Fosfatados has valid bases for challenging the Fresh Water claims, and we are vigorously defending that matter as explained herein.

*CNA Administrative Proceedings; Appeals.* On January 17, 2005, Innophos Fosfatados filed documents with the CNA seeking revocation and dismissal of all Fresh Water Claims made by that agency. On August 29, 2005, the CNA rejected the substantive challenges as to the Fresh Water Claims (although the CNA agreed that certain corrections were required as to its surcharge calculations), confirming the original claims. On November 3, 2005, Innophos Fosfatados filed an appeal with the Mexican Federal Court of Fiscal and Administrative Justice. Our appeal remains pending, and it is not known when it will be decided by the court.

*Rhodia Indemnification.* Under the terms of the Rhodia Agreement according to which our business was purchased, we believe we are entitled to be indemnified fully against a number of contingencies, including claims for Taxes (as defined in the Rhodia Agreement) such as those asserted by the CNA, as well as any additional duties, taxes and charges which may be assessed by the CNA for periods after 2002. Rhodia has acknowledged its responsibility for the Fresh Water Claims, but under a different indemnification obligation, asserting that the applicable indemnification is for breach of representations and warranties, which would subject the liabilities relating to the CNA claims to a deductible amount of \$15.9 million and a limit of \$79.5 million above that. Nevertheless, Rhodia has assumed control of the defense of the CNA claims.

On December 16, 2004, we sued Rhodia in New York State Supreme Court (New York County) seeking a determination that we are entitled to full indemnification under the Rhodia Agreement. On June 13, 2005, the court granted us summary judgment, declaring that the CNA claims were Taxes under the Rhodia Agreement and that Rhodia was obligated to provide any necessary security to guarantee the claims to the Mexican government. Rhodia appealed the decision to the Appellate Division, First Department, which affirmed the lower court's rulings in our favor on March 22, 2007. Rhodia then filed for leave to appeal to New York's highest court, the Court of Appeals, on the issue of the CNA claims as Taxes. On May 29, 2007, Rhodia's motion was granted. Briefing of the Rhodia appeal has been completed, but argument before the court likely will not be heard until 2008. Rhodia did not seek an appeal on the issue of its responsibility for security.

*Further Proceedings.* A final determination of the CNA Fresh Water matter may require appeals to the Mexican Supreme Court and remands to the CNA or to lower courts, a process that might continue for several years. In the event that the appeals were to be decided against us, we could be required to pay a judgment for the entire amount claimed.

If the CNA Fresh Water Claims were sustained for the period 1998-2002, it is possible that CNA would seek to claim similar higher duties, fees and other charges for fresh water extraction and usage from 2003 on into the future. Management estimates that such charges would be approximately \$8.7 million of additional basic charges to date, excluding interest, inflation, and penalties, and, under current operating conditions, approximately \$1.7 million of additional basic charges per year. We believe Rhodia would be responsible to indemnify us fully for those additional Taxes arising on or before the August 2004 closing, and for post-closing losses caused by breaches of covenants, which we have claimed.

Based upon advice of counsel and our review of the CNA Fresh Water Claims, the facts and applicable law, we have determined that liability is reasonably possible, but is neither probable nor reasonably estimable. Accordingly, we have not established a liability on the balance sheet as of September 30, 2007. As additional information is gained, we will reassess the potential liability and establish the amount of any loss reserve as appropriate. The ultimate liability amount could be material to our results of operations and financial condition. Furthermore, Rhodia has a significant amount of debt, a non-investment grade credit rating and has reported losses in recent fiscal years. As a result, we cannot be sure we will ultimately collect any amounts due from Rhodia under our Rhodia Agreement indemnification rights.

A series of claims by CNA concerning salt water extraction and use for 1998 and 1999 totaling approximately \$107 million (including interest, inflation and penalties), was nullified in a unanimous order of the Mexican Court of Fiscal and Administrative Justice, determined to be final and unappealable as of July 10, 2007.



**Table of Contents**

*Mexican Water Recycling System PAMCAR Agreement*

Innophos Fosfatados is the successor to the PAMCAR Agreement which required specified improvements at the Coatzacoalcos plant to be completed by December 31, 2004. Under the terms of the PAMCAR Agreement and subject to its compliance, the CNA temporarily exempted Innophos Fosfatados from the payment of certain waste water discharge duties, taxes and related charges that normally would have been payable. On January 10, 2005, after bringing on line newly installed water recycling equipment, Innophos Fosfatados notified the CNA of its position that it complied with the applicable requirements of the PAMCAR Agreement as of December 31, 2004.

Innophos Fosfatados waste water discharges had been the subject of an earlier study by the National University of Mexico, which concluded in October 2004 that the discharges did not adversely affect the receiving water bodies or the environment. In addition to a previous request by Innophos Fosfatados to update the relevant waste water discharge permit with new operating information, in October 2004, Innophos Fosfatados filed a petition with the CNA to reflect the results of the university study and to revise upward the discharge limits which its operations (including as improved by the water recycling installation) could satisfy. In 2005, Innophos Fosfatados received a new Concession Title (containing a waste water discharge permit and limits) granting the requested relief as to all discharge limits.

Although there has been no formal action, CNA regional officials may take the position that compliance with the PAMCAR Agreement was to be determined by the previous Concession Title which contained a permit with stricter discharge limits. Consequently, while Mexican counsel has advised us that, as a matter of applicable law, compliance should be determined upon the new, revised, discharge limits, CNA regional officials could find that Innophos Fosfatados was not in compliance for the duration of the PAMCAR Agreement. In that event, the exempted taxes, duties and related charges through December 31, 2004, could be reinstated. We estimate that the amount of exempted duties and related charges through December 31, 2004 may range up to \$10.6 million at current exchange rates as of October 25, 2007 (including inflation and interest). In addition, we have been advised it is possible under applicable law that a penalty could be imposed of up to an additional \$11.3 million at current exchange rates as of October 25, 2007. We believe that the above amounts represent the upper range of possible liability based on a finding of noncompliance involving pH levels rather than phosphorus, and, accordingly, could be significantly reduced. We do not know whether the CNA will make a finding of noncompliance as to any aspect of the PAMCAR Agreement or what discharge limits would constitute the basis for a finding of noncompliance as to water quality requirements.

Based upon currently available information and advice of counsel, we would take appropriate steps to challenge any claim stemming from an alleged violation of the PAMCAR Agreement before the CNA and/or Mexican courts, and if any such claim were presented, evaluate potential indemnification rights against Rhodia. Based upon advice of counsel and our review of the CNA claims, the facts and applicable law, we have determined that liability is reasonably possible, but is neither probable nor reasonably estimable. Accordingly, we did not establish a liability on the balance sheet as of September 30, 2007.

*SCT Concession Title*

In late March 2007, Innophos Fosfatados received a follow up to an earlier request for information from the SCT related to our Concession Title to use national port facilities for the Coatzacoalcos plant. Innophos Fosfatados had been granted a 20 year Concession Title in 1993 covering land, pier and water areas, and the SCT is the agency with authority to oversee compliance with that Concession Title, including the payment of required taxes and fees, and to take enforcement action, including revocation or refusal to renew a Concession Title. In our review of the matter, we determined that there was a probable liability and complied with the SCT demand that we undertake a regularization (that is, a settlement) of omitted or insufficient payments of taxes and fees under the Concession Title. By July 2007 we had completed an updated appraisal of the pier-related facilities, made required filings and paid approximately \$2.0 million which was included in cost of goods sold for the second fiscal quarter of 2007. The payments consisted of approximately \$1.7 million for the periods November 1996 through August 13, 2004 and approximately \$0.3 million for the periods August 14, 2004 through May 2007. By completing the regularization process, management was informed by the agency that no penalties would be imposed. Although the appraisal we obtained which established values for the taxes and fees due may be accepted by the SCT for settlement purposes, the SCT is entitled, and we believe likely, to order a new appraisal of the port facilities, which could result in a further adjustment of amounts due on our account, which management believes would not be material.

We believe the liability arising from the SCT regularization, to the extent applicable to periods prior to the August 2004 closing of the acquisition, is fully indemnified by Rhodia under the Rhodia Agreement. We have put Rhodia on notice and made a demand for indemnification amounting to a total of \$1.7 million of pre-acquisition Tax claims. We also believe we are indemnified under other provisions of the Rhodia Agreement, subject to satisfaction of any applicable deductibles, for some or all of the remaining amounts of the regularization payments for periods after the closing and likewise have made a claim for those amounts. Thus far, Rhodia has maintained that the SCT charges are not Taxes as defined under the Rhodia





## **Table of Contents**

Agreement and that otherwise there are defenses to the SCT claims. Therefore, although we intend to pursue indemnification from Rhodia vigorously, it is possible that we will not prevail in any required legal action or that Rhodia will not be able to pay us if we do. The SCT related claims are considered a gain contingency and therefore no receivable has been recorded as of September 30, 2007.

### *U.S. Department of Justice STPP Investigation*

On September 11, 2007, we received a letter from the United States Department of Justice, or DOJ, disclosing that it was conducting an investigation of potential antitrust violations in the STPP (sodium tripolyphosphate) industry. The letter transmitted a grand jury *subpoena* issued by the United States District Court for the Northern District of California to produce documents and other materials relating to our STPP business focusing on the period from January 1, 2002 through December 31, 2005. We believe that the DOJ investigation is just getting underway and understand that other STPP producers have received similar subpoenas.

We are cooperating fully with the DOJ investigation and complying with the subpoena.

Management believes based on all information available at this time, that there is no contingent liability. Accordingly, we have not established a liability on the balance sheet as of September 30, 2007.

We acquired our STPP business in August 2004 as part of the transactions under the Rhodia Agreement. In the event there were to be a claim resulting in liability, we would evaluate potential indemnification rights against Rhodia under the Rhodia Agreement, based upon the facts and circumstances giving rise to such claim.

### *Other Legal Matters*

In June 2005, Innophos Canada, Inc. was contacted by representatives of The Mosaic Company (a division of Cargill Corporation), or Mosaic, seeking a meeting to discuss the status of an ongoing remedial investigation and clean-up Mosaic is conducting at its currently closed fertilizer manufacturing site located north of Innophos Canada's Pt. Maitland, Ontario Canada plant site. The remediation is being overseen by the Provincial Ministry of Environment, or MOE. Mosaic stated that, in its view, we and Rhodia (our predecessor in interest prior to 2004) were responsible for some phosphorus compound contamination at a rail yard between the Innophos Canada, Inc. and Mosaic sites, and will be asked to participate in the clean-up. We have determined that this contingent liability is neither probable nor estimable at this time, but liability is reasonably possible. We have notified Rhodia of the Mosaic claim under the Rhodia Agreement, and we will seek all appropriate indemnification.

In addition, we are party to legal proceedings that arise in the ordinary course of our business. Except as to the matters specifically discussed, we do not believe that these legal proceedings represent probable or reasonably possible liabilities. However, these matters cannot be predicted with certainty and an unfavorable resolution of one or more of them could have a material adverse effect on our business, results of operations, financial condition, and/or cash flows.

---

**Table of Contents**

**ITEM 1A. RISK FACTORS**

There have been no material changes from the risk factors previously disclosed in our 2006 Annual Report on Form 10-K other than as mentioned below.

*We may be adversely affected by environmental, safety, and production and product regulations or 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. In 2004, EPA conducted a multi-media inspection and in 2005 followed up on issues regarding compliance with air, water and hazardous waste regulations at our Geismar, Louisiana plant. In August 2006, we received a report in connection with that inspection identifying certain areas of concern raised by EPA under its hazardous waste regulations. In March 2007, we received a further EPA request for additional information concerning hazardous waste, air pollution controls and materials handling at the Geismar plant. In response, we provided requested information in a timely manner and explained why we maintain that our Geismar facility continues to meet applicable regulations or exclusions. Thus far, no violations have been asserted by EPA for Geismar. Nevertheless, if EPA were to issue notices of violation or refer the matter for further enforcement and it were determined finally that our operations at Geismar were out of compliance, we might have to pay fines and penalties and invest in remedial facilities to achieve compliance, developments that, in the aggregate, could be material to our operations. If the same were to occur at our acid supplier's interconnected plant at Geismar, it is possible that its operations could be interrupted for an extended time while it sought to achieve compliance, the impact of which events could also be material to our operations, as our Geismar facility cannot operate economically under current market conditions without raw materials from the supplier's interconnected plant. Depending upon the facts, circumstances and developments arising from any non-compliance, our long-term raw materials supply contract at Geismar may be adversely affected, and its provisions may not afford us full relief against losses we may suffer.

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 are moving to effectively ban the use of phosphate-based products in consumer automatic dishwashing detergents. In 2006, Washington State enacted legislation of that type, to be effective in several counties in 2008 and state-wide in 2010. Maryland, Minnesota and Vermont have also enacted similar legislation effective in 2010, and comparable bills are being considered by the legislatures of several other states. In 2007, the trade association that includes major manufacturers of consumer automatic dishwashing detergents began actively to support these efforts, increasing the likelihood they will become widespread. 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 of automatic dishwashing detergent products and resulting market changes by adjusting our sales and manufacturing plans. Furthermore, although already banned in home 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 home laundry detergents may not be implemented in some or all of these Latin American markets in the future, although the



**Table of Contents**

geological and hydrological conditions (i.e., river and lake regions) differ substantially from the U.S. Additional laws or regulations focused on reduced use of other phosphate-based products could occur in the future. For example, some jurisdictions have threatened to further regulate or ban the use of polyphosphoric acid and orthophosphoric acid in asphalt road construction. Such a ban, if instituted in multiple jurisdictions or throughout the U.S., could have significant impact on our business.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

**(a) Exhibits. The following exhibits are filed or furnished as part of this report:**

<b>Exhibit No.</b>	<b>Description</b>
31.1	Certification of Principal Executive Officer dated November 14, 2007 pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer dated November 14, 2007 pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Principal Executive Officer dated November 14, 2007 pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Principal Financial Officer dated November 14, 2007 pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

---

\* Not to be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liability of that section, nor deemed to be incorporated by reference into any filing under that Act or the Securities Act of 1933.

**Table of Contents**

**SIGNATURES**

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

INNOPHOS HOLDINGS, INC.

/s/ Randolph Gress  
By: Randolph Gress  
Its: Chief Executive Officer and Director

(Principal Executive Officer)  
Dated: November 14, 2007

INNOPHOS HOLDINGS, INC.

/s/ Richard Heyse  
By: Richard Heyse  
Its: Vice President and Chief Financial Officer

(Principal Financial Officer)  
Dated: November 14, 2007

**Table of Contents**

**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>
31.1	Certification of Principal Executive Officer dated November 14, 2007 pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer dated November 14, 2007 pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Principal Executive Officer dated November 14, 2007 pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Principal Financial Officer dated November 14, 2007 pursuant to Section 906 of the Sarbanes-Oxley Act of 2002