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INNOSPEC INC.
Form DEFA14A
April 07, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

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| <input type="checkbox"/> | Preliminary Proxy Statement | <input type="checkbox"/> | Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2)) |
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INNOSPEC INC.

(Name of Registrant as Specified In Its Charter)

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No fee required.

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April 7, 2011

Dear Stockholder,

In the current economic world, one of the key elements in any business which is enhancing shareholder value is the quality, dedication and loyalty of the management team.

We are now seeking the support of our shareholders to continue our practice of using long-term equity incentive plans as part of our overall compensation program to ensure that our management team are motivated to drive Innospec onto the next stage of our development, and that their compensation in part is very closely linked to improvements in shareholder value. Over the past three years, our 2008 Plans proved to be very effective, and we seek to continue the use of these plans.

There will be three proposals to allocate shares to each of these plans presented to the shareholders at the Annual General Meeting on May 11, 2011, and we do hope you will follow the recommended vote FOR these proposals.

At Innospec, we are very proud of the achievements of our leadership group which includes:

1. Development and execution of a highly successful strategy for our Fuel Specialties business, turning the business into one of the major global players in this market.
2. Turnaround of our Active Chemicals business, creating good top line growth and substantially improved margins, such that the business is now an excellent platform for future growth, based on innovative new chemistries for the Personal Care industry.
3. Resolution of a series of legacy issues which have previously impacted the business including:

Settlement with UK and US authorities under the FCPA investigation;

Development of alternative UK pension arrangements, which substantially reduced future liability for the company; and

Favourable outcomes from several outstanding taxation issues.

This outstanding performance has been reflected in Innospec's share price, which has substantially outperformed the market during this period:

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In line with best practice, we believe that it is important to have a portion of our key managers' compensation closely aligned to shareholder interests.

Consistent with the 850,000 shares initially allocated to the 2008 Plans which have supported the equity compensation grants for the last three years, we are seeking to augment the existing plans with the same amount of shares to be used over the next three to four years. The full details of these plans are available in the appendix to this letter.

We value your continued support as a key shareholder, and we trust that we are able to rely on this support to implement this vital element of our compensation packages.

Yours faithfully,

Patrick Williams

President and CEO, Innospec Inc.

Shareholder
Communication
Long-Term Incentive Plans

Purpose of Long-Term Incentive Plans
(LTIPs)

Equity based compensation

a vital component of executive compensation

creates variable compensation

defers part of reward to the medium and long-term

Aligns executives

interests with creation of shareholder

value

option grants create direct link to company financial
performance

Focused on company performance

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Innospec Share Option Plans

Three Core Long-Term Incentive Plans

Two for executives, including the CEO ; One specifically for Non-Employee

Directors

Plans initiated in 2008

850,000 shares allocated for use over a three-year period

Request to augment the plans with 850,000 shares

3.6% of shares outstanding (provides total of 4.25% of outstanding shares available for future issuance)

Allows Plans to continue to operate until approx 2014 based on past practice

Exactly the same number of shares as allocated three years ago

Balanced Plans

Mix of market-priced and zero priced performance options, with performance measures linked to shareholder value

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Innospec Business Performance

Development and execution of a highly successful strategy
for our Fuel Specialties business

Now one of the major global players in this market

Turnaround of our Active Chemicals business

creating good top line growth

substantially improved margins

excellent platform for future growth

innovative new chemistries for the Personal Care industry

Resolution of a series of legacy issues which have previously
impacted the business including:

Settlement with UK and US authorities under the FCPA
investigation

Development of alternative UK pension arrangements, with
consequent substantially reduced future liability for the company
Favourable outcomes from several outstanding taxation issues

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2008
2010
Sales
\$641m
\$683m
EBITDA
\$50.4m
\$91.5m
Net Income
\$12.5m
\$73.7m
Net Income (exc
Special Items)
\$45.4m
\$82.4m
EPS (diluted)
\$0.51
\$2.97
Innospec Financial Performance

Period covered by 2008 Share Option Plans

Innospec Share Price Performance
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IOSP
D-J/NASDAQ/S&P500

Performance-Related Share Option Plan (PRSOP)

Main plan, covers all senior executives, including the CEO

Represents approx 75% of options granted to executives

Entirely performance-related with vesting based on improvement in shareholder value

Annual grants typically with exercise price of zero

Vesting after three years based on achievement of performance targets

If targets are not met, options do not vest and will lapse

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Company Share Option Plan (CSOP)

Covers all senior executives, including the CEO

Represents approx 25% of options granted to executives

Annual grants typically with exercise price set at market price

Vesting after three years

Only deliver value to executives if the share price improves

Hence shareholder value delivered

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Non-Executive Director Share Option Plan (NEDSOP)
Non-employee Directors (NEDs) only
Annual grants, typically with exercise price set at market price
Initial grant with exercise price of zero once director elected by shareholders
Market-priced Options
approx \$45,000 per annum for each NED
Only deliver real value if share price improves
Vest after three years
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Option Discipline

2008 Plans

Initial allocation of 850,000 shares, almost fully utilized

Utilization rate of 1-1.5% of shares outstanding per annum as part of normal grant process

2009-2010 -

several special retention grants due to change of management team and company circumstances

No further special grants anticipated in next three years

Plans prohibit

Repricing of options

Amendment of targets to make achievement easier

Options under PRSOP do not vest unless performance targets are met

and options under CSOP only have value if share price increases
Fully reported in Proxy Statement
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Summary

Innospec seeks to augment the 2008 Share Option Plans

850,000 shares from the original plan almost fully utilized in the last three years

Augmenting with the same amount of shares allows the plans to operate on the same level for around the next 3-4 years

Outstanding Business Performance

Strong business growth in Fuel Specialties & Active Chemicals

Successful resolution of legacy issues

Creating shareholder value

Strong EPS and Share price growth

Option Plans help drive performance culture and align executive to shareholder interests

Clear targets for achievement

Forward-Looking Statements

This presentation and the accompanying letter contain certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts included herein or in the accompanying letter, such as statements describing growth and market position, may constitute forward-looking statements.

Although forward-looking statements are believed by management to be reasonable when made, caution should be exercised not to place undue reliance on such statements because they are subject to certain risks, uncertainties and assumptions, including in respect of the general business environment, regulatory actions or changes. If the risks or uncertainties materialize or assumptions prove incorrect or change, our actual performance or results may differ materially from those expressed or implied by such forward-looking statements and assumptions.

Additional information regarding risks, uncertainties and assumptions relating to the Company and affecting our business operations and prospects are described in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, and

other reports filed with the U.S. Securities and Exchange Commission. You are urged to carefully review and consider the cautionary statements and other disclosures made in those filings, including specifically those under the heading "Risk Factors". The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.