

INNOSPEC INC.
Form 10-Q
May 07, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2014

or

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

For the transition period from to

Commission file number 1-13879

INNOSPEC INC.

(Exact name of registrant as specified in its charter)

<p>DELAWARE (State or other jurisdiction of incorporation or organization)</p> <p>8310 South Valley Highway Suite 350 Englewood Colorado (Address of principal executive offices)</p> <p>Registrant's telephone number, including area code: (303) 792 5554</p>	<p>98-0181725 (I.R.S. Employer Identification No.)</p> <p>80112 (Zip Code)</p>
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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

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

Class	Outstanding as of April 30, 2014
Common Stock, par value \$0.01	24,386,463

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CAUTIONARY STATEMENT RELATIVE TO FORWARD-LOOKING STATEMENTS

This Form 10-Q contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts included or incorporated herein may constitute forward-looking statements. Such forward-looking statements include statements (covered by words like expects, estimates, anticipates, may, believes or similar words or expressions), for example, which relate to operating performance, events or developments that we expect or anticipate will or may occur in the future (including, without limitation, any of the Company's guidance in respect of sales, gross margins, pension liabilities and charges, net income, growth potential and other measures of financial performance). Although forward-looking statements are believed by management to be reasonable when made, they are subject to certain risks, uncertainties and assumptions, and our actual performance or results may differ materially from these forward-looking statements. 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, 2013, and other reports filed with the U.S. Securities and Exchange Commission. You are urged to review our discussion of risks and uncertainties that could cause actual results to differ from forward-looking statements under the heading Risk Factors in such reports. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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

(in millions, except share and per share data)	Three Months Ended March 31	
	2014	2013
Net sales	\$ 220.7	\$ 199.4
Cost of goods sold	(155.0)	(135.6)
Gross profit	65.7	63.8
Operating expenses:		
Selling, general and administrative	(41.8)	(35.7)
Research and development	(5.7)	(5.6)
Restructuring charge	(0.2)	0.0
Impairment of Octane Additives segment goodwill	0.0	(0.3)
Total operating expenses	(47.7)	(41.6)
Operating income	18.0	22.2
Other net income/(expense)	1.9	1.0
Interest expense	(1.0)	(0.4)
Interest income	0.1	0.1
Income before income taxes	19.0	22.9
Income taxes	(2.1)	(4.9)
Net income	\$ 16.9	\$ 18.0
Earnings per share:		
Basic	\$ 0.69	\$ 0.77
Diluted	\$ 0.69	\$ 0.75
Weighted average shares outstanding (in thousands):		
Basic	24,362	23,404
Diluted	24,635	24,015

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

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INNOSPEC INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(in millions)	Three Months Ended	
	March 31	
	2014	2013
Net income	\$ 16.9	\$ 18.0
Other comprehensive income/(loss):		
Changes in cumulative translation adjustment	(1.2)	(3.6)
Changes in unrealized gains/(losses) on derivative instruments, net of tax of \$0.0 and \$0.0, respectively	0.0	(0.1)
Amortization of prior service credit, net of tax of \$0.1 and \$0.1, respectively	(0.3)	(0.2)
Amortization of actuarial net losses, net of tax of \$(0.3) and \$(0.4), respectively	1.1	1.3
Total other comprehensive income/(loss)	(0.4)	(2.6)
Total comprehensive income	\$ 16.5	\$ 15.4

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

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

(in millions, except share and per share data)	March 31, 2014 (Unaudited)	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 90.1	\$ 80.2
Short-term investments	5.8	6.6
Trade and other accounts receivable (less allowances of \$2.0 and \$2.0, respectively)	122.0	135.8
Inventories (less allowances of \$9.1 and \$9.5, respectively):		
Finished goods	101.7	95.3
Work in progress	2.7	1.9
Raw materials	55.8	61.7
Total inventories	160.2	158.9
Current portion of deferred tax assets	8.7	8.7
Prepaid expenses	4.4	5.8
Prepaid income taxes	3.4	11.4
Total current assets	394.6	407.4
Property, plant and equipment:		
Gross cost	157.5	175.1
Less accumulated depreciation	(97.4)	(114.7)
Net property, plant and equipment	60.1	60.4
Goodwill	187.9	187.9
Other intangible assets	124.0	126.8
Deferred finance costs	1.6	1.8
Deferred tax assets, net of current portion	8.0	8.6
Other non-current assets	1.4	1.8
Total assets	\$ 777.6	\$ 794.7

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

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INNOSPEC INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Continued)

(in millions, except share and per share data)	March 31, 2014 (Unaudited)	December 31, 2013
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 53.9	\$ 63.3
Accrued liabilities	61.8	73.5
Current portion of long-term debt	5.4	5.3
Current portion of plant closure provisions	5.4	6.2
Current portion of unrecognized tax benefits	0.0	6.8
Current portion of deferred tax liabilities	0.2	0.2
Current portion of deferred income	0.3	0.3
Total current liabilities	127.0	155.6
Long-term debt, net of current portion	134.3	142.7
Plant closure provisions, net of current portion	27.3	26.2
Unrecognized tax benefits, net of current portion	9.0	6.2
Deferred tax liabilities, net of current portion	11.1	9.5
Pension liabilities	36.1	39.0
Acquisition-related contingent consideration	4.7	4.6
Other non-current liabilities	0.1	0.3
Deferred income, net of current portion	1.2	1.2
Stockholders' equity:		
Common stock, \$0.01 par value, authorized 40,000,000 shares, issued 29,554,500 shares	0.3	0.3
Additional paid-in capital	309.3	308.8
Treasury stock (5,168,037 and 5,207,947 shares at cost, respectively)	(72.9)	(73.3)
Retained earnings	344.4	327.5
Accumulated other comprehensive loss	(154.3)	(153.9)
Total stockholders' equity	426.8	409.4
Total liabilities and stockholders' equity	\$ 777.6	\$ 794.7

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

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INNOSPEC INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in millions)	Three Months Ended	
	March 31	
	2014	2013
<u>Cash Flows from Operating Activities</u>		
Net income	\$ 16.9	\$ 18.0
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7.4	4.5
Impairment of Octane Additives segment goodwill	0.0	0.3
Deferred taxes	0.4	(0.2)
Excess tax benefit from stock-based payment arrangements	(0.2)	(1.5)
Cash contributions to defined benefit pension plans	(2.9)	(2.8)
Non-cash expense of defined benefit pension plans	1.0	0.9
Stock option compensation	0.6	0.7
Changes in assets and liabilities, net of effects of acquired and divested companies:		
Trade and other accounts receivable	14.2	16.8
Inventories	(1.1)	(4.6)
Prepaid expenses	1.5	(0.4)
Accounts payable and accrued liabilities	(21.4)	(13.8)
Accrued income taxes	8.0	(0.6)
Plant closure provisions	0.3	0.1
Unrecognized tax benefits	(4.0)	(0.4)
Other non-current assets and liabilities	0.2	0.9
Net cash provided by operating activities	20.9	17.9
<u>Cash Flows from Investing Activities</u>		
Capital expenditures	(2.4)	(2.2)
Internally developed software and other costs	(1.5)	(2.1)
Proceeds on disposal of property, plant and equipment	0.1	0.0
Purchase of short-term investments	(1.2)	(1.1)
Sale of short-term investments	2.0	0.9
Net cash provided by/(used in) investing activities	(3.0)	(4.5)
<u>Cash Flows from Financing Activities</u>		
Proceeds from revolving credit facility	0.0	21.0
Repayments of revolving credit facility	(8.0)	(14.0)
Repayments of term loans	(0.3)	0.0
Excess tax benefit from stock-based payment arrangements	0.2	1.5
Issue of treasury stock	0.3	0.4
Repurchase of common stock	(0.2)	(1.3)

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Net cash provided by/(used in) financing activities	(8.0)	7.6
Effect of foreign currency exchange rate changes on cash	0.0	(0.2)
Net change in cash and cash equivalents	9.9	20.8
Cash and cash equivalents at beginning of period	80.2	22.4
Cash and cash equivalents at end of period	\$ 90.1	\$ 43.2

Amortization of deferred finance costs of \$0.2 million (2013 \$0.1 million) are included in depreciation and amortization in the cash flow statement but in interest expense in the income statement.

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

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INNOSPEC INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

(Unaudited)

(in millions)	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders Equity
Balance at December 31, 2013	\$ 0.3	\$ 308.8	\$ (73.3)	\$ 327.5	\$ (153.9)	\$ 409.4
Net income				16.9		16.9
Changes in cumulative translation adjustment					(1.2)	(1.2)
Treasury stock re-issued		(0.3)	0.6			0.3
Treasury stock repurchased			(0.2)			(0.2)
Excess tax benefit from stock-based payment arrangements		0.2				0.2
Stock option compensation		0.6				0.6
Amortization of prior service credit, net of tax					(0.3)	(0.3)
Amortization of actuarial net losses, net of tax					1.1	1.1
Balance at March 31, 2014	\$ 0.3	\$ 309.3	\$ (72.9)	\$ 344.4	\$ (154.3)	\$ 426.8

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

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INNOSPEC INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X under the Securities Exchange Act of 1934. Accordingly, they do not include all the information and notes necessary for a comprehensive presentation of financial position, results of operations and cash flows.

It is our opinion, however, that all adjustments (consisting of normal, recurring adjustments, unless otherwise disclosed) have been made which are necessary for the financial statements to be fairly stated. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K filed on February 13, 2014.

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

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

NOTE 2 SEGMENTAL REPORTING

Innospec divides its business into three segments for management and reporting purposes: Fuel Specialties, Performance Chemicals and Octane Additives. The Fuel Specialties and Performance Chemicals segments operate in markets where we actively seek growth opportunities although their ultimate customers are different. The Octane Additives segment is generally characterized by volatile and declining demand.

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

(in millions)	Three Months Ended March 31	
	2014	2013
Net sales:		
Fuel Specialties	\$ 164.2	\$ 140.0
Performance Chemicals	56.1	47.8
Octane Additives	0.4	11.6
	\$ 220.7	\$ 199.4
Gross profit:		
Fuel Specialties	\$ 52.0	\$ 47.0
Performance Chemicals	13.6	10.5
Octane Additives	0.1	6.3
	\$ 65.7	\$ 63.8
Operating income:		
Fuel Specialties	\$ 25.8	\$ 24.9
Performance Chemicals	6.5	5.0
Octane Additives	(1.2)	4.8
Pension credit/(charge)	(0.8)	(0.7)
Corporate costs	(12.1)	(11.5)
Restructuring charge	(0.2)	0.0
Impairment of Octane Additives segment goodwill	0.0	(0.3)
Total operating income	\$ 18.0	\$ 22.2

The pension credit/(charge) relates to the United Kingdom defined benefit pension plan which is closed to future service accrual. The charges related to our other much smaller pension arrangements in the U.S. and overseas are included in the segment and income statement captions consistent with the related employees' costs.

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

(in millions)	Three Months Ended March 31	
	2014	2013
Depreciation:		
Fuel Specialties	\$ 1.2	\$ 0.6
Performance Chemicals	0.9	0.9

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Octane Additives	0.1	0.2
Corporate	0.6	0.6
	\$ 2.8	\$ 2.3
Amortization:		
Fuel Specialties	\$ 2.2	\$ 1.6
Performance Chemicals	1.3	0.4
Octane Additives	0.0	0.1
Corporate	0.9	0.0
	\$ 4.4	\$ 2.1

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

	Three Months Ended March 31	
	2014	2013
Numerator (in millions):		
Net income available to common stockholders	\$ 16.9	\$ 18.0
Denominator (in thousands):		
Weighted average common shares outstanding	24,362	23,404
Dilutive effect of stock options and awards	273	611
Denominator for diluted earnings per share	24,635	24,015
Net income per share, basic:	\$ 0.69	\$ 0.77
Net income per share, diluted:	\$ 0.69	\$ 0.75

In the three months ended March 31, 2014 and 2013, the average number of anti-dilutive options excluded from the calculation of diluted earnings per share were 8,049 and 10,527, respectively.

NOTE 4 GOODWILL

The following table summarizes the goodwill movement year on year:

	Three Months Ended March 31	
(in millions)	2014	2013
At January 1:		
Gross cost ⁽¹⁾	\$ 424.4	\$ 384.2
Accumulated impairment losses	(236.5)	(235.2)
Net book amount	187.9	149.0
Exchange effect	0.0	(0.1)
Impairment losses	0.0	(0.3)
At March 31:		
Gross cost ⁽¹⁾	424.4	384.1

Accumulated impairment losses	(236.5)	(235.5)
Net book amount	\$ 187.9	\$ 148.6

(1) Gross cost for 2014 and 2013 is net of \$298.5 million of historical accumulated amortization.

The Bachman Group Companies Acquisition

On November 4, 2013, the Company acquired 100% of the voting equity interests in Bachman Services, Inc., Specialty Intermediates, Inc., Bachman Production Specialties, Inc. and Bachman Drilling & Production Specialties, Inc. (collectively *Bachman*). *Bachman* provide chemicals and services to the oil and gas industry and are based in Oklahoma City, Oklahoma. We purchased *Bachman* for a cash consideration of \$45.8 million and by the issuance of 319,953 shares of unregistered Innospec Inc. common stock to the previous owners with a fair value of approximately \$15 million, based on the Innospec share price on the closing date. We acquired the businesses in order to move us towards critical mass, and bring both good technology and market positioning in the oilfield specialties sector which forms part of our Fuel Specialties segment.

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The following table summarizes the calculations of the total purchase price and the estimated allocation of the purchase price to the assets acquired and liabilities assumed for Bachman. The purchase price allocation is not yet complete as we are in the process of finalising the valuation of the assets acquired. We expect to complete the valuations in the second quarter of 2014 following agreement with the previous owners. Final determination of the fair values may result in adjustments to the amounts presented below:

(in millions)	Bachman
Other intangible assets	\$ 25.9
Goodwill	22.9
Deferred tax on intangibles	(7.6)
Other net assets acquired, excluding cash of \$2.0m	17.6
Purchase price, net of cash acquired	\$ 58.8

Bachman, and the associated goodwill, are included within our Fuel Specialties segment for management and reporting purposes.

NOTE 5 OTHER INTANGIBLE ASSETS

The following table summarizes the other intangible assets movement year on year:

(in millions)	Three Months Ended	
	March 31	
	2014	2013
Gross cost at January 1	\$ 175.5	\$ 106.2
Capitalization of internally developed software and other costs	1.5	2.1
Exchange effect	0.0	0.0
 Gross cost at March 31	 177.0	 108.3
Accumulated amortization at January 1	(48.7)	(37.6)
Amortization expense	(4.4)	(2.1)
Exchange effect	0.1	(0.1)
 Accumulated amortization at March 31	 (53.0)	 (39.8)
 Net book amount at March 31	 \$ 124.0	 \$ 68.5

Capitalization of internally developed software and other costs

We are continuing with the implementation of a new, company-wide, information system platform. At March 31, 2014, we had capitalized \$20.1 million (2013 \$12.2 million) in relation to this internally developed software.

Amortization expense

(in millions)	Three Months Ended	
	March 31	
	2014	2013
Product rights	\$ (1.0)	\$ 0.0
Brand names	(0.1)	0.0
Technology	(0.6)	(0.5)
Customer relationships	(1.3)	(0.9)
Patents	(0.1)	(0.1)
Internally developed software	(0.9)	0.0
Non-compete agreements	(0.2)	(0.2)
Marketing related	(0.2)	(0.4)
Total	\$ (4.4)	\$ (2.1)

Table of Contents**NOTE 6 PENSION PLANS**

The Company maintains a defined benefit pension plan (the Plan) covering a number of its current and former employees in the United Kingdom, although it does also have other much smaller pension arrangements in the U.S. and overseas. The Plan is closed to future service accrual but has a large number of deferred and current pensioners.

(in millions)	Three Months Ended March 31	
	2014	2013
Plan net pension credit/(charge):		
Service cost	\$ (0.4)	\$ (0.4)
Interest cost on projected benefit obligation	(8.7)	(7.9)
Expected return on plan assets	9.3	9.0
Amortization of prior service credit	0.4	0.3
Amortization of actuarial net losses	(1.4)	(1.7)
	\$ (0.8)	\$ (0.7)

The amortization of prior service credit and actuarial net losses is a reclassification out of accumulated other comprehensive income/(loss) into selling, general and administrative expenses.

NOTE 7 INCOME TAXES

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

(in millions)	Interest and Penalties	Unrecognized Tax	
		Benefits	Total
Opening balance at January 1, 2014	\$ 1.1	\$ 11.9	\$ 13.0
Reductions for tax positions of prior periods	(0.4)	(3.6)	(4.0)
Closing balance at March 31, 2014	0.7	8.3	9.0
Current	0.0	0.0	0.0
Non-current	\$ 0.7	\$ 8.3	\$ 9.0

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

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

The Company or one of its subsidiaries files income tax returns with the U.S. federal government, and various state and foreign jurisdictions. As previously disclosed, as at December 31, 2013, the Company and its U.S. subsidiaries were subject to tax audits in the U.S.. On March 6, 2014, the federal income tax examination by the IRS for 2009 was

effectively settled. The additional tax cost was nominal and resulted in a reduction of \$3.6 million in unrecognized tax benefits and a reduction of \$0.4 million in associated interest and penalties in the first quarter of 2014.

The Company and its U.S. subsidiaries remain open to examination by the IRS for years 2010 onwards. The Company's subsidiaries in foreign tax jurisdictions are open to examination including France (2012 onwards), Germany (2010 onwards), Switzerland (2012 onwards) and the United Kingdom (2012 onwards).

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The Company is in a position to control whether or not to repatriate foreign earnings and we intend to permanently reinvest earnings overseas to fund overseas subsidiaries. No taxes have been provided for on the unremitted earnings of our overseas subsidiaries as any tax basis differences relating to investments in these overseas subsidiaries are considered to be permanent in duration. The amount of unremitted earnings at December 31, 2013 and 2012 was approximately \$605 million and \$717 million, respectively. If these earnings are remitted, additional taxes could result after offsetting foreign income taxes paid although the calculation of the additional taxes is not practical at this time.

NOTE 8 LONG-TERM DEBT

Long-term debt consists of the following:

(in millions)	March 31, 2014	December 31, 2013
Revolving credit facility	\$ 134.0	\$ 142.0
Promissory note	5.0	5.0
Other long-term debt	0.7	1.0
	139.7	148.0
Less current portion	(5.4)	(5.3)
	\$ 134.3	\$ 142.7

The credit facility provides for borrowings by us of up to \$180 million until it expires on December 14, 2016 and may be drawn down in full in the U.S.. In addition, the Company can request an additional amount of up to \$20 million to be committed by the lenders.

NOTE 9 PLANT CLOSURE PROVISIONS

The liability for estimated closure costs of Innospec's manufacturing facilities includes costs for decontamination and environmental remediation activities (remediation). The principal site giving rise to remediation liabilities is the manufacturing site at Ellesmere Port in the United Kingdom. There are also remediation liabilities on a much smaller scale in respect of our other manufacturing sites in the U.S. and Europe.

Movements in the provisions for the three months ended March 31 are summarized as follows:

(in millions)	2014			2013
	Severance	Remediation	Total	Total
Total at January 1	\$ 1.0	\$ 31.4	\$ 32.4	\$ 30.4
Charge for the period	0.0	0.7	0.7	0.6
Utilized in the period	0.0	(0.4)	(0.4)	(0.6)
Exchange effect	0.0	0.0	0.0	0.0
Total at March 31	1.0	31.7	32.7	30.4
Due within one year	0.0	(5.4)	(5.4)	(4.2)

Due after one year	\$ 1.0	\$	26.3	\$ 27.3	\$ 26.2
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Amounts due within one year refer to provisions where expenditure is expected to arise within one year of the balance sheet date. Severance charges are recognized in the income statement as restructuring costs along with other restructuring costs. Remediation costs are recognized in cost of goods sold.

Remediation

The remediation provision represents the Company's liability for environmental liabilities and asset retirement obligations. The charge for the period represents the accretion expense recognized in the first three months of 2014.

We recognize environmental liabilities when they are probable and costs can be reasonably estimated, and asset retirement obligations when there is a legal obligation and costs can be reasonably estimated. The Company has to anticipate the program of work required and the associated future expected costs, and comply with environmental legislation in the countries in which it operates or has operated in. The Company views the costs of vacating our Ellesmere Port site as contingent upon if and when it vacates the site because there is no present intention to do so. The Company has further determined that, due to the uncertain product life of TEL particularly in the market for aviation gasoline and other products being manufactured on the site, there are uncertainties as to the probability and timing of the expected costs. Such uncertainties have been considered in estimating the provision.

NOTE 10 FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Company utilizes a mid-market pricing convention for valuing the majority of its assets and liabilities measured and reported at fair value. The Company utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable. The Company primarily applies the market approach for recurring fair value measurements and endeavors to utilize the best available information. Accordingly, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Company is able to classify fair value balances based on the observability of those inputs. The Company gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. In the first three months of 2014, the Company evaluated the fair value hierarchy levels assigned to its assets and liabilities, and concluded that there should be no transfers into or out of Levels 1, 2 and 3.

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The following table presents the carrying amount and fair values of the Company's assets and liabilities measured on a recurring basis:

(in millions)	March 31, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Assets</u>				
Non-derivatives:				
Cash and cash equivalents	\$ 90.1	\$ 90.1	\$ 80.2	\$ 80.2
Short-term investments	5.8	5.8	6.6	6.6
Derivatives (Level 1 measurement):				
Other non-current assets:				
Foreign currency forward exchange contracts	0.7	0.7	1.0	1.0
<u>Liabilities</u>				
Non-derivatives:				
Long-term debt (including current portion)	\$ 139.7	\$ 139.7	\$ 148.0	\$ 148.0
Non-financial liabilities (Level 3 measurement):				
Stock equivalent units	7.1	7.1	12.1	12.1
Acquisition-related contingent consideration				