

**Thomson StreetEvents**<sup>SM</sup>



## Conference Call Transcript

IPHS - Q1 2009 Innophos Earnings Conference Call

Event Date/Time: May. 05. 2009 / 10:00AM ET

May. 05. 2009 / 10:00AM ET, IPHS - Q1 2009 Innophos Earnings Conference Call

## CORPORATE PARTICIPANTS

**Bill Farran**

*Innophos Holdings, Inc. - VP, General Counsel, Corporate Secretary*

**Randy Gress**

*Innophos Holdings, Inc. - Chairman, CEO, President*

**Richard Heyse**

*Innophos Holdings, Inc. - VP, CFO*

## CONFERENCE CALL PARTICIPANTS

**Edward Yang**

*Oppenheimer & Company - Analyst*

**Christopher Butler**

*Sidoti & Company - Analyst*

**Frank Mitsch**

*BB&T Capital Markets - Analyst*

## PRESENTATION

---

### Operator

Good day, ladies and gentleman, and welcome to the First Quarter Innophos Earnings Conference Call. My name is Latrice and I will be your coordinator for today's conference. At this time, all participants will be in listen-only mode. We will conduct a question and answer session towards the end of this conference.

(Operating Instructions)

At this time, I would now like to turn the call over to your host for today's call, Mr. Bill Farran, Vice President and General Counsel. Please proceed, sir.

---

### Bill Farran - *Innophos Holdings, Inc. - VP, General Counsel, Corporate Secretary*

Thanks for joining us today for the Innophos Holdings Inc. conference call to discuss first quarter 2009 results. Conducting the call today are Randy Gress, Chief Executive Officer, Richard Heyse, Chief Financial Officer, and myself, Bill Farran, General Counsel. During the course of this call, management may reiterate forward-looking statements made in our May 4th press release regarding financial performance and future events.

We will attempt to identify these statements by use of words such as expect, believe, anticipate, intend, or other words that denote future events. These forward-looking statements are subject to material risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. We caution you to consider the important risk factors that could cause actual results to differ from those in the forward-looking statements as contained in this conference call, and in our earnings reports and filings we make with the SEC.

We will make a replay of this conference call available for a limited time over the telephone at the number set forth in our press release, and via a webcast available on the Company website. In addition, please note that the date of this conference call is May 5, 2009. Any forward-looking statements we may make today are based on assumptions that we believe to be reasonable as of this date. And we undertake no obligation to update these statements as a result of future events. Now I'd like to turn the call over to Randy Gress, CEO of Innophos. Randy?

---

### Randy Gress - *Innophos Holdings, Inc. - Chairman, CEO, President*

May. 05. 2009 / 10:00AM ET, IPHS - Q1 2009 Innophos Earnings Conference Call

Thanks, Bill, and good morning, everyone. Thanks for joining us today. I will start off with some comments about the first quarter and discuss our current outlook. Then Richard will give us the financial highlights for the quarter. I'll discuss the new initiatives we are considering for alternative rock supply and finish with a short summary, after which we will take your questions.

Net sales for the first quarter 2009 were a solid \$190.8 million, an increase of \$28.3 million over the same period in 2008, driven by higher selling prices put into place throughout 2008. Soft demand in all segments led to volume declines. We continued to see the majority of the effect in the technical grade products, both specialty salts and purified phosphoric acid, which in part go to the industrial markets and agricultural sectors. Total tons of product shipped, excluding changes driven by GTSP, was down 34%, with the leading driver being the reduced demand of our existing customers.

During the quarter, the fertilizer market again began to function, albeit at lower prices than we enjoyed in 2008, enabling us to clear our excess GTSP co-product inventory sooner than we had forecasted. So while STP and other products showed a net volume in mixed decline, it was positively affected by increased GTSP sales volumes, which were slightly above historical averages. Including GTSP on the total tons shipped basis, volumes were down only 15%.

However, we continue to face a weak economic environment, in which overall demand seems softer and competition more intense. Conditions are variable and subject to very rapid change. So we don't believe we are in a position to offer operating income guidance for the full year. On a sequential basis, we currently expect second quarter 2009 volumes, excluding GTSP fertilizer sales, to be approximately 5% higher than the first quarters for several reasons.

First is the direction of the trend we saw through the first quarter. While totals were weak overall, January was the low point. And daily shipping rates improved in the subsequent two months. Additionally, the second quarter has generally been better for cyclical reasons. Agricultural buying picks up, demand increases in our food markets, and it is the beginning of our road paving season.

The second quarter 2009 selling prices are expected to move lower than in the first quarter, while the second quarter raw material cost structure will be \$15 million to \$18 million higher. This is related to higher phosphate rock costs in Mexico in line with the indications we gave earlier, the first quarter inventory re-pricing benefit, and the mix of phosphoric acid supply in the United States. This increased cost will be offset somewhat by improved fixed cost containment.

Looking beyond the second quarter of 2009, we can't predict overall volumes because we are dependent on the depth and length of the recession and overall competitive intensity. Through the rest of the year, we expect overall average selling prices to continue to move down, while increased phosphate rock costs in Mexico will affect our cost structure fully in the third quarter of 2009. We are therefore remaining flexible as to the appropriate level of production in Mexico.

We continue to operate at reduced levels, take manufacturing efficiencies and cost reductions, and work on the planned conversion of technical-grade acid capacity in the Coatzacoalcos plant to food-grade acid capacity, which will more than double our existing food-grade capacity at the site. I will now turn it over to Richard for more detail on the quarter.

---

**Richard Heyse - Innophos Holdings, Inc. - VP, CFO**

Thanks, Randy. Innophos produced another solid quarter with net sales of \$190.8 million, an increase of \$28.3 million or 17.4% over the same period in 2008. In the US and Canada, price increases on all product lines exceeded lower volume and mixed effects on all product lines, while in Mexico lower volume and mix effect in purified phosphoric acid and specialty salts and specialty acids exceeded higher pricing on these product categories.

Operating income for the first quarter 2009 was \$55.3 million, an increase of \$31.9 million or 136% over the comparable period in 2008. US and Canadian operating income increases of \$36.3 million and \$5.5 million respectively were offset by a Mexican operating income decline of \$10 million. Net interest expense, including deferred financing amortization, for the first quarter 2009 was \$7.7 million, a decrease of \$0.9 million versus the comparable period in 2008.

Net income for the first quarter of 2009 was \$30.2 million, which was \$20.9 million better than the same period in 2008. Finally, diluted earnings per share for the first quarter of 2009 was \$1.39 per share, compared to \$0.43 per share for the first quarter of 2008. Cash generation was outstanding in the first quarter.

May. 05. 2009 / 10:00AM ET, IPHS - Q1 2009 Innophos Earnings Conference Call

Net debt decreased from \$257 million at the end of fourth quarter 2008 to \$192 million at the end of the first quarter. In March, we paid off \$54 million of our bank debt. And at the end of the quarter, we had \$136.9 million of cash and cash equivalents. With net debt now below \$200 million, we believe we have reached a new milestone. This is the first time in company history that shareholder equity exceeds net debt.

We did not use our revolving credit line in the quarter, and capital expenditures for the first quarter of 2009 were as anticipated at \$3.1 million. We expect to continue to convert working capital to cash during 2009 and early 2010. Our cash on hand balance at the beginning of the year was equivalent roughly to our bank debt term loan balance, and the cash generated from our working capital reduction effort was expected to be similar in magnitude to the balance of our 9.5% notes due 2012. So from a liquidity perspective, our solid cash flow generation will allow us to continue to strengthen our balance sheet and reduce the Company's exposure to refinancing risk.

Given current cash flow generation expectations, we anticipate being able to operate without a need to access credit markets until 2014 when our senior bonds mature. Finally, as indicated in our 2008 10-K, we are exploring alternatives to put in place a new revolving credit facility prior to the expiration of our current facility in August. I will now turn the call back over to Randy for the closing.

---

**Randy Gress - Innophos Holdings, Inc. - Chairman, CEO, President**

Thanks, Richard. While there have certainly been raw material cycles in the past, the late 2007 through 2008 historic price fly-up of phosphate rock put our Company into a raw material supply position that we had never seen in our industry. It was an unprecedented change that was not consistent with historical rock prices going back at least 30 years.

And as you can see, we were very successful reacting to and dealing with this very challenging situation. What we have learned is that in the future, we want to build greater flexibility into our business. These considerations depend, to some extent, on factors out of our control, such as the timing of other rock projects coming online and the effect they have on longer-term phosphate rock supply and market price.

As we reported in the past, Innophos initiated binding arbitration with OCP in December 2008. A panel of three arbitrators has been selected to hear the case, interpret the pricing provisions of the contract, and derive the phosphate rock price for the years 2008 and 2009. Hearings have been scheduled for November, and the arbitration decision is expected at or shortly after year-end. We will continue to seek a solution with OCP that is mutually agreeable. However, we are also testing alternative sources of rock and acid supply, should they be needed. We are evaluating what is right not just for our Mexican business, but for the entire Company in the longer term as well.

As we have stated in the results press release, we are also looking at secondary sources of supply from known mineral deposits in the Baja Peninsula of Mexico, an area with substantial phosphate rock deposits. The Santo Domingo deposit had reached development stage in the 1980s in a government-sponsored project. Development was suspended, however, due to a drop in phosphate rock prices. In the fourth quarter 2008, the Mexican government decided to make Santo Domingo available. And in the first quarter, we obtained through a qualified bidding process a 50 year phosphate mineral rights concession for the deposit.

We were also successful in the first quarter in obtaining a multi-year exclusive option to explore a privately-held phosphate concession that is located in the vicinity of the Santo Domingo deposit. As one can imagine, development of this deposit, if economically viable, would potentially provide Innophos long-term insurance against future surges in phosphate rock prices.

We estimate that full exploration costs to approve and reserve standard for the Santo Domingo deposit could require expenditures of \$10 million to \$15 million over a three year period if executed systematically. We are putting the initial steps in place and are focused on taking each step sequentially, ensuring that the evaluation is milestone-based, and that full expenditures would only occur if each milestone is successfully attained.

Based on the prior levels of development in the case of Santo Domingo and exploration in the case of the nearby private concession, we believe that initiating full resource-defining activities at the Santo Domingo concession and mineral verification studies of the private concession are the appropriate initial approaches. We currently estimate the 2009 and 2010 expenditures will be approximately \$10 million, with the Santo Domingo deposit the primary focus. As we settle the timing of the 2009 portion of the expenditures, we will update you as appropriate.

As part of our overall supply diversification efforts, we have also recently commissioned a phosphoric acid pilot plant at the Coatzacoalcos facility. We will use the pilot plant to develop phosphoric acid production processes for various phosphate rock types, and to test other alternative sources of phosphate rock and MGA, or agricultural-grade acid, for use in our purified phosphoric acid production.

May. 05. 2009 / 10:00AM ET, IPHS - Q1 2009 Innophos Earnings Conference Call

As we continue to focus on greater efficiencies in our business, outstanding service to our customers, and look for the best long-term solution to our raw material supply needs, we are continuing to maintain both the daily operational focus and the financial stability that we believe will allow us to maintain a strong market position in our core business. Thank you for listening. Now we will take your questions. Operator?

## QUESTION AND ANSWER

---

**Operator**

Thank you.

(Operating Instructions)

And our first question comes from the line of Edward Yang with Oppenheimer. Please proceed, sir.

---

**Edward Yang - Oppenheimer & Company - Analyst**

Hi. Good morning.

---

**Randy Gress - Innophos Holdings, Inc. - Chairman, CEO, President**

Good morning, Ed.

---

**Edward Yang - Oppenheimer & Company - Analyst**

Randy, you mentioned building greater flexibility into your business model. Currently obviously there's a gap between acid prices and your own rock costs. At this point, how much do you produce internally, your own acid needs, and how much can you adjust that to take advantage of the gap between your rock costs and market acid prices?

---

**Randy Gress - Innophos Holdings, Inc. - Chairman, CEO, President**

As far as what we produce on the purified acid basis, in Mexico we produce all of our purified acid needs. What I'm talking about there is some of the flexibility that we have to use merchant green acid, where we could bring that into the operation versus sourcing of rock. And right now, we're still sourcing 100% of our rock with the supply from OCP, but do have the flexibility across our entire network to shift purified acid to support the needs across the entire business. And then in the US, we do have a mix of what we produce at our Geismar operation and what we purchase on top of that. We produce most of the acid at Geismar.

---

**Edward Yang - Oppenheimer & Company - Analyst**

Do you nominate your rock volumes from OCP quarterly or annually? And is there a minimum commitment for volumes for 2009?

---

**Randy Gress - Innophos Holdings, Inc. - Chairman, CEO, President**

Right now there's a quarterly nomination for 2009. And it's based on what our needs are. No minimum.

---

**Edward Yang - Oppenheimer & Company - Analyst**

And there's no minimum? Okay. Okay. Thank you.

May. 05. 2009 / 10:00AM ET, IPHS - Q1 2009 Innophos Earnings Conference Call

---

**Randy Gress - Innophos Holdings, Inc. - Chairman, CEO, President**

Thanks, Ed.

---

**Operator**

And our next question comes from the line of Christopher Butler with Sidoti and Company. Please proceed, sir.

---

**Christopher Butler - Sidoti & Company - Analyst**

Hi. Good morning, guys.

---

**Randy Gress - Innophos Holdings, Inc. - Chairman, CEO, President**

Good morning, Chris.

---

**Christopher Butler - Sidoti & Company - Analyst**

You had mentioned that the run-up and now run-down in rock prices was unprecedented, yet you're still moving forward with this plan to integrate further into rock. In some ways, are we spending capital to prepare for the 100-year storm right after it happened? Or has there been some sort of shift in the marketplace that makes you think that this -- that more volatility is in our future?

---

**Randy Gress - Innophos Holdings, Inc. - Chairman, CEO, President**

Chris, what we have here with the concessions, I think, is what we've seen as an opportunity to take a look at how we could increase our flexibility here where the government made this available. And we jumped on it. I think what it does give us, where we do have some knowledge, is a chance here to explore and increase the flexibility and leverage for our overall supply at the site. I think as we make the investments to prove out the actual reserves, we'll be able to make a choice along the way to see that whether this is economical or not. And if the long-term rock prices are higher, this certainly gives us somewhat of an insurance policy.

---

**Richard Heyse - Innophos Holdings, Inc. - VP, CFO**

I wanted to add to this if I could. There's a lot of difference of opinion, if you will, for even people who consider themselves experts on where long-term phosphate rock market prices are going to go. And as Randy mentioned, this gives in essence the Company an insurance policy or a natural hedge if you believe the scenarios where rock is going to get more constrained in the future and prices go up.

As Randy mentioned, this deposit had reached development stage before. And so you could, if it's economically viable, go ahead and develop. In the scenario where rock prices go down and stay low, then we're, as a rock buyer, buying for specialty chemicals, we're pretty happy with that scenario, too. And in that case you wouldn't develop. So I think that's the way we're looking at it. As Randy mentioned, it gives us some flexibility and gives the Company some alternatives for various scenarios.

---

**Randy Gress - Innophos Holdings, Inc. - Chairman, CEO, President**

And I think just one last point, Chris, in that this doesn't change our base business model, which we think is solid, but just supports it. And at the same time, we would look for the appropriate partner or partners where this may make sense.

---

**Christopher Butler - Sidoti & Company - Analyst**

May. 05. 2009 / 10:00AM ET, IPHS - Q1 2009 Innophos Earnings Conference Call

And with the increased demand from fertilizers, do you think that as we look out over the course of 2009, we're going to get a little bit more stability with the rock prices?

---

**Randy Gress - Innophos Holdings, Inc. - Chairman, CEO, President**

Yes. I think, as we saw some recovery within the fertilizer market, we would expect some stability within the rock market, too.

---

**Christopher Butler - Sidoti & Company - Analyst**

And looking forward to the resets for your supply agreements for 2010, would better stability give a better chance of being able to come to a very quick agreement next year as opposed to these more drawn-out negotiations?

---

**Randy Gress - Innophos Holdings, Inc. - Chairman, CEO, President**

Yes. I think we're still going to have to depend on the determination from the arbitration. And, again, what we had stated before we expect that end of the year, beginning of next year. I think with that determination that it will certainly ease the determination of rock pricing for 2010, but certainly doesn't preclude us from reaching some mutual agreement with OCP ahead of time.

---

**Christopher Butler - Sidoti & Company - Analyst**

I appreciate your time.

---

**Randy Gress - Innophos Holdings, Inc. - Chairman, CEO, President**

Thanks.

---

**Richard Heyse - Innophos Holdings, Inc. - VP, CFO**

Thanks, Chris.

---

**Operator**

(Operator Instructions)

And our next question comes from the line of Frank Mitsch with BB&T Capital Markets. Please proceed, sir.

---

**Frank Mitsch - BB&T Capital Markets - Analyst**

Good morning, gentlemen.

---

**Randy Gress - Innophos Holdings, Inc. - Chairman, CEO, President**

Good morning, Frank.

---

**Frank Mitsch - BB&T Capital Markets - Analyst**

May. 05. 2009 / 10:00AM ET, IPHS - Q1 2009 Innophos Earnings Conference Call

How many bidders were there for the Baja California project?

---

**Randy Gress - Innophos Holdings, Inc. - Chairman, CEO, President**

Two. Two bidders.

---

**Frank Mitsch - BB&T Capital Markets - Analyst**

Okay. And as you look at what was done back in the '80s, and you mentioned that the extraction cost didn't make sense in that low phosphate rock environment, but do you have any sense that the work done back then suggested that there would be enough deposit there that would allow you to become self-sufficient in phosphate rock such that you would not have to rely on outside suppliers, if in fact this proved to be economical? Is there enough reserve there, do you believe?

---

**Richard Heyse - Innophos Holdings, Inc. - VP, CFO**

Frank, this is one place there's some really strict SEC rules on what we can speculate on. Until we get to that proven reserve state and as we get through the exploration process, we'll be able to get more clarity on that. What we can say is we do have -- there's a fair amount of public records as far as the previous development records.

There's articles in mining journals. There's other publications. And those numbers would indicate -- would make sense for us to proceed, as Randy mentioned, sequentially through the exploration phase. But until we get through a couple of milestones, we're not allowed to comment on the size of the deposit or the quality of deposit until we have the geologist signed off records.

The other -- and if you go back historically, part of this deposit was actually intended to be used for -- it was being developed by the Mexican government when the fertilizer companies were still state-owned. And the intent was to use some of this rock at our Coatzacoalcos facility. And it wasn't just phosphate rock prices, but it was also the cost of shipping through the Panama Canal at the time, and the rates were fairly high. So when the government was looking at the cost of shipping from the Pacific Coast through the Canal to the Gulf Coast versus the cost of buying rock at that time, which was available from Florida and Morocco, the decision was made with those low rock prices and high Canal costs that it was better to buy and suspend development. And also that was during, I believe, a currency crisis in Mexico, and the government was a bit strapped for cash at the time.

---

**Frank Mitsch - BB&T Capital Markets - Analyst**

All right. Great. Well, I look forward to the Innophos analyst trip to visit this site next winter.

---

**Richard Heyse - Innophos Holdings, Inc. - VP, CFO**

I'm sure we're going to have lots of requests for that.

---

**Randy Gress - Innophos Holdings, Inc. - Chairman, CEO, President**

I'm sorry. We're all full there.

---

**Richard Heyse - Innophos Holdings, Inc. - VP, CFO**

It is actually a phosphate sands deposit. It is a beach.

---

**Frank Mitsch - BB&T Capital Markets - Analyst**

May. 05. 2009 / 10:00AM ET, IPHS - Q1 2009 Innophos Earnings Conference Call

I think I can justify that. The conversion to food-grade product, how is that? You say that you're in the process of doing that. When do you anticipate that that'll be completed?

---

**Randy Gress - Innophos Holdings, Inc. - Chairman, CEO, President**

We expect -- that's the conversion of the food-grade acid from technical to food capability down in Coatzacoalcos. And we expect that to be completed by the end of the year.

---

**Frank Mitsch - BB&T Capital Markets - Analyst**

Okay. Great. And then lastly, Richard, you were talking about the positive progress you made on reducing net debt, and your prospects for a positive cash flow generation for this year. Do you have a target net debt level in mind, and what might be possible uses of cash if you're in a situation where there's no longer an economic rationale to reduce your debt levels?

---

**Richard Heyse - Innophos Holdings, Inc. - VP, CFO**

We don't have a target at that rate at this moment. As I mentioned, we are targeting accumulating enough cash to be able to cover both our bank debt and the Holdco notes. As far as working capital, we're targeting between now and early 2010 another \$30 million to \$40 million of conversion. We feel pretty good about the success on that front. So I think until the whole credit market and everything else recovers, we're going to be fairly conservative in our approach. And we've been conservative since 2006, and I think that's, in hindsight, we've made some good calls on debt reduction and retaining cash. And we're just going to continue that same kind of approach.

---

**Frank Mitsch - BB&T Capital Markets - Analyst**

All right. Great. Thank you.

---

**Operator**

(Operator Instructions)

And our next question comes from the line of Jeff Zekauskas with JP Morgan. Please proceed.

---

**Olga Guteneva - J.P. Morgan -- Analyst**

Hi. Good morning. This is Olga Guteneva sitting in here for Jeff.

---

**Richard Heyse - Innophos Holdings, Inc. - VP, CFO**

Good morning, Olga.

---

**Olga Guteneva - J.P. Morgan -- Analyst**

Hi, how are you?

---

**Richard Heyse - Innophos Holdings, Inc. - VP, CFO**

May. 05. 2009 / 10:00AM ET, IPHS - Q1 2009 Innophos Earnings Conference Call

Pretty good.

---

**Olga Guteneva – J.P. Morgan -- Analyst**

Good. So what was your capacity utilization in North America in the quarter?

---

**Richard Heyse - Innophos Holdings, Inc. - VP, CFO**

The capacity utilization in the quarter, I think we tend not to track. And as Randy mentioned, overall volumes including GTSP were off about 15%. We mentioned that Mexico's operating around approximately 50% utilization. The US assets, to be honest, would -- I don't know off the -- exactly what our utilization is. But, again, normally we don't operate those assets full anyway. We try to maintain some head room so we can service growth. And we've been de-bottlenecking some of the plants, in particular our calcium plants, because they've gotten capacity constrained in the last two years.

---

**Olga Guteneva – J.P. Morgan -- Analyst**

Right. So given that the utilization was somewhat below normal, have you taken any restructuring or cost-reduction efforts, and what was the magnitude of that?

---

**Richard Heyse - Innophos Holdings, Inc. - VP, CFO**

Yes, we've been -- as Randy mentioned, we're targeting some cost-reduction efforts. We've had some labor force reductions in Mexico, and some other cost-reduction efforts. Right now we're targeting about \$10 million for the year, and have pretty good momentum on those initiatives.

---

**Olga Guteneva – J.P. Morgan -- Analyst**

And is it going to be even, perhaps, throughout the year, or more end-year-weighted?

---

**Richard Heyse - Innophos Holdings, Inc. - VP, CFO**

I would say a bit more end-year weighted, probably somewhat even between the second, third, and fourth quarter.

---

**Olga Guteneva – J.P. Morgan -- Analyst**

And what are the expenses associated with that? Did you spend any money on that?

---

**Richard Heyse - Innophos Holdings, Inc. - VP, CFO**

There's a small amount of severance, which we booked in the first quarter, related to some force reductions in Mexico. And otherwise, at this point there may be some additional severance reserves in Mexico. But I wouldn't anticipate them being very material. A big part of what we're doing is simply being more frugal on what we spend and how we spend, and we're working with the labor unions in Mexico to adjust the staffing at the plant and how the shifts are staffed to help drive overtime down and other labor costs.

---

**Olga Guteneva – J.P. Morgan -- Analyst**

So the SG&A expense of \$14 million in the first quarter, is it a good run rate quote for the year?

---

**Richard Heyse - Innophos Holdings, Inc. - VP, CFO**

May. 05. 2009 / 10:00AM ET, IPHS - Q1 2009 Innophos Earnings Conference Call

Probably fairly good. Typically, first quarter is a bit light. But, again, we're trying to focus on SG&A expenditures, also. Last year we had a fair amount of expense related to the anti-trust subpoena and some filing departments for the Department of Justice, which we were successful in, and that's since been wound down. But this year we do have the costs associated with the OCP arbitration. But overall, I think the SG&A rate, again, we're trying to watch that also, and be pretty careful on how we spend money.

---

**Olga Guteneva – J.P. Morgan -- Analyst**

Okay. And just to clarify, probably I missed it. Did you say that you expect additional \$30 million to \$40 million in working capital, say then, for the rest of the year?

---

**Richard Heyse - Innophos Holdings, Inc. - VP, CFO**

Over the next year through the first and second quarter of 2010.

---

**Olga Guteneva – J.P. Morgan -- Analyst**

Oh. So it's over the next year.

---

**Richard Heyse - Innophos Holdings, Inc. - VP, CFO**

Because -- right. I think it will take some time. And as we discussed before, raw material contracts, some of them reset once a year. And we would expect some working capital recovery after they reset this next year. And we would expect they'd reset downwards. And that would help us get -- and then also tax refunds. We have some anticipation of some tax refunds in the first and second quarter next year related to Mexico.

---

**Olga Guteneva – J.P. Morgan -- Analyst**

Right. And I guess the last question is more like a theoretical question, I guess. So you mention that you're trying to eliminate your dependency on phosphate rock prices and phosphate rock supply, and move to acid purchases. In theory, can you just switch to using acid and just don't buy rock at all? Or you have any manufacturing limitations?

---

**Randy Gress - Innophos Holdings, Inc. - Chairman, CEO, President**

I mean, in theory, you could buy acid, the merchant green acid, and convert that to purified acid and not buy rock if necessary.

---

**Richard Heyse - Innophos Holdings, Inc. - VP, CFO**

If the appropriate quality and grades were available.

---

**Olga Guteneva – J.P. Morgan -- Analyst**

Right. So your manufacturing abilities basically allow you to do this? You don't have to buy rock and then process it? You can buy MGA and then process it, right?

---

**Richard Heyse - Innophos Holdings, Inc. - VP, CFO**

Correct. And that's what we do at Geismar, our Geismar, Louisiana plant. We purchase MGA and process it. In Mexico, we're vertically integrated. We have our own agricultural-grade acid plant because it improves our cost structure. We're also in a zone where we get low-cost sulfur, which is an important part of that process. But certainly we could, with the certain high-quality MGA, we could choose to purchase MGA like we do in Geismar and not run our own agricultural-grade acid unit from Mexico.

May. 05. 2009 / 10:00AM ET, IPHS - Q1 2009 Innophos Earnings Conference Call

---

**Unidentified Participant**

So basically it's a question of price, whether it makes more economic sense to buy rock or to buy MGA and then process it?

---

**Richard Heyse - Innophos Holdings, Inc. - VP, CFO**

And historically, the right answer has been -- or the lower-cost option has been to run the MGA unit and purchase rock. I believe there's one other time in our history where our rock price and market MGA prices got inverted, and we did operate on purchased MGA for a couple of quarters. It was a ways back. But as Randy mentioned just now, market MGA prices are getting to the point where it's looking where that could be the correct economic answer for later this year if we can obtain the correct supply.

---

**Olga Guteneva - J.P. Morgan -- Analyst**

Okay. Great. Thank you very much.

---

**Operator**

(Operator Instructions)

There are no further questions in queue at this time. At this time, I would like to turn the call over Mr. Randy Gress for closing remarks.

---

**Randy Gress - Innophos Holdings, Inc. - Chairman, CEO, President**

Well, again, we'd like to thank you for joining us on the call. And we look forward to updating you on our progress in the next call following the second quarter. Thanks, everyone.

---

**Operator**

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect, and everyone have a great day.

**DISCLAIMER**

Thomson Financial reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON FINANCIAL OR THE APPLICABLE COMPANY OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

© 2005, Thomson StreetEvents All Rights Reserved.