

INNOSPEC INC.
Form 10-Q
August 05, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2015

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)

DELAWARE
(State or other jurisdiction of
incorporation or organization)
8310 South Valley Highway

98-0181725
(I.R.S. Employer
Identification No.)

Suite 350

Englewood

Colorado
(Address of principal executive offices)

80112
(Zip Code)

Registrant's telephone number, including area code: (303) 792 5554

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

Class	Outstanding as of July 29, 2015
Common Stock, par value \$0.01	24,150,119

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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, feels or similar words or expressions), for example, which relate to earnings, growth potential, operating performance, events or developments that we expect or anticipate will or may occur in the future. 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 Innospec and affecting our business operations and prospects are described in Innospec's Annual Report on Form 10-K for the year ended December 31, 2014, 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. Innospec undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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

(in millions, except share and per share data)	Three Months Ended June 30		Six Months Ended June 30	
	2015	2014	2015	2014
Net sales	\$ 242.9	\$ 221.3	\$ 512.1	\$ 442.0
Cost of goods sold	(155.4)	(152.7)	(342.8)	(307.7)
Gross profit	87.5	68.6	169.3	134.3
Operating expenses:				
Selling, general and administrative	(50.2)	(37.7)	(98.9)	(79.7)
Research and development	(6.5)	(5.6)	(12.7)	(11.3)
Adjustment to fair value of contingent consideration	26.6	0.0	23.1	0.0
Total operating expenses	(30.1)	(43.3)	(88.5)	(91.0)
Operating income	57.4	25.3	80.8	43.3
Other net income/(expense)	(4.7)	(0.7)	(3.2)	1.2
Interest expense, net	(0.9)	(0.8)	(1.9)	(1.7)
Income before income taxes	51.8	23.8	75.7	42.8
Income taxes	(17.3)	(5.3)	(23.3)	(7.4)
Net income	\$ 34.5	\$ 18.5	\$ 52.4	\$ 35.4
Earnings per share:				
Basic	\$ 1.43	\$ 0.76	\$ 2.16	\$ 1.45
Diluted	\$ 1.40	\$ 0.75	\$ 2.12	\$ 1.44
Weighted average shares outstanding (in thousands):				
Basic	24,202	24,401	24,251	24,382
Diluted	24,671	24,672	24,761	24,632

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		Six Months Ended	
	June 30		June 30	
	2015	2014	2015	2014
Net income	\$ 34.5	\$ 18.5	\$ 52.4	\$ 35.4
Other comprehensive income/(loss):				
Changes in cumulative translation adjustment	3.3	1.0	(4.7)	(0.2)
Amortization of prior service credit, net of tax of \$0.0, \$0.0, \$0.1 and \$0.1, respectively	(0.3)	(0.3)	(0.5)	(0.6)
Amortization of actuarial net losses, net of tax of \$(0.3), \$(0.3), \$(0.6) and \$(0.6), respectively	1.0	1.1	2.0	2.2
Total other comprehensive income/(loss)	4.0	1.8	(3.2)	1.4
Total comprehensive income	\$ 38.5	\$ 20.3	\$ 49.2	\$ 36.8

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

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

(in millions, except share and per share data)	June 30, 2015 (Unaudited)	December 31, 2014
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 64.3	\$ 41.6
Short-term investments	5.5	4.7
Trade and other accounts receivable (less allowances of \$3.9 and \$3.9, respectively)	131.5	164.3
Inventories (less allowances of \$9.4 and \$10.2, respectively):		
Finished goods	107.2	127.0
Work in progress	1.3	1.2
Raw materials	59.0	56.7
Total inventories	167.5	184.9
Current portion of deferred tax assets	8.2	8.4
Prepaid expenses	5.2	8.3
Prepaid income taxes	1.5	2.0
Assets held for sale	42.7	0.0
Total current assets	426.4	414.2
Property, plant and equipment:		
Gross cost	153.9	187.0
Less accumulated depreciation	(81.4)	(106.2)
Net property, plant and equipment	72.5	80.8
Goodwill	268.4	276.1
Other intangible assets	175.9	181.1
Deferred finance costs	0.7	1.1
Deferred tax assets, net of current portion	0.7	0.7
Pension asset	52.5	45.2
Other non-current assets	1.3	0.7
Total assets	\$ 998.4	\$ 999.9

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)	June 30, 2015 (Unaudited)	December 31, 2014
<u>Liabilities and Equity</u>		
Current liabilities:		
Accounts payable	\$ 67.4	\$ 87.6
Accrued liabilities	69.6	77.2
Current portion of long-term debt	0.0	0.4
Current portion of finance leases	0.6	0.5
Current portion of plant closure provisions	5.1	5.7
Current portion of accrued income taxes	3.9	5.6
Current portion of acquisition-related contingent consideration	39.0	45.7
Current portion of deferred income	0.2	0.2
Liabilities held for sale	7.8	0.0
Total current liabilities	193.6	222.9
Long-term debt, net of current portion	139.0	139.0
Finance leases, net of current portion	2.4	1.7
Plant closure provisions, net of current portion	29.9	28.4
Unrecognized tax benefits, net of current portion	6.3	6.2
Deferred tax liabilities, net of current portion	33.1	23.0
Pension liability	9.8	10.4
Acquisition-related contingent consideration, net of current portion	33.2	49.5
Deferred income, net of current portion	0.7	0.9
Other non-current liabilities	0.7	2.0
Total liabilities	448.7	484.0
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	309.9	308.8
Treasury stock (5,404,880 and 5,263,481 shares at cost, respectively)	(88.3)	(78.7)
Retained earnings	436.9	391.8
Accumulated other comprehensive loss	(109.5)	(106.3)
Total Innospec stockholders equity	549.3	515.9
Non-controlling interest	0.4	0.0
Total equity	549.7	515.9
Total liabilities and equity	\$ 998.4	\$ 999.9

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

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INNOSPEC INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in millions)	Six Months Ended	
	June 30	
	2015	2014
<u>Cash Flows from Operating Activities</u>		
Net income	\$ 52.4	\$ 35.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	17.3	14.6
Adjustment to fair value of contingent consideration	(23.1)	0.0
Deferred taxes	10.5	0.8
Excess tax benefit from stock-based payment arrangements	(0.7)	(0.6)
Cash contributions to defined benefit pension plans	(5.2)	(5.8)
Non-cash expense of defined benefit pension plans	0.3	2.0
Stock option compensation	1.8	1.2
Changes in assets and liabilities, net of effects of acquired and divested companies:		
Trade and other accounts receivable	21.7	18.6
Inventories	1.5	(13.3)
Prepaid expenses	1.6	2.0
Accounts payable and accrued liabilities	(23.1)	(22.9)
Accrued income taxes	0.5	6.3
Plant closure provisions	1.4	(0.8)
Unrecognized tax benefits	0.1	(4.0)
Other non-current assets and liabilities	(1.9)	0.3
Net cash provided by operating activities	55.1	33.8
<u>Cash Flows from Investing Activities</u>		
Capital expenditures	(7.3)	(5.9)
Business combinations, net of cash acquired	0.0	0.3
Internally developed software	(5.1)	(3.0)
Purchase of short-term investments	(3.7)	(3.3)
Sale of short-term investments	3.0	4.1
Net cash used in investing activities	(13.1)	(7.8)
<u>Cash Flows from Financing Activities</u>		
Non-controlling interest	0.4	0.0
Repayments of revolving credit facility	0.0	(8.0)
Repayments of term loans	(0.4)	(0.5)
Excess tax benefit from stock-based payment arrangements	0.7	0.6
Dividend paid	(7.3)	(6.6)
Issue of treasury stock	0.7	0.4
Repurchase of common stock	(11.4)	(0.8)

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Net cash used in financing activities	(17.3)	(14.9)
Effect of foreign currency exchange rate changes on cash	(0.9)	0.1
Net change in cash and cash equivalents	23.8	11.2
Cash and cash equivalents at beginning of period	41.6	80.2
Reclassification of cash to assets held for sale	(1.1)	0.0
Cash and cash equivalents at end of period		