

INNOSPEC INC.
Form 10-Q
November 04, 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 September 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	98-0181725 (I.R.S. Employer
incorporation or organization)	Identification No.)
8310 South Valley Highway Suite 350 Englewood Colorado	80112 (Zip Code)
(Address of principal executive offices)	
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

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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 October 28, 2015
Common Stock, par value \$0.01	24,082,195

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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		Nine Months Ended	
	September 30	September 30	September 30	September 30
	2015	2014	2015	2014
Net sales	\$ 254.2	\$ 228.2	\$ 766.3	\$ 670.2
Cost of goods sold	(163.8)	(154.6)	(506.6)	(462.3)
Gross profit	90.4	73.6	259.7	207.9
Operating expenses:				
Selling, general and administrative	(52.7)	(42.4)	(151.6)	(122.1)
Research and development	(6.6)	(6.0)	(19.3)	(17.3)
Adjustment to fair value of contingent consideration	8.5	0.0	31.6	0.0
Profit on disposal of subsidiary	1.6	0.0	1.6	0.0
Total operating expenses	(49.2)	(48.4)	(137.7)	(139.4)
Operating income	41.2	25.2	122.0	68.5
Other net income/(expense)	1.2	1.0	(2.0)	2.2
Interest expense, net	(1.0)	(0.8)	(2.9)	(2.5)
Income before income taxes	41.4	25.4	117.1	68.2
Income taxes	(5.8)	(4.6)	(29.1)	(12.0)
Net income	\$ 35.6	\$ 20.8	\$ 88.0	\$ 56.2
Earnings per share:				
Basic	\$ 1.48	\$ 0.85	\$ 3.64	\$ 2.30
Diluted	\$ 1.45	\$ 0.83	\$ 3.57	\$ 2.26
Weighted average shares outstanding (in thousands):				
Basic	24,121	24,420	24,162	24,394
Diluted	24,611	24,915	24,660	24,849

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		Nine Months Ended	
	September 30		September 30	
	2015	2014	2015	2014
Net income	\$ 35.6	\$ 20.8	\$ 88.0	\$ 56.2
Other comprehensive income/(loss):				
Changes in cumulative translation adjustment	5.1	(6.0)	0.4	(6.2)
Amortization of prior service credit, net of tax of \$0.1, \$0.1, \$0.2 and \$0.2, respectively	(0.2)	(0.2)	(0.7)	(0.8)
Amortization of actuarial net losses, net of tax of \$(0.2), \$(0.2), \$(0.8) and \$(0.8), respectively	1.1	1.1	3.1	3.3
Total other comprehensive income/(loss)	6.0	(5.1)	2.8	(3.7)
Total comprehensive income	\$ 41.6	\$ 15.7	\$ 90.8	\$ 52.5

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

(in millions, except share and per share data)	September 30, 2015 (Unaudited)	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 127.7	\$ 41.6
Short-term investments	5.1	4.7
Trade and other accounts receivable (less allowances of \$3.8 and \$3.9, respectively)	130.2	164.3
Inventories (less allowances of \$9.6 and \$10.2, respectively):		
Finished goods	109.6	127.0
Work in progress	2.0	1.2
Raw materials	55.2	56.7
Total inventories	166.8	184.9
Current portion of deferred tax assets	8.1	8.4
Prepaid expenses	3.9	8.3
Prepaid income taxes	1.6	2.0
Total current assets	443.4	414.2
Property, plant and equipment:		
Gross cost	158.4	187.0
Less accumulated depreciation	(84.3)	(106.2)
Net property, plant and equipment	74.1	80.8
Goodwill	268.3	276.1
Other intangible assets	172.6	181.1
Deferred finance costs	0.5	1.1
Deferred tax assets, net of current portion	0.7	0.7
Pension asset	56.3	45.2
Other non-current assets	0.9	0.7
Total assets	\$ 1,016.8	\$ 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)	September 30, 2015 (Unaudited)	December 31, 2014
<u>Liabilities and Equity</u>		
Current liabilities:		
Bank overdraft	\$ 7.6	\$ 0.0
Accounts payable	67.2	87.6
Accrued liabilities	69.1	77.2
Current portion of long-term debt	0.0	0.4
Current portion of finance leases	0.7	0.5
Current portion of plant closure provisions	3.8	5.7
Current portion of accrued income taxes	4.5	5.6
Current portion of acquisition-related contingent consideration	43.6	45.7
Current portion of deferred income	0.2	0.2
Total current liabilities	196.7	222.9
Long-term debt, net of current portion	127.0	139.0
Finance leases, net of current portion	2.4	1.7
Plant closure provisions, net of current portion	31.2	28.4
Unrecognized tax benefits, net of current portion	3.6	6.2
Deferred tax liabilities, net of current portion	37.0	23.0
Pension liability	9.9	10.4
Acquisition-related contingent consideration, net of current portion	20.0	49.5
Deferred income, net of current portion	0.7	0.9
Other non-current liabilities	0.1	2.0
Total liabilities	428.6	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	310.6	308.8
Treasury stock (5,472,842 and 5,263,481 shares at cost, respectively)	(92.1)	(78.7)
Retained earnings	472.5	391.8
Accumulated other comprehensive loss	(103.5)	(106.3)
Total Innospec stockholders equity	587.8	515.9
Non-controlling interest	0.4	0.0
Total equity	588.2	515.9
Total liabilities and equity	\$ 1,016.8	\$ 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)	Nine Months Ended September 30	
	2015	2014
<u>Cash Flows from Operating Activities</u>		
Net income	\$ 88.0	\$ 56.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	25.7	21.1
Adjustment to fair value of contingent consideration	(31.6)	0.0
Deferred taxes	13.9	1.9
Repayment of promissory note in civil complaint settlement	0.0	(5.0)
Excess tax benefit from stock-based payment arrangements	(0.7)	(0.7)
Cash contributions to defined benefit pension plans	(7.9)	(8.8)
Non-cash expense of defined benefit pension plans	0.4	3.0
Stock option compensation	2.7	1.7
Changes in assets and liabilities, net of effects of acquired and divested companies:		
Trade and other accounts receivable	21.2	17.4
Inventories	0.8	(14.8)
Prepaid expenses	4.0	2.0
Accounts payable and accrued liabilities	(21.6)	(20.0)
Accrued income taxes	0.8	10.7
Plant closure provisions	1.4	(0.7)
Profit on disposal of subsidiary	(1.6)	0.0
Unrecognized tax benefits	(2.6)	(7.2)
Other non-current assets and liabilities	(2.3)	2.2
Net cash provided by operating activities	90.6	59.0
<u>Cash Flows from Investing Activities</u>		
Capital expenditures	(12.0)	(9.3)
Proceeds from disposal of subsidiary	41.5	0.0
Business combinations, net of cash acquired	0.0	0.3
Internally developed software	(7.0)	(6.1)
Purchase of short-term investments	(5.3)	(4.2)
Sale of short-term investments	4.8	5.8
Net cash provided by/(used) in investing activities	22.0	(13.5)
<u>Cash Flows from Financing Activities</u>		