Innophos Holdings, Inc.
Form 10-Q
October 30, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2013

OR

o 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 001-33124

INNOPHOS HOLDINGS, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	20-1380758 (I.R.S. Employer Identification No.)
259 Prospect Plains Road Cranbury, New Jersey (Address of Principal Executive Offices)	08512 (Zip Code)

Registrant's Telephone Number, Including Area Code: (609) 495-2495

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 x No o

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 x No o

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 definition of “accelerated filer,” “large accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	x	Accelerated Filer	o
Non-accelerated filer	o	Smaller reporting company	o

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

As of September 30, 2013, the registrant had 21,982,966 shares of common stock outstanding.

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I

ITEM 1. FINANCIAL STATEMENTS
INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets (Unaudited)
(Dollars in thousands, except per share amounts, the number of shares or where otherwise noted)

	September 30, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$35,799	$26,815
Accounts receivable, net	99,230	94,033
Inventories	157,933	162,941
Other current assets	78,322	99,927
Total current assets	371,284	383,716
Property, plant and equipment, net	201,646	195,723
Goodwill	83,879	83,879
Intangibles and other assets, net	73,332	75,948
Total assets	$730,141	$739,266
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$4,003	$4,000
Accounts payable, trade and other	43,564	36,485
Other current liabilities	29,804	46,030
Total current liabilities	77,371	86,515
Long-term debt	158,007	172,000
Other long-term liabilities	35,396	36,428
Total liabilities	$270,774	$294,943
Commitments and contingencies (note 13)		
Common stock, par value $.001 per share; authorized 100,000,000; issued 22,266,832 and 22,110,249; outstanding 21,982,966 and 21,830,870 shares	22	22
Paid-in capital	117,516	115,782
Common stock held in treasury, at cost (283,866 and 279,379 shares)	(12,481)	(12,411)
Retained earnings	358,742	346,866
Accumulated other comprehensive loss	(4,432)	(5,936)
Total stockholders' equity	459,367	444,323
Total liabilities and stockholders' equity	$730,141	$739,266

See notes to condensed consolidated financial statements

Table of Contents

INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Income (Unaudited)
(Dollars in thousands, except per share amounts, the number of shares or where otherwise noted)

	Three months ended		Nine months ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Net sales	$219,993	$211,188	$647,610	$653,620
Cost of goods sold	181,288	168,409	530,976	512,605
Gross profit	38,705	42,779	116,634	141,015
Operating expenses:				
Selling, general and administrative	17,156	17,417	53,451	49,687
Research & development expenses	828	776	2,407	2,320
Total operating expenses	17,984	18,193	55,858	52,007
Operating income	20,721	24,586	60,776	89,008
Interest expense, net	1,709	1,314	4,455	4,536
Foreign exchange loss (gain)	674	(1,800)	3,091	(2,199)
Income before income taxes	18,338	25,072	53,230	86,671
Provision for income taxes	7,398	8,366	18,320	25,873
Net income	$10,940	16,706	$34,910	60,798
Net income attributable to participating common shareholders	$10,924	$16,695	$34,856	$60,758
Per share data (note 2):				
Income per participating share:				
Basic	$0.50	$0.77	$1.59	$2.79
Diluted	$0.49	$0.74	$1.56	$2.70
Weighted average participating shares outstanding:				
Basic	21,947,948	21,807,013	21,932,814	21,804,415
Diluted	22,323,705	22,500,262	22,322,987	22,519,360
Other comprehensive income, net of tax:				
Change in interest rate swaps, (net of tax ($213), $136, $700 and $312)	$(347)	$221	$1,142	$509
Change in pension and post-retirement plans, (net of tax $4, $(18), $258 and $70)	6	(80)	362	167
Other comprehensive income, net of tax	$(341)	$141	$1,504	$676
Comprehensive income	$10,599	$16,847	$36,414	$61,474

See notes to condensed consolidated financial statements

Table of Contents

INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows (Unaudited)
(Dollars in thousands)

	Nine months ended September 30, 2013	September 30, 2012
Cash flows from operating activities		
Net income	$34,910	$60,798
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation and amortization	27,794	32,118
Amortization of deferred financing charges	425	428
Deferred income tax provision (benefit)	610	(1,545)
Share-based compensation	1,766	3,319
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(5,197)	11,278
Decrease in inventories	5,008	17,508
Decrease (increase) in other current assets	17,211	(3,138)
Increase in accounts payable	7,079	2,844
Decrease in other current liabilities	(16,226)	(18,933)
Changes in other long-term assets and liabilities	650	(3,884)
Net cash provided from operating activities	74,030	100,793
Cash flows used for investing activities:		
Capital expenditures	(30,333)	(15,997)
Acquisition of businesses, net of cash acquired	—	(27,093)
Net cash used for investing activities	(30,333)	(43,090)
Cash flows used for financing activities:		
Proceeds from exercise of options	500	381
Long-term debt borrowings	28,000	15,000
Long-term debt repayments	(42,000)	(50,000)
Excess tax benefits from exercise of stock options	1,877	2,681
Common stock repurchases	(70)	(7,255)
Dividends paid	(23,020)	(17,181)
Net cash used for financing activities	(34,713)	(56,374)
Net change in cash	8,984	1,329
Cash and cash equivalents at beginning of period	26,815	35,242
Cash and cash equivalents at end of period	$35,799	$36,571

See notes to condensed consolidated financial statements

Table of Contents

INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES
Statement of Stockholders' Equity (Unaudited)
(Dollars and shares in thousands)

	Number of Common Shares	Common Stock	Retained Earnings	Paid-in Capital	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
Balance, December 31, 2011	21,620	$22	$292,144	$106,037	$ (4,995)	$393,208
Net income			74,190			74,190
Other comprehensive loss, (net of tax $643)					(941)	(941)
Proceeds from stock award exercises and issuances	340			(2,255)		(2,255)
Share-based compensation				1,912		1,912
Excess tax benefits from exercise of stock options				3,931		3,931
Common stock repurchases	(150)			(7,254)		(7,254)
Treasury stock reissued for acquisition of business	21			1,000		1,000
Dividends declared			(19,468)			(19,468)
Balance, December 31, 2012	21,831	$22	$346,866	$103,371	$ (5,936)	$444,323
Net income			34,910			34,910
Other comprehensive loss, (net of tax $958)					1,504	1,504
Proceeds from stock award exercises and issuances	156			(1,909)		(1,909)
Share-based compensation				1,766		1,766
Excess tax benefits from exercise of stock options				1,877		1,877
Restricted stock forfeitures	(4)			(70)		(70)
Dividends declared			(23,034)			(23,034)
Balance, September 30, 2013	21,983	$22	$358,742	$105,035	$ (4,432)	$459,367

See notes to condensed consolidated financial statements

Table of Contents

INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Unaudited)
(Dollars in thousands, except per share amounts, the number of shares or where otherwise noted)

1. Basis of Statement Presentation

Summary of Significant Accounting Policies

The accompanying unaudited condensed consolidated financial statements of Innophos Holdings, Inc. and Subsidiaries, or Company, have been prepared in accordance with generally accepted accounting principles in the United States of America (U.S.) for interim financial reporting and do not include all disclosures required by generally accepted accounting principles in the U.S. for annual financial reporting, and should be read in conjunction with the audited consolidated and combined financial statements of the Company at December 31, 2012 and for the three years then ended.

The accompanying unaudited condensed consolidated financial statements of the Company reflect all adjustments which management considers necessary for a fair statement of the results of operations for the interim periods and is subject to year-end adjustments. The results of operations for the interim periods are not necessarily indicative of the results for the full year. The December 31, 2012 condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the U.S. Certain prior year balances have been reclassified to conform to current year presentation.

Out of Period Adjustments

During the first quarter of fiscal 2013, we identified an adjustment necessary for a long-term supply contract. We corrected this item during the first quarter of fiscal 2013, which had the effect of increasing cost of goods sold by $2.3 million, and decreasing net income by $1.6 million for the nine month period ended September 30, 2013.. This prior period adjustment is not material to the financial results of the previously issued annual financial statements or current or previously issued interim financial statements. This adjustment is also not expected to be material to the full year 2013 financial statements.

Recently Issued Accounting Standards

Adopted

In January 2013, the Financial Accounting Standards Board, or FASB, issued a pronouncement updating the accounting for financial instruments, which clarifies the scope of disclosures about offsetting assets and liabilities. This pronouncement limits the scope of instruments subject to the offsetting disclosures to derivatives, repurchase and reverse repurchase agreements, and securities borrowing and lending agreements subject to master netting arrangements or similar agreements. This pronouncement is effective for annual and interim periods beginning on or after January 1, 2013. The adoption of this accounting pronouncement did not have a material impact on the Company's consolidated financial position and results of operations.

In February 2013, the FASB issued an amendment to the accounting guidance for the reporting of amounts reclassified out of accumulated other comprehensive income (“AOCI”). The amendment expands the existing disclosure by requiring entities to present information about significant items reclassified out of AOCI by component. In addition, an entity is required to provide information about the effects on net income of significant amounts reclassified out of each component of AOCI to net income either on the face of the statement where net income is presented or as a separate disclosure in the notes of the financial statements. The amendment is effective prospectively for annual or interim reporting periods beginning after December 15, 2012. The adoption of this accounting pronouncement did not have a material impact on the Company's consolidated financial position and results of operations.

In July 2013, the FASB issued amendments to allow the Federal Funds Effective Swap Rate (which is the Overnight Index Swap rate, or OIS rate, in the U.S.) to be designated as a benchmark interest rate for hedge accounting purposes under the derivatives and hedging guidance. The amendments also allow for the use of different benchmark rates for similar hedges. The amendments are effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The initial adoption had no impact on our consolidated financial position and results of operation.

Issued but not yet adopted
In July 2013, the FASB issued amendments to guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The amendments require entities to present an unrecognized tax benefit netted against certain deferred tax assets when specific requirements are met. The

Table of Contents
INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Unaudited)
(Dollars in thousands, except per share amounts, share amounts or where otherwise noted)

amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013 (early adoption is permitted). The Company is currently assessing the impact of the amended guidance on its consolidated financial position.

2. Earnings per share (EPS)
The Company accounts for earnings per share in accordance with ASC 260 and related guidance, which requires two calculations of earnings per share (EPS) to be disclosed: basic EPS and diluted EPS. Under ASC Subtopic 260-10-45, as of January 1, 2009 unvested awards of share-based payments with rights to receive dividends or dividend equivalents, such as our restricted stock, are considered participating securities for purposes of calculating EPS. Under the two-class method, a portion of net income is allocated to these participating securities and therefore is excluded from the calculation of EPS allocated to common stock, as shown in the table below.
The numerator for basic and diluted earnings per share is net earnings attributable to shareholders reduced by dividends attributable to unvested shares. The denominator for basic earnings per share is the weighted average number of common stock outstanding during the period. The denominator for diluted earnings per share is weighted average shares outstanding adjusted for the effect of dilutive outstanding stock options, performance share awards and restricted stock awards.
The following is a reconciliation of the weighted average basic number of common shares outstanding to the diluted number of common and common stock equivalent shares outstanding and the calculation of earnings per share using the two-class method:

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Net income	$10,940	$16,706	$34,910	$60,798
Less: earnings attributable to unvested shares	(16)	(11)	(54)	(40)
Net income available to participating common shareholders	$10,924	$16,695	$34,856	$60,758
Weighted average number of participating common and potential common shares outstanding:				
Basic number of participating common shares outstanding	21,947,948	21,807,013	21,932,814	21,804,415
Dilutive effect of stock equivalents	375,757	693,249	390,173	714,945
Diluted number of weighted average participating common shares outstanding	22,323,705	22,500,262	22,322,987	22,519,360
Earnings per participating common share:				
Earnings per participating common share—Basic	$0.50	$0.77	$1.59	$2.79
Earnings per participating common share—Diluted	$0.49	$0.74	$1.56	$2.70
Total outstanding options, performance share awards and unvested restricted stock not included in the calculation of diluted earnings per share as the effect would be anti-dilutive	396,952	387,878	382,503	366,182

(Dollars in thousands, except per share amounts, share amounts or where otherwise noted)

3. Dividends

The following is the dividend activity for the three and nine months ended September 30, 2013 and September 30, 2012:

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Dividends declared – per share	$0.35	$—	$1.05	$0.54
Dividends declared – aggregate	7,694	—	23,020	11,776
Dividends paid – per share	0.35	0.27	1.05	0.79
Dividends paid – aggregate	7,694	5,891	23,020	17,181

We are a holding company that does not conduct any business operations of our own. As a result, we are dependent upon cash dividends, distributions and other transfers from our subsidiaries, most directly Innophos, Inc., our primary operating subsidiary, and Innophos Investments Holdings, Inc., its parent, to make dividend payments on our Common Stock. The Company's Board of Directors declared an increase to its quarterly dividend to $0.40 per share to be paid in the fourth quarter of 2013.

4. Stockholders' Equity / Stock-Based Compensation

Our compensation programs include share-based payments. The primary share-based awards and their general terms and conditions currently in effect are as follows:

- Stock options, which entitle the holder to purchase, after the end of a vesting term, a specified number of shares of the Company's common stock at an exercise price per share set equal to the market price of the Company's common stock on the date of grant.
- Performance share awards which entitle the holder to receive, at the end of a vesting term, a number of shares of the Company's common stock, within a range of shares from zero to a specified maximum (generally 200%), calculated using a combination of performance indicators as defined solely by reference to the Company's own activities. Amounts equivalent to dividends will accrue over the performance period and are paid on performance share awards when vested and distributed.
- Restricted stock grants, which entitle the holder to receive, at the end of each vesting term, a specified number of shares of the Company's common stock, and which also entitle the holder to receive dividends paid on such grants throughout the vesting period.
- Annual stock retainer grants, which entitle independent members of the Board of Directors to receive a number of shares of the Company's common stock equal to a fixed retainer value.

Restricted Stock

On March 29, 2013 there were a total of 25,853 restricted shares granted to certain employees with a fair value of $1.4 million. These awards are classified as equity awards and vest annually over three years. The related compensation expense is based on the date of grant share price of $54.59. The compensation expense is amortized on a straight-line basis over the requisite vesting period and accelerated for those employees that are retirement eligible during the vesting period.

Stock Options

On March 29, 2013 the Company granted 63,580 non-qualified stock options at an exercise price of $54.59 per share to certain employees with a fair value of $1.3 million. The non-qualified stock options vest annually over three years with a March 29, 2023 expiration date.

(Dollars in thousands, except per share amounts, share amounts or where otherwise noted)

The fair value of the options granted during 2013 was determined using the Black-Scholes option-pricing model. The assumptions used in the Black-Scholes option-pricing model were as follows:

Non-qualified stock options		
Expected volatility	50.4	%
Dividend yield	2.8	%
Risk-free interest rate	1.0	%
Expected term (years)	6	
Weighted average grant date fair value of stock options	$19.99	

For the 2013 grants the Company had chosen a blended volatility which consists of 50% historical volatility average of a peer group and 50% historical volatility of Innophos. The expected term for the stock options is based on the simplified method since the Company has limited data on the exercises of stock options. These stock options qualify as "plain vanilla" stock options in accordance with SAB 110. The dividend yield is the expected annual dividend payments divided by the average stock price up to the date of grant. The risk-free interest rates are derived from the U.S. Treasury securities in effect on the date of grant whose maturity period equals the options expected term. The Company applies an expected forfeiture rate to stock-based compensation expense. The estimate of the forfeiture rate is based primarily upon historical experience of employee turnover. As actual forfeitures become known, stock-based compensation expense is adjusted accordingly.

Performance Share Awards

On March 29, 2013, the Company granted 43,091 performance shares to certain employees with a fair value of $2.4 million. The performance shares vest at the end of the three year performance cycle and the number of shares distributable depends on the extent to which the Company attains pre-established performance goals. Amounts equivalent to declared dividends will accrue on the performance shares and will vest over the same period.

In connection with the vesting of the performance share awards issued in 2010, the Company issued 92,911 shares of common stock, net of minimum tax withholdings, to certain employees as required under the terms of the plan in the first quarter of 2013.

Stock Grants

In May 2013 the five external members of the Board of Directors were each granted 1,136 shares of the Company's common stock with an aggregated fair value of $0.3 million which immediately vested as part of their director fees.

The following table summarizes the components of stock-based compensation expense, all of which has been classified as selling, general and administrative expense:

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Stock options	$73	$291	$772	$1,147
Restricted stock	169	57	517	180
Performance shares	(227)	643	177	1,632
Stock grants	—	—	300	360
Total share-based compensation expense	$15	$991	$1,766	$3,319

INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Unaudited)
(Dollars in thousands, except per share amounts, share amounts or where otherwise noted)

5. Inventories
Inventories consist of the following:

	September 30, 2013	December 31, 2012
Raw materials	$51,201	$49,856
Finished products	96,231	103,563
Spare parts	10,501	9,522
	$157,933	$162,941

Inventory reserves for excess quantities, obsolescence or shelf-life expiration as of September 30, 2013 and December 31, 2012 were $12,215 and $11,551, respectively.

6. Other Current Assets
Other current assets consist of the following:

	September 30, 2013	December 31, 2012
Creditable taxes (value added taxes)	$19,352	$35,181
Vendor inventory deposits (prepaid)	21,481	19,445
Prepaid income taxes	22,750	22,000
Deferred income taxes	9,217	13,611
Other prepaids	3,312	2,884
Other	2,210	6,806
	$78,322	$99,927

7. Depreciation and Amortization Expense
Depreciation expense has steadily declined from the assets acquired at the inception of Innophos on August 13, 2004. Approximately 70% of the depreciable assets from the inception of Innophos had a useful life of 6 to 10 years. The assets acquired after the inception of Innophos have become a much larger factor of depreciation expense and the useful lives assigned to these assets are generally longer. Please see the table below for additional analysis of that factor:

	Nine months ended September 30, 2013	2012	2011
Depreciation expense on fair value of assets in connection with the formation of Innophos on August 13, 2004	$5,581	$19,794	$23,974
Amortization expense on fair value of intangibles in connection with the formation of Innophos on August 13, 2004	2,170	2,995	2,996
Depreciation expense from capital expenditures after 8/13/04	14,368	17,585	15,292
Acquisitions - depreciation expense	845	572	49
Acquisitions - intangible amortization expense	3,030	1,572	532

Changes in depreciation expense included in inventory	1,800	(184)	833
Total	$27,794	$42,334	$43,676

(Dollars in thousands, except per share amounts, share amounts or where otherwise noted)

8. Intangibles and Other Assets, net

Intangibles and other assets consist of the following:

	Useful life (years)	September 30, 2013	December 31, 2012
Developed technology and application patents, net of accumulated amortization of $18,295 for 2013 and $16,155 for 2012	7-20	$26,185	$28,325
Customer relationships, net of accumulated amortization of $9,611 for 2013 and $7,666 for 2012	5-15	27,439	29,384
Tradenames and license agreements, net of accumulated amortization of $5,854 for 2013 and $4,852 for 2012	5-20	11,596	12,598
Non-compete agreements, net of accumulated amortization of $757 for 2013 and $644 for 2012	4-10	553	666
Total intangibles		$65,773	$70,973
Deferred financing costs, net of accumulated amortization of $1,517 for 2013 and $1,092 for 2012 (see note 10)		$2,142	$2,567
Deferred income taxes		1,928	—
Other assets		3,489	2,408
Total other assets		$7,559	$4,975
		$73,332	$75,948

(Dollars in thousands, except per share amounts, share amounts or where otherwise noted)

9. Other Current Liabilities
Other current liabilities consist of the following:

	September 30, 2013	December 31, 2012
Payroll related	$8,857	$10,723
Freight and rebates	4,164	4,604
Benefits and pensions	6,195	6,727
Taxes other than income taxes	3,680	8,352
CNA water tax claims	—	10,855
Other	6,908	4,769
	$29,804	$46,030

10. Short-term Borrowings, Long-Term Debt, and Interest Expense
Short-term borrowings and long-term debt consist of the following:

	September 30, 2013	December 31, 2012
Term loan due 2017	$97,000	$100,000
Revolver borrowings under the credit facility	65,000	76,000
Capital leases	10	—
Total borrowings	$162,010	$176,000
Less current portion	4,003	4,000
Long-term debt	$158,007	$172,000

The Company's credit facility includes a term loan of $100.0 million and a revolving line of credit from the Lenders of up to $225.0 million, including a $20.0 million letter of credit sub-facility, all maturing on December 21, 2017. Repayments of the term loan are required at the rate of 1% of original principal amount per quarter beginning on March 31, 2013.

As of September 30, 2013, $97.0 million was outstanding under the Term Loan and $65.0 million was outstanding under the revolving line of credit, both of which approximate fair value because they have a floating interest rate, Level 2 input within the fair value hierarchy, with total availability at $157.7 million, taking into account $2.3 million in face amount of letters of credit issued under the sub-facility. The current weighted average interest rate for all debt is 2.4%.

Simultaneously with initiating the new senior facility, Innophos entered into an interest rate swap, swapping the LIBOR exposure on $100.0 million adjusting quarterly consistent with the Term Loan, with a fixed rate of 0.9475% plus the applicable margin on the debt expiring in December 2017. This interest rate swap has been designated as a cashflow hedge (Level 2) with the changes in value recorded through other comprehensive income. The fair value of this interest rate swap is an asset of approximately $0.8 million as of September 30, 2013.

We manage our interest rate risk by balancing the amount of fixed-rate and floating-rate debt to the extent practicable consistent with our credit status.

Total interest paid by the Company for all indebtedness for the nine months ended September 30, 2013 and September 30, 2012 was $3,429 and $4,355.

As of September 30, 2013, the Company was in full compliance with all debt covenant requirements.

INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Unaudited)
(Dollars in thousands, except per share amounts, share amounts or where otherwise noted)

Interest expense, net consists of the following:

	Three months ended		Nine months ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Interest expense	$1,664	1,371	$4,280	4,350
Deferred financing cost	137	141	425	428
Interest income	(8)	(11)	(29)	(55)
Less: amount capitalized for capital projects	(84)	(187)	(221)	(187)
Total interest expense, net	$1,709	$1,314	$4,455	$4,536

11. Other Long-Term Liabilities
Other long-term liabilities consist of the following:

	September 30, 2013	December 31, 2012
Deferred income taxes	$20,337	$21,497
Pension and post retirement liabilities (U.S. and Canada only)	7,254	7,253
Profit sharing and post employment liabilities	4,514	4,435
Environmental liabilities	1,100	1,100
Other liabilities	2,191	2,143
	$35,396	$36,428

12. Income Taxes
The effective income tax rate on income before taxes was approximately 34% for the nine months ended September 30, 2013 compared to approximately 30% for the comparable period in 2012. The variance in the effective tax rate is primarily due to recording of uncertain income tax positions which increased the effective tax rate by 3% over the prior year and the Mexican CNA Water Tax Claims being recorded as discrete items for income tax provision purposes which increased the effective tax rate by 2% over the prior year.
The Company has recorded tax contingencies of $2.1 million, net of Federal benefit, for uncertain income tax positions in accordance with ASC 740-10-05-6. The Company’s policy is to accrue associated penalties in selling, general and administrative expenses and to accrue interest in net interest expense. Currently, the Company is under examination, or has been contacted for examination, by certain foreign jurisdictions for its income tax returns for the years 2006 through 2008. In 2011, our subsidiary, Innophos Mexicana requested a refund of $2.5 million for the 2009 tax year which was disputed by the Mexican tax authorities, however, in June of 2013, the Mexican courts ruled in the Company's favor. In addition, our subsidiary, Innophos Canada, Inc. was assessed approximately $4.0 million for the tax years 2006, 2007, and 2008 by the Canadian tax authorities. In April 2012, the Company filed a response to the Canadian tax authorities for the above tax matter disputing the full assessment and a follow up response on October 15, 2013. The Company believes that its tax position is more likely than not to be sustained and has not recorded a charge for this tax matter. On March 19, 2013, Internal Revenue Service commenced an examination of the Company's 2010 tax return. The company is also currently under audit in various other state tax jurisdictions for the years 2009 and 2010. Other than the assessments mentioned above, as of September 30, 2013, no material adjustments have been proposed to the Company's tax positions and the Company currently does not anticipate any adjustments that would result in a material change to its financial position during the next twelve months.

Income taxes paid were $21,723 and $36,931 for the nine months ended September 30, 2013 and September 30, 2012, respectively.

13. Commitments and Contingencies

Environmental

The Company's operations are subject to extensive and changing federal and state environmental laws and regulations. The Company's manufacturing sites have an extended history of industrial use, and soil and groundwater contamination have or may have occurred in the past and might occur or be discovered in the future.

Environmental efforts are difficult to assess for numerous reasons, including the discovery of new remedial sites, discovery of new information and scarcity of reliable information pertaining to certain sites, improvements in technology, changes in environmental laws and regulations, numerous possible remedial techniques and solutions, difficulty in assessing the involvement of and the financial capability of other potentially responsible parties and the extended time periods over which remediation occurs. Other than the items listed below, the Company is not aware of material environmental liabilities which are probable and estimable. As the Company's environmental contingencies are more clearly determined, it is reasonably possible that amounts may need to be accrued. However, management does not believe, based on current information, that environmental remediation requirements will have a material impact on the Company's results of operations, financial position or cash flows.

Future environmental spending is probable at our site in Nashville, TN, the eastern portion of which had been used historically as a landfill, and a western parcel previously acquired from a third party, which reportedly had housed, but no longer does, a fertilizer and pesticide manufacturing facility. We have an estimated liability with a range of $0.9 million-$1.2 million. The remedial action plan for that site has yet to be finalized, and as such, the Company has recorded a liability, which represents the Company's best estimate, of $1.1 million as of September 30, 2013.

Litigation

2008 RCRA Civil Enforcement - Geismar, Louisiana plant

Following several inspections by the Environmental Protection Agency, or EPA, at our Geismar, LA purified phosphoric acid, or PPA, plant and related submissions we made to support claimed exemptions from the federal Resource, Conservation and Recovery Act, or RCRA, in March 2008, EPA referred our case to the Department of Justice, or DOJ, for civil enforcement. Although no citations were ever issued or formal proceedings instituted, the agencies claim we violate RCRA by failing to manage appropriately two materials that DOJ/EPA alleges are hazardous wastes. Those materials are: (i) Filter Material from an enclosed intermediate filtration step to further process green phosphoric acid we receive as raw material via pipeline from the adjacent site operated by an affiliate of Potash Corporation of Saskatchewan, or PCS; and (ii) Raffinate, a co-product we provide to PCS under a long-term contract we have with PCS.

Since referral of the case to DOJ, we and PCS have engaged in periodic discussions with DOJ/EPA and the Louisiana Department of Environmental Quality, or LDEQ, or collectively the Government Parties, in order to resolve the matter. In addition to asserting that the two materials in question are not hazardous wastes, we have also sought to demonstrate that both the nature and character of the materials as well as their use, handling and disposition were detailed in a solid waste permit amendment application filed in 1989 by PCS's predecessor, when our plant was first constructed, and approved by the LDEQ under the state RCRA program.

In the course of discussions with the Government Parties, the DOJ/EPA has required that we undertake, as an interim measure, the construction of a new filter unit that would replace the existing closed system and allow the removal and separate handling of the Filter Material. We built that unit, which is now in operation.

In an attempt to address the remaining concerns of the Government Parties, we and PCS undertook joint efforts to explore possible technical solutions to the issue of Raffinate treatment. Based upon work so far, there appears to be at least one technically viable approach, namely that of “deep well injection,” which we believe is acceptable to regulators as part of a negotiated solution among the parties.

Although we cannot give assurances as to the future course or ultimate outcome of ongoing negotiations, including whether litigation may ultimately ensue, we believe, based on our appreciation of the current state of the proceedings, that deep well injection is likely to be employed as the technologically acceptable approach for Raffinate and that we will not be asked to contribute substantially to the cost of the deep well to be specified by the Government Parties in an anticipated consent decree for settlement of this enforcement matter. However, in negotiated settlements leading to consent decrees with the Governmental Parties, it is also common for penalties relating to previous "non-compliance" to be assessed and, in that connection, we have been advised by the Governmental Parties that they expect to seek penalties against both PCS and us in this case. Although we have argued and made submissions to the effect that for purposes of settlement penalties there is no basis for any substantial penalty to be levied against us, nevertheless, we can give no assurance as to that outcome, or if a penalty is initially assessed as to its amount, or whether it will be necessary for us to oppose or seek indemnity for the assessment by further litigation. As a result, we have concluded that the contingent liability arising from compliance costs in this matter remains, as we have previously disclosed, neither remote nor probable, but reasonably possible.

Other Legal Matters

In March 2008, Sudamfos S.A., or Sudamfos, an Argentine phosphate producer, filed an arbitration before the ICC International Court of Arbitration, Paris, France, concerning an alleged agreement for our Mexicana subsidiary, Mexicana, to sell it 12,500 metric tons of phosphoric acid, but subsequently withdrew the proceeding. In October 2008, Mexicana filed suit in Mexico against Sudamfos to collect approximately $1.2 million representing the contract price for prior deliveries of acid for which Sudamfos had refused to pay. In October 2009, Sudamfos answered the suit and counterclaimed for $3.0 million based upon the agreement originally alleged in the arbitration. In subsequent proceedings including available appeals, Mexicana's claim was sustained and Sudamfos' counterclaim was denied. Mexicana has now begun formal collection proceedings against Sudamfos.

Innophos, Inc. has been assessed approximately $1.2 million of sales/use taxes by the State of Louisiana and Ascension Parish. This tax assessment covers certain raw materials used in the production of Phosphoric Acid. The Company is contesting both tax assessments. This assessment covers periods 2004 to 2010 for the Parish and 2007 to 2010 for the State. We have concluded that the contingent liability arising from this matter is neither remote nor probable, but reasonably possible.

In addition, we are party to legal proceedings and contractual disputes that arise in the ordinary course of our business. Except as to the matters specifically discussed, management believes that these matters represent remote liabilities. However, these matters cannot be predicted with certainty and an unfavorable resolution of one or more of them could have a material adverse effect on our business, results of operations, financial condition, and/or cash flows.

INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Unaudited)
(Dollars in thousands, except per share amounts, share amounts or where otherwise noted)

14. Pension Plans and Postretirement Benefits

Net periodic benefit expense for the United States plans:

	For the three months ended September 30, 2013			For the three months ended September 30, 2012		
	Pension benefits	Other benefits	Total	Pension benefits	Other benefits	Total
Service cost	$—	$91	$91	$—	$81	$81
Interest cost	27	40	67	28	34	62
Expected return on assets	(27)	—	(27)	(28)	—	(28)
Amortization of						
prior service cost	—	—	—	—	33	33
unrecognized (gain) loss	14	—	14	4	(7)	(3)
Net periodic cost	$14	$131	$145	$4	$141	$145

	For the nine months ended September 30, 2013			For the nine months ended September 30, 2012			
	Pension benefits	Other benefits	Total	Pension benefits		Other benefits	Total
Service cost	$—	$273	$273	$—	162,000	$243	$243
Interest cost	81	121	202	82	72,000	106	188
Expected return on assets	(82)	—	(82)	(82)	—	—	(82)
Amortization of							
prior service cost	—	—	—	—		97	97
unrecognized (gain) loss	42	—	42	10		(21)	(11)
Net periodic cost	$41	$394	$435	$10		$425	$435

In April 2013, Innophos contributed approximately $0.1 million to its U.S. defined benefit pension plan to satisfy the full year 2013 minimum contribution requirements.
Innophos made its entire cash contribution of $2.9 million for the U.S. defined contribution plan during the first quarter of 2013 for the plan year 2012.

INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Unaudited)
(Dollars in thousands, except per share amounts, share amounts or where otherwise noted)

Net periodic benefit expense for the Canadian plans:

	For the three months ended September 30, 2013			For the three months ended September 30, 2012		
	Pension benefits	Other benefits	Total	Pension benefits	Other benefits	Total
Service cost	$86	$19	$105	$85	$21	$106
Interest cost	138	20	158	151	26	177
Expected return on assets	(223)	—	(223)	(236)	—	(236)
Amortization of						
actuarial loss (gain)	78	9	87	65	11	76
prior service cost	25	—	25	26	—	26
net transition obligation	—	8	8	—	7	7
Exchange rate changes	(18)	4	(14)	122	22	144
Net periodic cost	$86	$60	$146	$213	$87	$300

	For the nine months ended September 30, 2013			For the nine months ended September 30, 2012		
	Pension benefits	Other benefits	Total	Pension benefits	Other benefits	Total
Service cost	$263	$58	$321	$253	$61	$314
Interest cost	420	61	481	451	74	525
Expected return on assets	(679)	—	(679)	(706)	—	(706)
Amortization of						
actuarial loss (gain)	238	27	265	195	35	230
prior service cost	76	—	76	78	—	78
net transition obligation	—	23	23	—	23	23
Exchange rate changes	186	(43)	143	142	29	171
Net periodic cost	$504	$126	$630	$413	$222	$635

Innophos Canada, Inc. made cash contributions to its Canadian defined benefit plan of $0.6 million during the nine months ended September 30, 2013. Innophos Canada, Inc. plans to make additional cash contributions to its Canadian defined benefit plan of approximately $0.2 million during the remainder of 2013.

15. Segment Reporting

The company discloses certain financial and supplementary information about its reportable segments, revenue by products and revenues by geographic area. Operating segments are defined as components of an enterprise about which separate discrete financial information is evaluated regularly by the chief operating decision maker, in order to decide how to allocate resources and assess performance. The primary performance indicators for the chief operating decision maker are sales and operating income, with sales on a ship-from basis. All references to sales in this Form 10-Q, either on a ship-from or ship-to basis, are on the same basis of revenue recognition and are recognized when title and risk of loss passes to the customer, which occurs either upon shipment or delivery, depending upon the agreed sales terms with customers.

The Company's reportable segments reflect the core businesses in which Innophos operates and how it is managed. The Company reports its core specialty phosphates business separately from granular triple super-phosphate, or GTSP, and other non-specialty phosphate products (GTSP & Other). Kelatron, AMT and Triarco are included in the Specialty Phosphates US & Canada segment and in the Specialty Ingredients product line. Specialty Phosphates consists of the products lines Specialty Ingredients, Food & Technical Grade PPA, and STPP & Detergent Grade PPA. GTSP & Other includes fertilizer co-product GTSP and other non-specialty phosphate products.

Table of Contents

INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Unaudited)
(Dollars in thousands, except per share amounts, share amounts or where otherwise noted)

For the three months ended September 30, 2013	Specialty Phosphates US & Canada	Specialty Phosphates Mexico	GTSP & Other	Eliminations	Total
Sales	$153,588	$44,712	$21,693	$—	$219,993
Intersegment sales	720	16,972	—	(17,692)	—
Total sales	$154,308	$61,684	$21,693	$(17,692)	$219,993
Operating income	$21,482	$2,964	$(3,725)	$—	$20,721
Depreciation and amortization expense	$6,967	$1,740	$236	$—	$8,943

For the three months ended September 30, 2012	Specialty Phosphates US & Canada	Specialty Phosphates Mexico	GTSP & Other	Eliminations	Total
Sales	$144,664	$41,222	$25,302	$—	$211,188
Intersegment sales	370	14,087	57	(14,514)	—
Total sales	$145,034	$55,309	$25,359	$(14,514)	$211,188
Operating income	$22,759	$2,369	$(542)	$—	$24,586
Depreciation and amortization expense	$5,732	$3,670	$1,160	$—	$10,562

For the nine months ended September 30, 2013	Specialty Phosphates US & Canada	Specialty Phosphates Mexico	GTSP & Other	Eliminations	Total
Sales	$463,633	$126,997	$56,980	$—	$647,610
Intersegment sales	2,021	44,095	239	(46,355)	—
Total sales	$465,654	—$171,092	$57,219	$(46,355)	$647,610
Operating income (a) (b)	$56,032	$4,954	$(210)	$—	$60,776
Depreciation and amortization expense	$20,540	$5,815	$1,439	$—	$27,794

For the nine months ended September 30, 2012	Specialty Phosphates US & Canada	Specialty Phosphates Mexico	GTSP & Other	Eliminations	Total
Sales	$432,528	$139,951	$81,141	$—	$653,620
Intersegment sales	1,218	45,082	320	(46,620)	—
Total sales	$433,746	$185,033	$81,461	$(46,620)	$653,620
Operating income (a) (b)	$70,262	$17,156	$1,590	$—	$89,008
Depreciation and amortization expense	$17,280	$11,233	$3,605	$—	$32,118

(a) The nine month period ended September 30, 2013 includes a $7.2 million benefit to earnings for the settlement of the Mexican CNA Water Tax Claims. The nine months ended September 30, 2012 includes a $7.1 million benefit to earnings related to updates to the provision for the CNA Fresh Water Claims in GTSP & Other.

(b) The nine month period ended September 30, 2013 includes a $2.3 million charge to earnings for out of period costs in the US. The nine months ended September 30, 2012 includes a $2.4 million of out of period cost in Mexico in

GTSP & Other.

Table of Contents
INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Unaudited)
(Dollars in thousands, except per share amounts, share amounts or where otherwise noted)

16. Acquisitions

In July 2012, Innophos purchased AMT Labs, Inc. and an affiliated company holding real property. The purchase accounting for the acquisition was closed in the first quarter of 2013 and no adjustments were recognized.

In December 2012, Innophos acquired the assets of Triarco Industries, Inc. ("Triarco"). Triarco, a privately held company based in New Jersey, has been manufacturing high quality custom ingredients for the food, beverage and dietary supplement industries for more than 30 years. Triarco specializes in botanical and enzyme based ingredients that provide important nutritional benefits and are often formulated with bioactive minerals and specialty phosphates. In the transaction, an Innophos subsidiary purchased all of Triarco's assets for $44.1 million in cash plus $1 million in shares of Innophos Holdings, Inc. Common Stock. The preliminary allocation of the purchase price of the acquisition has currently been included in these financial statements and changes to that allocation may occur as additional information becomes available. An additional fair value adjustment decreasing inventory (and increasing goodwill) by approximately $0.7 million was recognized in the period ended March 31, 2013. This fair value adjustment has been reclassified on the December 31, 2012 balance sheet.

17. Subsequent Events

On October 17, 2013, Innophos Acquisition II (an indirect subsidiary of Innophos, Inc.) acquired substantially all of the assets of privately held Chelated Minerals International, Inc., (CMI), based in Salt Lake City, Utah. CMI has significant knowhow in the manufacture and science of chelated minerals supplied to the human nutrition market. The acquisition of CMI strengthens Innophos’ position in micronutrient ingredients, which further enhances the Company’s ability to supply a broad range of nutrition fortification solutions to its customers. Innophos enjoys a strong position in macronutrient minerals such as calcium, magnesium and potassium that are required in relatively large amounts for a balanced diet. The human diet also requires smaller quantities of a wide range of other minerals such as chromium, selenium, zinc and iron classified as micronutrients.

The acquisition had a purchase price of $5 million, subject to specified adjustments, and was funded from cash on-hand.

Table of Contents

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion contains forward-looking statements about our markets, the demand for our products and services and our future results. We based these statements on assumptions that we consider reasonable. Actual results may differ materially from those suggested by our forward-looking statements for various reasons including those discussed in the “Risk Factors” and “Forward-Looking Statements” sections of this report.

Innophos is a leading international producer of performance-critical and nutritional specialty ingredients, with applications in food, beverage, dietary supplements, pharmaceutical, oral care and industrial end markets. Innophos combines more than a century of experience in specialty phosphate manufacturing with a growing capability in a broad range of other specialty ingredients to supply a product range produced to stringent regulatory manufacturing standards and the quality demanded by customers worldwide. Many of Innophos' products are application-specific compounds engineered to meet customer performance requirements and are often critical to the taste, texture and performance of foods, beverages, pharmaceuticals, oral care products and other applications. For example, Innophos products act as flavor enhancers in beverages, electrolytes in sports drinks, texture additives in cheeses, leavening agents in baked goods, pharmaceutical excipients, cleaning agents in toothpaste and provide a wide range of nutritional fortification solutions for food, beverage and nutritional supplement manufacturers.

Table of Contents

Recent Trends and Outlook

Moderate market demand growth continued for Specialty Phosphates in the third quarter 2013. The continued success of our growth strategy, targeted to achieve 2-3% above the market rate overall, resulted in 3% year-over-year core business growth for Specialty Phosphates. Export sales were up 16% year-over-year and reached their highest level since first quarter 2012. Overall, Specialty Phosphates volume growth was 7% with 4% coming from acquisitions. Our fourth quarter 2013 Specialty Phosphates year-over-year growth expectation is flat, excluding the benefit of the Triarco acquisition, as expected growth for the US & Canada business should be offset by a decline in the Mexico business. Mexico’s fourth quarter 2013 Specialty Phosphates volumes overall are expected to increase by 8-10% compared to the prior year; however, intercompany sales to replenish US inventories that were depleted throughout the year are expected to be double the year ago levels, which will result in a year-over-year decrease of trade sales in the Latin American region. The benefit of the Triarco acquisition made at the end of 2012 is expected to contribute an additional 3% revenue growth during the fourth quarter 2013 in comparison to the prior year period.

Market prices for key raw materials, phosphate rock and sulfur, both declined during the third quarter 2013, with sulfur showing the most notable drop of approximately one-third from its second quarter 2013 level. Lower purchase prices achieved in the third quarter are expected to be realized in the fourth quarter 2013 income statement, providing approximately 100 basis points of additional Specialty Phosphates operating income margin.

Specialty Phosphates operating income margins were 12% for the third quarter 2013, below original expectations, primarily due to US/Canada business mix and approximately $2 million higher costs than expected for the planned maintenance outage in Coatzacoalcos. Total costs incurred for the third quarter 2013 planned maintenance outage were approximately $4.5 million, with approximately $3.5 million recorded in Specialty Phosphates and approximately $1.0 million recorded in GTSP & Other. The benefit of these costs not recurring in the fourth quarter 2013 will be partially offset by lower cost leverage from the effects of seasonal volume declines for the business. Combined with the noted raw material cost savings, Specialty Phosphates operating income margin is expected to improve to approximately 14% for the fourth quarter 2013.

GTSP & Other profitability slipped to a $4 million operating loss for the third quarter 2013 due to a 15-20% decline in fertilizer prices caused by broad-based decline in market demand. The rapid decline in selling prices required an approximate $2 million lower of cost or market adjustment on the ending inventory levels, resulting in a greater operating loss for the quarter. Market prices are expected to fall further due to seasonally lower market demand, so our expectation is for a similar operating loss in the fourth quarter as just experienced in the third quarter 2013. Once market prices level off and allow for raw material costs to catch-up, operating income is expected to return close to break-even.

Net debt (total long-term debt (including any current portion) less cash and cash equivalents) decreased sequentially by $10 million in the third quarter 2013 to $126 million as a result of progress made on recovering tax refunds from the Mexican government. Gross debt was reduced by $6 million reflecting payments made against the credit facility during the third quarter 2013.

Looking ahead to 2014, our preliminary indication for Specialty Phosphates volume growth is in the 3-5% range. This is down slightly from previous targets, as we now see market demand growing at 1-2% rather than 2-3%, offset by continued success in executing our growth initiatives to deliver above market growth rates. Specialty Phosphates operating income margins are expected to be in the 14-15% range, and GTSP & Other is expected to return to the more recent norms of break-even.

Table of Contents

Historical Performance

Results of Operations

The following table sets forth a summary of the Company’s operations and their percentages of total revenue for the periods indicated. (dollars in millions):

	Three Months Ended September 30, 2013		Three Months Ended September 30, 2012	
	Amount	%	Amount	%
Net sales	$220.0	100.0	$211.2	100.0
Cost of goods sold	181.3	82.4	168.4	79.7
Gross profit	38.7	17.6	42.8	20.3
Operating expenses:				
Selling, general and administrative	17.2	7.8	17.4	8.2
Research & development	0.8	0.4	0.8	0.4
Income from operations	20.7	9.4	24.6	11.6
Interest expense, net	1.7	0.8	1.3	0.6
Foreign exchange losses (gains), net	0.7	0.3	(1.8)	(0.9)
Provision for income taxes	7.4	3.4	8.4	4.0
Net income	$10.9	5.0	$16.7	7.9

	Nine Months Ended September 30, 2013		Nine Months Ended September 30, 2012	
	Amount	%	Amount	%
Net sales	$647.6	100.0	$653.6	100.0
Cost of goods sold	531.0	82.0	512.6	78.4
Gross profit	116.6	18.0	141.0	21.6
Operating expenses:				
Selling, general and administrative	53.4	8.2	49.7	7.6
Research & development	2.4	0.4	2.3	0.4
Income from operations	60.8	9.4	89.0	13.6
Interest expense, net	4.5	0.7	4.5	0.7
Foreign exchange losses (gains), net	3.1	0.5	(2.2)	(0.3)
Provision for income taxes	18.3	2.8	25.9	4.0
Net income	$34.9	5.4	$60.8	9.3

Three months ended September 30, 2013 compared to the three months ended September 30, 2012

Net Sales

Net sales represent the selling price of the products, net of any customer-related rebates, plus freight and any other items invoiced to customers. Net sales for the three months ended September 30, 2013 were $220.0 million, an increase of $8.8 million, or 4.2%, as compared to $211.2 million for the same period in 2012. Higher sales in Specialty Phosphates resulting from acquisition benefits, growth in the US/Canada core business and improved operations in Mexico offset lower sales in GTSP & Other. Specialty Phosphates volumes were 7.2% higher, with acquisition benefits accounting for 4.1% of the increase and the core business contributing 3.1% growth, while selling prices were down 0.5%, primarily due to US/Canada sales mix. GTSP & Other volumes declined 3.3% and selling prices were down 11% versus the year ago period due to declining fertilizer market prices that ended 15-20% below where the quarter began.

The Company calculates pure selling price dollar variances as the selling price for the current year to date period minus the selling price for the prior year to date period, and then multiplies the resulting selling price difference by the prior year to date period volume. Volume variance is calculated as the total sales variance minus the selling price variance and refers to the revenue effect of changes in tons sold at the relative prices applicable to the variation in tons, otherwise known as volume/mix.

Table of Contents

The following table illustrates for the three months ended September 30, 2013 the percentage changes in net sales by reportable segment compared with the same period of the prior year, including the effect of price and volume/mix changes upon revenue:

	Price	Volume/Mix	Total
Specialty Phosphates US & Canada	(1.5)%	7.7%	6.2%
Specialty Phosphates Mexico	3.3%	5.2%	8.5%
Total Specialty Phosphates	(0.5)%	7.2%	6.7%
GTSP & Other	(11.0)%	(3.3)%	(14.3)%
Total	(1.7)%	5.9%	4.2%

Note: Included within Specialty Phosphates US & Canada and Total Specialty Phosphates volume/mix variances were benefits of 5.3% and 4.1%, respectively, from the AMT business acquired in the third quarter of 2012 and the Triarco business acquired in December 2012.

The following table illustrates for the three months ended September 30, 2013 the percentage changes for net sales by Specialty Phosphates product lines compared with the prior year, including the effect of price and volume/mix changes:

	Price	Volume/Mix	Total
Specialty Ingredients	(1.6)%	12.1%	10.5%
Food & Technical Grade PPA	(1.5)%	1.6%	0.1%
STPP & Detergent Grade PPA	8.1%	(12.8)%	(4.7)%

Note: Included within Specialty Ingredients volume/mix variance was a 5.9% benefit from the AMT business acquired in the third quarter of 2012 and the Triarco business acquired in December 2012.

Gross Profit

Gross profit represents net sales less cost of goods sold. Gross profit for the three months ended September 30, 2013 was $38.7 million, a decrease of $4.1 million, or 9.6%, as compared to $42.8 million for the same period in 2012. Gross profit percentage decreased to 17.6% for the three months ended September 30, 2013 versus 20.3% for the same period in 2012. Gross profit in 2013 was unfavorably affected by $3.7 million for lower selling prices, primarily due to GTSP & Other, $3.5 million increased manufacturing costs including changes in inventories, a net $2.8 million increase planned maintenance outage expenses mainly at our Coatzacoalcos manufacturing facility, and a $1.6 million lower of cost or market reserve recorded in the current period for GTSP. These unfavorable effects were partially offset by $2.1 million lower depreciation, $2.9 million favorable sales volume effects, $1.2 million benefit from acquisitions, and $0.7 million in lower raw material costs. Included in 2012 was $0.6 million for acquisition related fair value adjustments.

Operating Expenses and Research and Development

Operating expenses consist primarily of selling, general and administrative and research and development expenses. Operating expenses for the three months ended September 30, 2013 were $18.0 million, a decrease of $0.2 million, or 1.1%, as compared to $18.2 million for the same period in 2012.

Operating Income

Operating income for the three months ended September 30, 2013 was $20.7 million, a decrease of $3.9 million, or 15.9%, as compared to $24.6 million for the same period in 2012. Operating income as a percentage of net sales decreased to 9.4% versus 11.6% for the same period in 2012, for the reasons noted above.

Interest Expense, net

Net interest expense, including deferred financing amortization expense, for the three months ended September 30, 2013 was $1.7 million, an increase of $0.4 million due to the recording of interest expense on uncertain tax positions, or 30.8% as compared to $1.3 million for the same period in 2012.

Table of Contents

Foreign Exchange

Foreign exchange for the three months ended September 30, 2013 was a loss of $0.7 million as compared to a gain of $1.8 million for the same period in 2012 that primarily resulted from a strengthening of the peso against the U.S. Dollar during the prior year period. The U.S. Dollar is the functional currency of our Mexican and Canadian operations. Consequently, foreign exchange gain or loss is recorded on remeasurement of non-U.S. dollar denominated monetary assets and liabilities. Such gains and losses fluctuate from period to period as the foreign currencies strengthen or weaken against the U.S. dollar and the amount of non-U.S. dollar denominated assets and liabilities increases or decreases.

Provision for Income Taxes

The effective income tax rate was 40% for the three months ended September 30, 2013 compared to 33% for the same period in 2012. The variance in the effective tax rate is due to the recording of uncertain income tax provisions which increased the tax rate by 7% over the prior year.

Net Income

Net income for the three months ended September 30, 2013 was $10.9 million, a decrease of $5.8 million as compared to $16.7 million for the same period in 2012, due to the factors described above.

Nine months ended September 30, 2013 compared to the nine months ended September 30, 2012

Net Sales

Net sales represent the selling price of the products, net of any customer-related rebates, plus freight and any other items invoiced to customers. Net sales for the nine months ended September 30, 2013 were $647.6 million, a decrease of $6.0 million, or 0.9%, as compared to $653.6 million for the same period in 2012. The decrease was primarily due to lower GTSP & Other sales which had 24.2% lower volumes and 5.6% lower prices due to soft fertilizer market conditions. Specialty Phosphates volumes were 4.5% higher, with a 4.9% benefit from acquisitions and a net 0.4% decline in our core business primarily resulting from first half 2013 operating issues in Mexico. Specialty Phosphates average selling prices were down 1.3% primarily due to unfavorable sales mix in the US/Canada business and a price reset on a long-term contract in Mexico.

The Company calculates pure selling price dollar variances as the selling price for the current year to date period minus the selling price for the prior year to date period, and then multiplies the resulting selling price difference by the prior year to date period volume. Volume variance is calculated as the total sales variance minus the selling price variance and refers to the revenue effect of changes in tons sold at the relative prices applicable to the variation in tons, otherwise known as volume/mix. The following table illustrates for the nine months ended September 30, 2013 the percentage changes in net sales by reportable segment compared with the same period of the prior year, including the effect of price and volume/mix changes upon revenue:

	Price		Volume/Mix		Total	
Specialty Phosphates US & Canada	(1.1	)%	8.3	%	7.2	%
Specialty Phosphates Mexico	(2.0	)%	(7.3	)%	(9.3	)%
Total Specialty Phosphates	(1.3	)%	4.5	%	3.2	%
GTSP & Other	(5.6	)%	(24.2	)%	(29.8	)%
Total	(1.8	)%	0.9	%	(0.9	)%

Note: Included within Specialty Phosphates US & Canada and Total Specialty Phosphates volume/mix variances were benefits of 6.5% and 4.9%, respectively, from the AMT business acquired in the third quarter of 2012 and the Triarco business acquired in December 2012.

Table of Contents

The following table illustrates for the nine months ended September 30, 2013 the percentage changes for net sales by Specialty Phosphates product lines compared with the prior year, including the effect of price and volume/mix changes:

	Price	Volume/Mix	Total
Specialty Ingredients	(2.2)%	9.4%	7.2%
Food & Technical Grade PPA	0.4%	(1.2)%	(0.8)%
STPP & Detergent Grade PPA	1.3%	(15.2)%	(13.9)%

Note: Included within Specialty Ingredients volume/mix variance was a 7.0% benefit from the AMT business acquired in the third quarter of 2012 and the Triarco business acquired in December 2012.

Gross Profit

Gross profit represents net sales less cost of goods sold. Gross profit for the nine months ended September 30, 2013 was $116.6 million, a decrease of $24.4 million, or 17.3%, as compared to $141.0 million for the same period in 2012. Gross profit percentage decreased to 18.0% for the nine months ended September 30, 2012 versus 21.6% for the same period in 2012.

Gross profit in 2013 was unfavorably affected by $11.9 million for lower selling prices, $0.8 million higher raw material costs, $6.7 million higher fixed costs including change in inventory effects, a net $2.8 million increase in expenses for planned maintenance outages, mainly at our Coatzacoalcos manufacturing facility, a $1.6 million lower of cost or market reserve recorded in the current period for GTSP, $1.3 million unfavorable exchange rate mostly from Mexican peso based costs, and $15.4 million in elevated cost of goods sold for the first half 2013, of which $7.9 million related to Mexico manufacturing issues, $2.1 million related to a revision of estimates for phosphate rock inventories in Mexico, $2.3 million related to an out of period adjustment related to a long term supply agreement, $2.4 million related to demurrage on raw material purchases and other inventory related costs, and $0.7 million related to acquisition related fair value adjustments. The $40.5 million total of unfavorable effects were partially offset by $6.2 million benefit from acquisitions, $4.0 million for lower depreciation, $2.9 million higher sales volumes, and $2.4 million of expense in the second quarter 2012 for adjustments made to cost of goods sold, including amounts for prior periods. Included in 2012 was $0.6 million for acquisition related fair value adjustments. Both periods included a benefit of approximately $7 million as we made progress in reducing the amounts required to be paid to settle historical water duty claims by the Mexican authorities.

Operating Expenses and Research and Development

Operating expenses consist primarily of selling, general and administrative and research and development expenses. Operating expenses for the nine months ended September 30, 2013 were $55.8 million, an increase of $3.8 million, or 7.3%, as compared to $52.0 million for the same period in 2012. The increase was primarily due to the acquired AMT and Triarco businesses and an elevated focus on our quality and business process improvement programs partially offset by lower incentive compensation plan expenses.

Operating Income

Operating income for the nine months ended September 30, 2013 was $60.8 million, a decrease of $28.2 million, or 31.7%, as compared to $89.0 million for the same period in 2012. Operating income as a percentage of net sales decreased to 9.4% versus 13.6% for the same period in 2012, for the reasons noted above.

Interest Expense, net

Net interest expense, including deferred financing amortization expense, for the nine months ended September 30, 2013 was $4.5 million, no change when compared to $4.5 million for the same period in 2012, with 2013 benefits from lower interest rates on the new credit facility offset by $0.4 million of interest expense on uncertain tax positions recorded in the third quarter 2013.

Foreign Exchange

Foreign exchange for the nine months ended September 30, 2013 was a loss of $3.1 million as compared to a gain of $2.2 million for the same period in 2012, primarily due to weakening of the peso against the U.S. Dollar combined with higher monetary asset positions in the 2013 period versus a strengthening of the peso against the U.S. Dollar in the 2012 period. The U.S. Dollar is the functional currency of our Mexican and Canadian operations. Consequently, foreign exchange gain or loss is recorded on remeasurement of non-U.S. dollar denominated monetary assets and liabilities. Such gains and losses fluctuate

Table of Contents

from period to period as the foreign currencies strengthen or weaken against the U.S. dollar and the amount of non-U.S. dollar denominated assets and liabilities increases or decreases.

Table of Contents

Provision for Income Taxes

The effective income tax rate was 34% for the nine months ended September 30, 2013 compared to 30% for the same period in 2012. The variance in the effective tax rate is primarily due to recording of uncertain income tax positions which increased the effective tax rate by 3% over the prior year and the Mexican CNA Water Tax Claims being recorded as discrete items for income tax provision purposes which increased the effective tax rate by 2% over the prior year.

Net Income

Net income for the nine months ended September 30, 2013 was $34.9 million, a decrease of $25.9 million as compared to $60.8 million for the same period in 2012, due to the factors described above.

Segment Reporting

The Company reports its core Specialty Phosphates business separately from GTSP & Other. Specialty Phosphates consists of the products lines Specialty Ingredients, Food & Technical Grade PPA and STPP & Detergent Grade PPA. Kelatron, AMT and Triarco are included in the Specialty Phosphates US & Canada segment and in the Specialty Ingredients product line. GTSP & Other includes fertilizer co-product GTSP and other non-Specialty Phosphate products. The primary performance indicators for the chief operating decision maker are sales and operating income. The following table sets forth the historical results of these indicators by segment:

	Three Months Ended					
	September 30, 2013		September 30, 2012		Net Sales % Change	
Segment Net Sales						
Specialty Phosphates US & Canada	$153,588		$144,664		6.2	%
Specialty Phosphates Mexico	44,712		41,222		8.5	%
Total Specialty Phosphates	198,300		185,886		6.7	%
GTSP & Other	21,693		25,302		(14.3	)%
Total	$219,993		$211,188		4.2	%
Segment Operating Income						
Specialty Phosphates US & Canada	$21,482		$22,759			
Specialty Phosphates Mexico	2,964		2,369			
Total Specialty Phosphates	24,446		25,128			
GTSP & Other	(3,725	)	(542	)		
Total	$20,721		$24,586			
Segment Operating Income % of net sales						
Specialty Phosphates US & Canada	14.0	%	15.7	%		
Specialty Phosphates Mexico	6.6	%	5.7	%		
Total Specialty Phosphates	12.3	%	13.5	%		
GTSP & Other	(17.2	)%	(2.1	)%		
Total	9.4	%	11.6	%		
Depreciation and amortization expense						
Specialty Phosphates US & Canada	$6,967		$5,732			
Specialty Phosphates Mexico	1,740		3,670			
Total Specialty Phosphates	$8,707		9,402			
GTSP & Other	236		1,160			
Total	$8,943		$10,562			

Table of Contents

	Nine Months Ended September 30, 2013	September 30, 2012	Net Sales % Change
Segment Net Sales			
Specialty Phosphates US & Canada	$463,633	$432,528	7.2 %
Specialty Phosphates Mexico	126,997	139,951	(9.3)%
Total Specialty Phosphates	590,630	572,479	3.2 %
GTSP & Other	56,980	81,141	(29.8)%
Total	$647,610	$653,620	(0.9)%
Segment Operating Income			
Specialty Phosphates US & Canada	$56,032	$70,262	
Specialty Phosphates Mexico	4,954	17,156	
Total Specialty Phosphates	60,986	87,418	
GTSP & Other (a) (b)	(210)	1,590	
Total	$60,776	$89,008	
Segment Operating Income % of net sales			
Specialty Phosphates US & Canada	12.1 %	16.2 %	
Specialty Phosphates Mexico	3.9 %	12.3 %	
Total Specialty Phosphates	10.3 %	15.3 %	
GTSP & Other (a) (b)	(0.4)%	2.0 %	
Total	9.4 %	13.6 %	
Depreciation and amortization expense			
Specialty Phosphates US & Canada	$20,540	$17,280	
Specialty Phosphates Mexico	5,815	11,233	
Total Specialty Phosphates	$26,355	28,513	
GTSP & Other	1,439	3,605	
Total	$27,794	$32,118	

(a) The nine month period ended September 30, 2013 includes a $7.2 million benefit to earnings for the settlement of the Mexican CNA Water Tax Claims and a $2.3 million charge to earnings for out of period costs in the US.

(b) The nine month period ended September 30, 2012 includes a $7.1 million benefit to earnings primarily for the settlement with Rhodia on their liability for the charges to be paid to the CNA for the Mexican CNA Water Tax Claims and a $2.4 million charge to earnings for out of period costs in Mexico.

Table of Contents

Three months ended September 30, 2013 compared to the three months ended September 30, 2012

Segment Net Sales:

Specialty Phosphates US & Canada net sales increased 6.2% for the three months ended September 30, 2013 when compared with the same period in 2012. Volumes increased 7.7% due to a benefit of 5.3% from the AMT and Triarco acquisitions and 2.4% growth from the core business, due to success on geographical expansion and product innovation growth strategies, while average selling prices decreased by 1.5% due primarily to sales mix.

Specialty Phosphates Mexico net sales increased 8.5% for the three months ended September 30, 2013 when compared with the same period in 2012. Volumes increased 5.2% as a result of improved operations and selling prices increased 3.3%.

GTSP & Other net sales decreased 14.3% for the three months ended September 30, 2013 when compared with the same period in 2012. Volumes decreased 3.3% and selling prices decreased 11.0% under weak fertilizer market conditions with prices ending 15-20% below where the quarter began.

Segment Operating Income Percentage of Net Sales:

The 170 basis point decrease in Specialty Phosphates US & Canada for the three months ended September 30, 2013 compared with the same period in 2012 is due to lower average selling prices which decreased margins by 130 basis points, increased raw material costs which decreased margins 100 basis points, higher depreciation in the core business which decreased margins by 40 basis points, and higher fixed costs which decreased margins 20 basis points, partially offset by increased volumes that added 120 basis points.

The 90 point increase in Specialty Phosphates Mexico for the three months ended September 30, 2013 compared with the same period in 2012 is due to higher selling prices which increased margins by 290 basis points, higher sales volumes which increased margins by 420 basis points, lower raw material costs which increased margins by 110 basis points, and lower depreciation which increased margins by 470 basis points. Higher fixed costs decreased margins by 590 basis points and increased turnaround cost at our Coatzacoalcos manufacturing facility decreased margins by 610 basis points.

The 1,500 basis point decrease in GTSP & Other for the three months ended September 30, 2013 compared with the same period in 2012 is due to lower selling prices which decreased margins 1,270 basis points, a lower of cost or market reserve which decreased margins by 630 basis points, higher fixed costs which lowered margins 420 basis points, lower sales volumes which decreased margins by 40 basis points, and increased turnaround cost at our Coatzacoalcos manufacturing facility which decreased margins by 320 basis points. Lower raw material cost increased margins by 810 basis points and lower depreciation increased margins by 370 basis points.

Raw material cost effects for the Company overall were insignificant when compared against the prior period.

Nine months ended September 30, 2013 compared to the nine months ended September 30, 2012

Segment Net Sales:

Specialty Phosphates US & Canada net sales increased 7.2% for the nine months ended September 30, 2013 when compared with the same period in 2012. Volumes increased 8.3% due to a benefit of 6.5% from the AMT and Triarco acquisitions and 1.8% growth from the core business, due to success on geographical expansion and product innovation growth strategies. Selling prices decreased by 1.1% due primarily to sales mix.

Specialty Phosphates Mexico net sales decreased 9.3% for the nine months ended September 30, 2013 when compared with the same period in 2012. Volumes decreased 7.3% as the business experienced operating issues in the first half of 2013 which limited production and sales. Selling prices decreased 2.0% primarily from a price reset upon the renewal of a long term contract and declines in the less differentiated detergent grade products.

GTSP & Other net sales decreased 29.8% for the nine months ended September 30, 2013 when compared with the same period in 2012. Volumes decreased 24.2% and selling prices decreased 5.6% due to weak fertilizer market demand which resulted in a sharp decline in third quarter 2013 market selling prices that decreased 15-20% within the quarter.

Segment Operating Income Percentage of Net Sales:

The 410 basis point decrease in Specialty Phosphates US & Canada for the nine months ended September 30, 2013 compared with the same period in 2012 is primarily due to increased costs of goods sold in 2013 compared to an inventory lag benefit in the first quarter 2012 which decreased margins by 360 basis points, elevated cost of goods sold in the first quarter 2013 for revisions in inventory accounting estimates, an out of period adjustment related to a long term supply agreement,

Table of Contents

demurrage on raw material purchases and acquisition accounting expenses which decreased margins by 130 basis points, lower selling prices which decreased margins by 90 basis points, and higher fixed costs in the core business which decreased margins by 50 basis points. Higher volumes increased margins by 220 basis points.

The 840 basis point decrease in Specialty Phosphates Mexico for the nine months ended September 30, 2013 compared with the same period in 2012 is primarily due to higher cost of goods sold for first half 2013 manufacturing issues and a revision of estimates for phosphate rock inventories which decreased margins by 540 basis points, lower selling prices which decreased margins by 180 basis points, lower sales volume which decreased margins by 190 basis points, increased fixed costs which decreased margins by 610 basis points, and increased turnaround cost at our Coatzacoalcos manufacturing facility decreased margins by 180 basis points. Lower raw material costs increased margins by 470 basis points and lower depreciation increased margins by 390 basis points.

The 240 basis point decrease in GTSP & Other for the nine months ended September 30, 2013 compared with the same period in 2012 is primarily due to lower selling prices which decreased margin by 580 basis points, a lower of cost or market reserve which decreased margins by 200 basis points, lower sales volumes which decreased margins by 290 basis points, and increased turnaround cost at our Coatzacoalcos manufacturing facility decreased margins by 100 basis points. Lower raw material costs, mainly from lower rock and sulfur market prices, increased margins by 540 basis points, lower depreciation added 270 basis points, and lower fixed costs which increased margins by 120 basis points.

Liquidity and Capital Resources

The following table sets forth a summary of the Company's cash flows for the periods indicated.

(Dollars in millions)	Nine months ended September 30, 2013	September 30, 2012
Operating Activities	$74.0	$100.8
Investing Activities	(30.3)	(43.1)
Financing Activities	(34.7)	(56.4)

Nine months ended September 30, 2013 compared to nine months ended September 30, 2012

Net cash provided by operating activities was $74.0 million for the nine months ended September 30, 2013 as compared to $100.8 million for 2012, a decrease of $26.8 million. The decrease in operating activities cash resulted from unfavorable changes of $25.9 million in net income as described earlier, $1.7 million in working capital and $3.7 million in non-cash adjustments to income, partially offset by a favorable change of $4.5 million in other long term assets and liabilities.

The unfavorable change in working capital is derived from it being a source of cash of $7.8 million in 2013 compared to a source in 2012 of $9.5 million, a decrease in cash of $1.7 million. Collections improved on the backlog of value added tax, or VAT, refunds due the Company from the Mexican government; however, this was offset by less cash generation from inventory movements due to increased requirements in Mexico to support improved production performance. Accounts receivable was a $5.2 million use of cash in 2013 compared to a $11.3 million source of cash in 2012, but remained at a consistent trend as a percent of quarterly sales, when adjusted for GTSP open accounts receivable of $1.0 million, $1.6 million, $15.3 million and $4.3 million as of September 30, 2013, June 30, 2013, March 31, 2013 and December 31, 2012, respectively. Subsequent to the balance sheet date, on October 1, 2013 our Mexican subsidiary received their 2012 income tax refund of approximately $8.7 million.

Net cash used for investing activities was $30.3 million for the nine months ended September 30, 2013, compared to $43.1 million for 2012, a decrease in spending of $12.8 million. The change is mainly due to $14.0 million higher capital spending at our Coatzacoalcos, Mexico manufacturing facility as we continue to make investments to improve the reliability and flexibility of that operation. In the third quarter of 2012 the AMT business was acquired for $27.1 million.

Management projects total capital expenditures to be near the high end of the $35-40 million expectation for 2013, and in the $45-50 million range for 2014. The maintenance portion of these capital expenditures is expected to be at the high end of typical $20-$25 million range in 2013, and expected to exceed the high end of the typical range in 2014 by $5-$10 million, before returning to the typical range. Investment continues to be focused on capacity enhancements for US, Canada and Mexico Specialty Ingredients facilities, and further enhancing Mexico's reliability and efficiency, as well as it's flexibility, to process multiple grades of phosphate rock, consistent with the Company's supply chain diversification strategy. A new higher-

Table of Contents

grade PPA operation was successfully commissioned in the third quarter 2013 as part of the long term plant upgrade program for Coatzacoalcos. This higher-grade PPA will further support internal needs for the US and Canada network and allow a continued upgrading of the product mix in the Latin America region.

Innophos currently estimates that full exploration costs to a proven reserves standard for its Baja California mining concessions could require expenditures of $10 to $15 million over a period, currently estimated at three to five years, inclusive of expenditures to date. This estimate includes mineral rights payments, taxes, mineral resource measurement, beneficiation process design and completion of feasibility studies. Full expenditures would only occur if interim milestone goals were successfully attained. Combined 2010 through 2012 expenditures on the exploration of the Baja California Sur concession deposits were approximately $3.1 million, and management currently expects to spend at a similar annual trend rate in 2013. Spending could increase in 2014 by up to $3 million above the previous annual trend rate to accelerate evaluations of the Santo Domingo concession. Innophos intends to seek one or more partners for these efforts, but anticipates no difficulties in completing the exploration phase without a partnership.

Net cash from financing activities for the nine months ended September 30, 2013, was a use of $34.7 million, compared to a use of $56.4 million in 2012, a decrease in the use of cash of $21.7 million. This was mainly due to $13.0 million increased loan borrowings, $8.0 million lower loan repayments, $7.2 million lower common stock repurchases, partially offset by $5.8 million higher dividend payments and $0.7 million lower excess tax benefits from exercise of stock options.

In April 2013, the Company paid $4.4 million to settle the Mexican CNA Water Tax Claims under an amnesty program governed by the Mexican government.

Innophos and its subsidiaries and affiliates may from time to time seek to acquire or otherwise retire outstanding debt through privately negotiated transactions, exchanges or otherwise. Debt repurchases or exchanges, if any, will depend on prevailing market conditions, Company liquidity requirements, restrictive financial covenants and other factors applicable at the time. The amounts involved may be material.

On September 30, 2013, the Company had cash and cash equivalents outside the United States of $22.2 million, or 62% of the Company's balance. Further, the foreign cash amounts are not restricted by law to be used in other countries. Our current operating plan does not include repatriation of any of the cash and cash equivalents held outside the United States to fund the United States operations. However, in the event we do repatriate cash and cash equivalents held outside of the United States, we may be required to accrue and pay United States income taxes to repatriate these funds.

The Company's available financial resources allow for the continuation of dividend payments, pursuit of several “bolt-on” acquisition projects and further geographic expansion initiatives. We further believe that on-hand cash combined with cash generated from operations, including our Mexican operations, and availability under our revolving line of credit, will be sufficient to meet our obligations such as debt service, tax payments, capital expenditures and working capital requirements for at least the next twelve months. We expect to fund all these obligations through our existing cash and our future operating cash flows. However, future operating performance for the Company is subject to prevailing economic and competitive conditions and various other factors that are uncertain. If the cash flows and other capital resources available to the Company, such as its revolving loan facility, are insufficient to fund our debt and other liquidity needs, the Company may have to take alternative actions that differ from current operating plans.

On October 25, 2013 the Company's Board of Directors declared an increase to its quarterly dividend from $0.35 per share to $0.40 per share to be paid in the fourth quarter of 2013.

Critical Accounting Estimates and Policies

There have been no material changes from the critical accounting estimates previously disclosed in our 2012 Annual Report on Form 10-K.

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to certain market risks as part of our ongoing business operations. Primary exposures include changes in interest rates, as borrowings under our Loan Agreement will bear interest at floating rates based on LIBOR plus an applicable borrowing margin. We manage our interest rate risk by balancing the amount of fixed-rate and floating-rate debt to the extent practicable consistent with our credit status. For fixed-rate debt, interest rate changes do not affect earnings or cash flows. Conversely, for floating-rate debt, interest rate changes generally affect our earnings and cash flows, assuming other factors are held constant.

At September 30, 2013, we had $97 million principal amount of variable-rate debt and a $225.0 million revolving credit facility, of which $65.0 million was outstanding, both of which approximate fair value (determined using level 2 inputs within the fair value hierarchy). Total remaining availability was $157.7 million, taking into account $2.3 million in face amount of letters of credit issued under the sub-facility. Simultaneously with initiating the new senior facility, Innophos entered into an interest rate swap, swapping the LIBOR exposure on $100.0 million of floating rate debt with a fixed rate of 0.9475% plus the applicable margin on the debt expiring in December 2017. This interest rate swap has been designated as a cashflow hedge with the changes in value recorded through other comprehensive income. The fair value of this interest rate swap is an asset of approximately 0.8 million (determined using level 2 inputs within the fair value hierarchy) as of September 30, 2013.

Changes in economic conditions could result in higher interest rates, thereby increasing our interest expense on our revolving line of credit. Changes in economic conditions may also result in lower operating income, reducing our funds available for capital investment, operations or other purposes. In addition, a substantial portion of our cash flow has been used to service debt and fund working capital needs, which may affect our ability to make future acquisitions or capital expenditures. We may from time to time use interest rate protection agreements to minimize our exposure to interest rate fluctuation. Regardless of hedges, we may experience economic loss and a negative impact on earnings or net assets as a result of interest rate fluctuations. Based on $65.0 million outstanding borrowings as floating rate debt (not included in the swap) under our revolving credit facility, an immediate increase of one percentage point would cause an increase to interest expense of approximately $0.7 million per year.

From time to time, we may enter into longer term natural gas supply contracts in an effort to eliminate some of the volatility in our energy costs. Our natural gas spending for 2013 is estimated to be less than 3% of cost of goods sold. We do not currently hedge our currency rate risks.

We believe that our concentration of credit risk related to trade accounts receivable is limited since these receivables are spread among a number of customers and are geographically dispersed. No customer accounted for more than 10% of our sales in the last 3 years.

Foreign Currency Exchange Rates

The U.S. Dollar is the functional currency of the Canadian and Mexican operations. Accordingly, these operations' monetary assets and liabilities are translated at current exchange rates, non-monetary assets and liabilities are translated at historical exchange rates, and revenue and expenses are translated at average exchange rates and at historical exchange rates for the related revenue and expenses of non-monetary assets and liabilities. All transaction gains and losses are included in net income.

Our principal source of exchange rate exposure in our foreign operations consists of expenses, such as labor expenses, which are denominated in the foreign currency of the country in which we operate. A decline in the value of the U.S. Dollar relative to the local currency would generally cause our operational expenses (particularly labor costs) to increase (conversely, a decline in the value of the foreign currency relative to the U.S. Dollar would cause these expenses to decrease). We believe that normal exchange rate fluctuations consistent with recent historical trends would have a modest impact on our expenses, and would not materially affect our financial condition or results of operations. Nearly all of our sales are denominated in U.S. Dollars and our exchange rate exposure in terms of sales revenues is minimal.

Inflation and changing prices

Our costs and expenses will be subject to inflation and price fluctuations. Significant price fluctuations in raw materials, freight, and energy costs, if not compensated for by cost savings from production efficiencies or price increases passed on to customers could have a material effect on our financial condition and results of operations.

Table of Contents

Off-Balance Sheet Arrangements

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as “structured finance or special purpose entities”, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Control and Procedures

The Company maintains disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) that are designed to provide reasonable assurance that information required to be reported in the Company's consolidated financial statements and filings is recorded, processed, summarized and reported within the periods specified in the rules and forms of the Securities and Exchange Commission, or SEC, and that such information is accumulated and communicated to the Company's management, including its Principal Executive Officer and Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives.

As of September 30, 2013 the Company completed an evaluation under the supervision and with the participation of the Company's management, including the Company's Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that the Company's disclosure controls and procedures are effective at the reasonable assurance level.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during or with respect to the third quarter of 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

PART II

ITEM 1. LEGAL PROCEEDINGS
Note 13 of Notes to Consolidated Condensed Financial Statements in “Item 1. Financial Statements" contained in this Quarterly Report on Form 10-Q is incorporated herein by reference.

ITEM 1A. RISK FACTORS
There have been no material changes from the risk factors previously disclosed in our 2012 Annual Report on Form 10-K.
ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS
None.
ITEM 3. DEFAULTS UPON SENIOR SECURITIES
None.

ITEM 4. MINE SAFETY DISCLOSURES
None.

ITEM 5. OTHER INFORMATION
None.

ITEM 6. EXHIBITS
a) Exhibits. The following exhibits are filed or furnished as part of this report:

Exhibit No.	Description
31.1	Certification of Principal Executive Officer dated October 30, 2013 pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer dated October 30, 2013 pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Principal Executive Officer dated October 30, 2013 pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Principal Financial Officer dated October 30, 2013 pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Not to be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liability of that section, nor deemed to be incorporated by reference into any filing under that Act or the Securities Act of 1933.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INNOPHOS HOLDINGS, INC.

	/s/ Randolph Gress
By:	Randolph Gress
Its:	Chief Executive Officer and Director
	(Principal Executive Officer)
Dated:	October 30, 2013

INNOPHOS HOLDINGS, INC.

	/s/ Mark Feuerbach
By:	Mark Feuerbach
Its:	Vice President and Chief Financial Officer
	(Principal Financial Officer)
Dated:	October 30, 2013

Table of Contents

EXHIBIT INDEX

Exhibit No.	Description
31.1	Certification of Principal Executive Officer dated October 30, 2013 pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer dated October 30, 2013 pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Principal Executive Officer dated October 30, 2013 pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Principal Financial Officer dated October 30, 2013 pursuant to Section 906 of the Sarbanes-Oxley Act of 2002