

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

**FORM 10-Q**

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

**For the quarterly period ended June 30, 2015**

**or**

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

**For the transition period from to**

**Commission file number 1-13879**

**INNOSPEC INC.**

**(Exact name of registrant as specified in its charter)**

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

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

**Suite 350**

**Englewood**

**Colorado**  
**(Address of principal executive offices)**

**80112**  
**(Zip Code)**

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

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

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

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

Large accelerated filer  Accelerated filer

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

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

Yes  No

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

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

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**CAUTIONARY STATEMENT RELATIVE TO FORWARD-LOOKING STATEMENTS**

This Form 10-Q contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts included or incorporated herein may constitute forward-looking statements. Such forward-looking statements include statements (covered by words like expects, estimates, anticipates, may, believes, feels or similar words or expressions), for example, which relate to earnings, growth potential, operating performance, events or developments that we expect or anticipate will or may occur in the future. Although forward-looking statements are believed by management to be reasonable when made, they are subject to certain risks, uncertainties and assumptions, and our actual performance or results may differ materially from these forward-looking statements. Additional information regarding risks, uncertainties and assumptions relating to Innospec and affecting our business operations and prospects are described in Innospec's Annual Report on Form 10-K for the year ended December 31, 2014, and other reports filed with the U.S. Securities and Exchange Commission. You are urged to review our discussion of risks and uncertainties that could cause actual results to differ from forward-looking statements under the heading Risk Factors in such reports. Innospec undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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

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

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



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**INNOSPEC INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(Unaudited)

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

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



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**INNOSPEC INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

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

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

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**INNOSPEC INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS (CONTINUED)**

(in millions, except share and per share data)	June 30, 2015 (Unaudited)	December 31, 2014
<b>Liabilities and Equity</b>		
Current liabilities:		
Accounts payable	\$ 67.4	\$ 87.6
Accrued liabilities	69.6	77.2
Current portion of long-term debt	0.0	0.4
Current portion of finance leases	0.6	0.5
Current portion of plant closure provisions	5.1	5.7
Current portion of accrued income taxes	3.9	5.6
Current portion of acquisition-related contingent consideration	39.0	45.7
Current portion of deferred income	0.2	0.2
Liabilities held for sale	7.8	0.0
<b>Total current liabilities</b>	<b>193.6</b>	<b>222.9</b>
Long-term debt, net of current portion	139.0	139.0
Finance leases, net of current portion	2.4	1.7
Plant closure provisions, net of current portion	29.9	28.4
Unrecognized tax benefits, net of current portion	6.3	6.2
Deferred tax liabilities, net of current portion	33.1	23.0
Pension liability	9.8	10.4
Acquisition-related contingent consideration, net of current portion	33.2	49.5
Deferred income, net of current portion	0.7	0.9
Other non-current liabilities	0.7	2.0
<b>Total liabilities</b>	<b>448.7</b>	<b>484.0</b>
Equity:		
Common stock, \$0.01 par value, authorized 40,000,000 shares, issued 29,554,500 shares	0.3	0.3
Additional paid-in capital	309.9	308.8
Treasury stock (5,404,880 and 5,263,481 shares at cost, respectively)	(88.3)	(78.7)
Retained earnings	436.9	391.8
Accumulated other comprehensive loss	(109.5)	(106.3)
<b>Total Innospec stockholders equity</b>	<b>549.3</b>	<b>515.9</b>
Non-controlling interest	0.4	0.0
<b>Total equity</b>	<b>549.7</b>	<b>515.9</b>
<b>Total liabilities and equity</b>	<b>\$ 998.4</b>	<b>\$ 999.9</b>

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

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**INNOSPEC INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

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

Net cash used in financing activities	(17.3)	(14.9)
Effect of foreign currency exchange rate changes on cash	(0.9)	0.1
Net change in cash and cash equivalents	23.8	11.2
Cash and cash equivalents at beginning of period	41.6	80.2
Reclassification of cash to assets held for sale	(1.1)	0.0
Cash and cash equivalents at end of period	\$ 64.3	\$ 91.4

Amortization of deferred finance costs of \$0.4 million (2014 \$0.4 million) are included in depreciation and amortization in the cash flow statement but in interest expense in the income statement.

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

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**INNOSPEC INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF EQUITY**  
**(Unaudited)**

(in millions)	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Non- controlling Interest	Total Equity
Balance at December 31, 2014	\$ 0.3	\$ 308.8	\$ (78.7)	\$ 391.8	\$ (106.3)	\$ 0.0	\$ 515.9
Net income				52.4			52.4
Dividend				(7.3)			(7.3)
Non-controlling interest						0.4	0.4
Changes in cumulative translation adjustment					(4.7)		(4.7)
Treasury stock reissued		(1.4)	1.8				0.4
Treasury stock repurchased			(11.4)				(11.4)
Excess tax benefit from stock-based payment arrangements		0.7					0.7
Stock option compensation		1.8					1.8
Amortization of prior service credit, net of tax					(0.5)		(0.5)
Amortization of actuarial net losses, net of tax					2.0		2.0
Balance at June 30, 2015	\$ 0.3	\$ 309.9	\$ (88.3)	\$ 436.9	\$ (109.5)	\$ 0.4	\$ 549.7

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

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**INNOSPEC INC. AND SUBSIDIARIES**

**NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

***NOTE 1 BASIS OF PRESENTATION***

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

It is our opinion, however, that all adjustments (consisting of normal, recurring adjustments, unless otherwise disclosed) have been made which are necessary for the financial statements to be fairly stated. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K filed on February 17, 2015.

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

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

**Table of Contents****NOTE 2 SEGMENTAL REPORTING**

Innospec divides its business into three segments for management and reporting purposes: Fuel Specialties, Performance Chemicals and Octane Additives. The Fuel Specialties and Performance Chemicals segments operate in markets where we actively seek growth opportunities although their ultimate customers are different. The Octane Additives segment is expected to decline in the near future as our one remaining refinery customer transitions to unleaded fuel.

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

(in millions)	Three Months Ended June 30		Six Months Ended June 30	
	2015	2014	2015	2014
<b>Net sales:</b>				
Fuel Specialties	\$ 182.3	\$ 145.1	\$ 381.7	\$ 309.3
Performance Chemicals	54.1	59.4	111.7	115.5
Octane Additives	6.5	16.8	18.7	17.2
	\$ 242.9	\$ 221.3	\$ 512.1	\$ 442.0
<b>Gross profit:</b>				
Fuel Specialties	\$ 68.9	\$ 43.9	\$ 130.4	\$ 95.9
Performance Chemicals	14.8	15.3	29.3	28.9
Octane Additives	3.8	9.4	9.6	9.5
	\$ 87.5	\$ 68.6	\$ 169.3	\$ 134.3
<b>Operating income:</b>				
Fuel Specialties	\$ 27.8	\$ 17.5	\$ 51.3	\$ 43.3
Performance Chemicals	7.5	7.8	13.9	14.3
Octane Additives	2.8	8.3	7.9	7.1
Pension credit/(charge)	0.1	(0.9)	0.1	(1.7)
Corporate costs	(7.4)	(7.4)	(15.5)	(19.7)
Adjustment to fair value of contingent consideration	26.6	0.0	23.1	0.0
Total operating income	\$ 57.4	\$ 25.3	\$ 80.8	\$ 43.3

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



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

(in millions)	Three Months Ended June 30		Six Months Ended June 30	
	2015	2014	2015	2014
<b>Depreciation:</b>				
Fuel Specialties	\$ 2.0	\$ 1.0	\$ 3.9	\$ 2.2
Performance Chemicals	0.8	1.0	1.6	1.9
Octane Additives	0.1	0.1	0.2	0.2
Corporate	0.4	0.5	0.8	1.1
	\$ 3.3	\$ 2.6	\$ 6.5	\$ 5.4
<b>Amortization:</b>				
Fuel Specialties	\$ 3.2	\$ 2.1	\$ 6.4	\$ 4.3
Performance Chemicals	1.1	1.3	2.1	2.6
Corporate	1.0	1.0	1.9	1.9
	\$ 5.3	\$ 4.4	\$ 10.4	\$ 8.8

**NOTE 3 EARNINGS PER SHARE**

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

	Three Months Ended June 30		Six Months Ended June 30	
	2015	2014	2015	2014
<b>Numerator (in millions):</b>				
Net income available to common stockholders	\$ 34.5	\$ 18.5	\$ 52.4	\$ 35.4
<b>Denominator (in thousands):</b>				
Weighted average common shares outstanding	24,202	24,401	24,251	24,382
Dilutive effect of stock options and awards	469	271	510	250
Denominator for diluted earnings per share	24,671	24,672	24,761	24,632
<b>Net income per share, basic:</b>	\$ 1.43	\$ 0.76	\$ 2.16	\$ 1.45
<b>Net income per share, diluted:</b>	\$ 1.40	\$ 0.75	\$ 2.12	\$ 1.44

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In the three and six months ended June 30, 2015, the average number of anti-dilutive options excluded from the calculation of diluted earnings per share were 21,959 and 33,734 respectively (three and six months ended June 30, 2014 16,097 and 8,049 respectively).

**Table of Contents****NOTE 4 GOODWILL**

The following table summarizes goodwill at the balance sheet dates:

<b>(in millions)</b>	<b>June 30, 2015</b>	<b>December 31, 2014</b>
Gross cost <sup>(1)</sup>	\$ 504.9	\$ 512.6
Accumulated impairment losses	(236.5)	(236.5)
Net book amount	\$ 268.4	\$ 276.1

<sup>(1)</sup> Gross cost for 2015 and 2014 is net of \$298.5 million of historical accumulated amortization. The movement in gross cost for the period is due to the reclassification of \$7.6 million of goodwill related to the Aroma Chemicals business (see Note 6 of the Notes to the Consolidated Financial Statements for additional information) and foreign currency translation of \$0.1 million.

**NOTE 5 OTHER INTANGIBLE ASSETS**

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

<b>(in millions)</b>	<b>Six Months Ended June 30</b>	
	<b>2015</b>	<b>2014</b>
Gross cost at January 1	\$ 247.6	\$ 175.5
Capitalization of internally developed software	5.1	3.0
Exchange effect	0.0	0.1
Gross cost at June 30	252.7	178.6
Accumulated amortization at January 1	(66.5)	(48.7)
Amortization expense	(10.4)	(8.8)
Exchange effect	0.1	0.0
Accumulated amortization at June 30	(76.8)	(57.5)
Net book amount at June 30	\$ 175.9	\$ 121.1

**Capitalization of internally developed software**

We are continuing with the implementation of our new, company-wide, information system platform. At June 30, 2015, we had capitalized \$32.9 million (2014 \$22.5 million) in relation to this internally developed software.

Amortization expense

<b>(in millions)</b>	<b>Six Months Ended</b>	
	<b>June 30</b>	
	<b>2015</b>	<b>2014</b>
Product rights	\$ (1.9)	\$ (1.9)
Brand names	(0.6)	(0.3)
Technology	(1.7)	(1.2)
Customer relationships	(3.4)	(2.5)
Patents	0.0	(0.2)
Non-compete agreements	(0.5)	(0.4)
Marketing related	(0.4)	(0.4)
Internally developed software	(1.9)	(1.9)
<b>Total</b>	<b>\$ (10.4)</b>	<b>\$ (8.8)</b>

**Table of Contents****NOTE 6 ASSETS AND LIABILITIES HELD FOR SALE**

As at June 30, 2015, the Company had initiated, and subsequent to the period end completed, the disposal of its Aroma Chemicals business, Innospec Widnes Limited. As a result, the assets and liabilities of the Aroma Chemicals business have been classified as held for sale. As such the assets of the business are shown in the Consolidated Balance Sheet at June 30, 2015 under the heading of Assets held for sale and the liabilities are shown under Liabilities held for sale.

Assets held for sale are required to be measured at the lower of the carrying value or the fair value, less the costs to sell. No impairment was recognized in the quarter ended June 30, 2015 in relation to the disposal of the Aroma Chemicals business.

The following table presents the aggregate carrying amount of the major classes of assets and liabilities related to the Aroma Chemicals business held for sale as of June 30, 2015:

<b>(in millions)</b>	
<b><u>Assets</u></b>	
Trade and other accounts receivable	\$ 9.9
Inventories	14.7
Other current assets	1.5
Property, plant and equipment	9.0
Goodwill	7.6
<b>Total assets</b>	<b>\$ 42.7</b>
<b><u>Liabilities</u></b>	
Accounts payable and accrued liabilities	\$ 5.7
Accrued income taxes	1.6
Plant closure provision	0.3
Other liabilities	0.2
<b>Total liabilities</b>	<b>\$ 7.8</b>

**NOTE 7 PENSION PLANS**

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

<b>(in millions)</b>	<b>Three Months Ended</b>		<b>Six Months</b>	
	<b>June 30</b>		<b>Ended</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>Plan net pension credit/(charge):</b>				

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Service cost	\$ (0.3)	\$ (0.4)	\$ (0.7)	\$ (0.8)
Interest cost on projected benefit obligation	(6.8)	(8.8)	(13.8)	(17.5)
Expected return on plan assets	8.2	9.4	16.6	18.7
Amortization of prior service credit	0.3	0.3	0.6	0.7
Amortization of actuarial net losses	(1.3)	(1.4)	(2.6)	(2.8)
	\$ 0.1	\$ (0.9)	\$ 0.1	\$ (1.7)

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

The Company also maintains an unfunded defined benefit pension plan covering a number of its current and former employees in Germany (the German plan). The German plan is closed to new entrants and has no assets. The net pension charge for the German plan for the three and six months ended June 30, 2015, was \$0.2 million and \$0.4 million, respectively (three and six months ended June 30, 2014 \$0.1 million and \$0.3 million, respectively).

**NOTE 8 INCOME TAXES**

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

(in millions)	Unrecognized Tax Benefits	Interest and Penalties	Total
Opening balance at January 1, 2015	\$ 5.7	\$ 0.5	\$ 6.2
Additions for tax positions of prior periods	0.0	0.1	0.1
Closing balance at June 30, 2015	5.7	0.6	6.3
Current	0.0	0.0	0.0
Non-current	\$ 5.7	\$ 0.6	\$ 6.3

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

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

The Company or one of its subsidiaries files income tax returns with the U.S. federal government, and various state and foreign jurisdictions. One of the Company's U.S. subsidiaries received notification in March 2015 of a federal income tax examination by the IRS in respect of 2013. It is currently anticipated that adjustments, if any, arising out of this tax audit would not result in a material change to the Company's financial position as at June 30, 2015.

The Company and its U.S. subsidiaries remain open to examination by the IRS for years 2011 onwards. The Company's subsidiaries in foreign tax jurisdictions are open to examination including France (2013 onwards), Germany (2010 onwards), Switzerland (2013 onwards) and the United Kingdom (2013 onwards).

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The Company is in a position to control whether or not to repatriate foreign earnings and we currently do not expect to make a repatriation in the foreseeable future. No taxes have been provided for on the unremitted earnings of our overseas subsidiaries as any tax basis differences relating to investments in these overseas subsidiaries are considered to be permanent in duration. The amount of unremitted earnings at December 31, 2014 was approximately \$743 million. If these earnings are remitted, additional taxes could result after offsetting foreign income taxes paid although the calculation of the additional taxes is not practicable to compute at this time.

**NOTE 9 LONG-TERM DEBT**

Long-term debt consists of the following:

<b>(in millions)</b>	<b>June 30, 2015</b>	<b>December 31, 2014</b>
Revolving credit facility	\$ 139.0	\$ 139.0
Other long-term debt	0.0	0.4
	139.0	139.4
Less current portion	0.0	(0.4)
	\$ 139.0	\$ 139.0

**NOTE 10 PLANT CLOSURE PROVISIONS**

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

Movements in the provisions are summarized as follows:

<b>(in millions)</b>	<b>Six Months Ended June 30</b>	
	<b>2015</b>	<b>2014</b>
Total at January 1	\$ 34.1	\$ 32.4
Charge for the period	2.1	1.4
Utilized in the period	(0.6)	(1.2)
Released in the period	0.0	(1.0)
Reclassify liabilities held for sale	(0.3)	0.0
Exchange effect	(0.3)	0.0
Total at June 30	35.0	31.6
Due within one year	(5.1)	(4.8)
Due after one year	\$ 29.9	\$ 26.8



Amounts due within one year refer to provisions where expenditure is expected to arise within one year of the balance sheet date.

**Table of Contents****NOTE 11 FAIR VALUE MEASUREMENTS**

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

(in millions)	June 30, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b><u>Assets</u></b>				
<b>Non-derivatives:</b>				
Cash and cash equivalents	\$ 64.3	\$ 64.3	\$ 41.6	\$ 41.6
Short-term investments	5.5	5.5	4.7	4.7
<b><u>Liabilities</u></b>				
<b>Non-derivatives:</b>				
Long-term debt (including current portion)	\$ 139.0	\$ 139.0	\$ 139.4	\$ 139.4
Finance leases (including current portion)	3.0	3.0	2.2	2.2
<b>Derivatives (Level 1 measurement):</b>				
Other non-current liabilities:				
Foreign currency forward exchange contracts	0.6	0.6	1.8	1.8
<b>Non-financial liabilities (Level 3 measurement):</b>				
Acquisition-related contingent consideration (including current portion)	72.2	72.2	95.2	95.2
Stock equivalent units	5.4	5.4	7.2	7.2

The following methods and assumptions were used to estimate the fair values of financial instruments:

*Cash and cash equivalents, and short-term investments:* The carrying amount approximates fair value because of the short-term maturities of such instruments.

*Long-term debt and finance leases:* Long-term debt principally comprises the revolving credit facility, which was entered into in December 2011. Finance leases relate to certain fixed assets in our oilfield specialties business. The carrying amount of long-term debt and finance leases approximates to the fair value.

*Derivatives:* Foreign currency forward exchange contracts primarily relate to contracts entered into to hedge future known transactions or hedge balance sheet net cash positions. The movements in the carrying amounts and fair values of these contracts are largely due to changes in exchange rates against the U.S. dollar.

*Acquisition-related contingent consideration:* Contingent consideration payable in cash is discounted to its fair value at each balance sheet date. Where contingent consideration is dependent upon pre-determined financial targets, an estimate of the fair value of the likely consideration payable is made at each balance sheet date. During the quarter the company has reassessed the fair value of the acquisition-related contingent consideration resulting in a credit to the income statement of \$29.9 million partially offset by the accretion charge for the quarter of \$3.3 million.

*Stock equivalent units:* The fair values of stock equivalent units are calculated at each balance sheet date using either the Black-Scholes or Monte Carlo method.

***NOTE 12 DERIVATIVE INSTRUMENTS AND RISK MANAGEMENT***

The Company enters into various foreign currency forward exchange contracts to minimize currency exchange rate exposure from expected future cash flows. As at June 30, 2015 the contracts have maturity dates of up to eighteen months at the date of inception. These foreign currency forward exchange contracts have not been designated as hedging instruments, and their impact on the income statement for the first six months of 2015 was a loss of \$1.1 million.

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***NOTE 13 COMMITMENTS AND CONTINGENCIES***

**Legal matters**

While we are involved from time to time in claims and legal proceedings that result from, and are incidental to, the conduct of our business including business and commercial litigation, employee and product liability claims, there are no material pending legal proceedings to which the Company or any of its subsidiaries is a party, or of which any of their property is subject. It is possible, however, that an adverse resolution of an unexpectedly large number of such individual claims or proceedings could in the aggregate have a material adverse effect on the results of operations for a particular year or quarter.

**Guarantees**

The Company and certain of the Company's consolidated subsidiaries are contingently liable for certain obligations of affiliated companies primarily in the form of guarantees of debt and performance under contracts entered into as a normal business practice. This includes guarantees of non-U.S. excise taxes and customs duties. As at June 30, 2015, such guarantees which are not recognized as liabilities in the consolidated financial statements amounted to \$2.7 million.

Under the terms of the guarantee arrangements, generally the Company would be required to perform should the affiliated company fail to fulfil its obligations under the arrangements. In some cases, the guarantee arrangements have recourse provisions that would enable the Company to recover any payments made under the terms of the guarantees from securities held of the guaranteed parties' assets.

The Company and its affiliates have numerous long-term sales and purchase commitments in their various business activities, which are expected to be fulfilled with no adverse consequences material to the Company.

***NOTE 14 STOCK-BASED COMPENSATION PLANS***

The Company grants stock options and stock equivalent units ( SEUs ) from time to time as a long-term performance incentive. In certain cases the grants are subject to performance conditions such as the Company's stock price. Where performance conditions apply the Monte Carlo simulation model is used to determine the fair values. Otherwise the Black-Scholes model is used to determine the fair values.

**Table of Contents****Stock option plans**

The following table summarizes the transactions of the Company's stock option plans for the six months ended June 30, 2015:

	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Grant-Date Fair Value</b>
Outstanding at December 31, 2014	728,640	\$ 19.55	
Granted - at discount	54,717	\$ 0.00	\$ 36.18
- at market value	23,550	\$ 43.95	\$ 9.89
Exercised	(114,920)	\$ 6.20	
Forfeited	(4,231)	\$ 15.32	
Outstanding at June 30, 2015	687,756	\$ 20.99	

At June 30, 2015, there were 114,793 stock options that were exercisable, of which 39,000 had performance conditions attached.

The stock option compensation cost for the first six months of 2015 was \$1.8 million (2014 \$1.2 million). The total intrinsic value of options exercised in the first six months of 2015 was \$2.0 million (2014 \$0.7 million).

The total compensation cost related to non-vested stock options not yet recognized at June 30, 2015 was \$5.0 million and this cost is expected to be recognized over the weighted-average period of 2.13 years.

**Stock equivalent units**

The following table summarizes the transactions of the Company's SEUs for the six months ended June 30, 2015:

	<b>Number of SEUs</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Grant-Date Fair Value</b>
Outstanding at December 31, 2014	286,563	\$ 3.41	
Granted - at discount	69,280	\$ 0.00	\$ 36.65
- at market value	7,552	\$ 43.95	\$ 9.89
Exercised	(89,680)	\$ 2.10	
Forfeited	(1,495)	\$ 29.56	
Outstanding at June 30, 2015	272,220	\$ 3.95	

At June 30, 2015 there were 66,905 SEUs that are exercisable, of which 56,853 had performance conditions attached.

The charges for SEUs are spread over the life of the award subject to a revaluation to fair value each quarter. The revaluation may result in a charge or a credit to the income statement in the quarter dependent upon our share price and other performance criteria.

The SEU compensation cost for the first six months of 2015 was \$1.4 million (2014 \$1.0 million). The total intrinsic value of SEUs exercised in the first six months of 2015 was \$2.1 million (2014 \$3.0 million).

The weighted-average remaining vesting period of non-vested SEUs is 1.79 years.

**Table of Contents****Additional exceptional long-term incentive plan**

A maximum of \$3.0 million of our cash-settled long-term incentives is accounted for as share-based compensation and the fair value is calculated on a quarterly basis using a Monte Carlo model. The fair values at each of the balance sheet dates are summarized as follows:

(in millions)	2015	2014
Balance at January 1	\$ 0.1	\$ 0.0
Compensation charge for the period	0.0	0.1
<b>Balance at June 30</b>	<b>\$ 0.1</b>	<b>\$ 0.1</b>

The following assumptions were used in the Monte Carlo model at June 30:

	2015	2014
Dividend yield	1.29%	1.20%
Volatility of Innospec's share price	24.38%	34.26%
Risk free interest rate	1.01%	0.88%

**NOTE 15 RECLASSIFICATIONS OUT OF ACCUMULATED OTHER COMPREHENSIVE LOSS**

Reclassifications out of accumulated other comprehensive loss for the first six months of 2015 were:

(in millions)	Amount Reclassified from AOCL	Affected Line Item in the Statement where Net Income is Presented
<b>Details about AOCL Components</b>		
<b>Defined benefit pension plan items:</b>		
Amortization of prior service credit	\$ (0.6)	See <sup>(1)</sup> below
Amortization of actuarial net losses	2.6	See <sup>(1)</sup> below
	2.0	Total before tax
	(0.5)	Income tax expense
	1.5	Net of tax
<b>Total reclassifications</b>	<b>\$ 1.5</b>	<b>Net of tax</b>

<sup>(1)</sup> These items are included in the computation of net periodic pension cost. See Note 7 of the Notes to the Consolidated Financial Statements for additional information.

Changes in accumulated other comprehensive loss for the first six months of 2015, net of tax, were:

<b>(in millions)</b>	<b>Defined Benefit Pension Plan Items</b>	<b>Cumulative Translation Adjustments</b>	<b>Total</b>
Balance at December 31, 2014	\$ (57.3)	\$ (49.0)	\$ (106.3)
Other comprehensive income/(loss) before reclassifications	0.0	(4.7)	(4.7)
Amounts reclassified from AOCL	1.5	0.0	1.5
Total other comprehensive income/(loss)	1.5	(4.7)	(3.2)
Balance at June 30, 2015	\$ (55.8)	\$ (53.7)	\$ (109.5)



**Table of Contents****NOTE 16 RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* ( ASU 2014-09 ), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. ASU 2014-09 is effective for annual periods, and interim periods within those years, beginning after December 15, 2016. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

**NOTE 17 RELATED PARTY TRANSACTIONS**

Mr. Robert I. Paller has been a non-executive director of the Company since November 1, 2009. The Company has retained and continues to retain Smith, Gambrell & Russell, LLP ( SGR ), a law firm with which Mr. Paller holds a position. In the first six months of 2015 the Company incurred fees from SGR of \$0.2 million (2014 \$0.2 million). As at June 30, 2015, the amount due to SGR from the Company was \$0.0 million (December 31, 2014 \$0.1 million).

**NOTE 18 SUBSEQUENT EVENTS**

On July 6, 2015 the Company completed the divestment of 100% of its equity interest in its Aroma Chemicals business, Innospec Widnes Limited, for cash consideration of \$41.5 million after transaction costs. The total consideration will be subject to a potential net working capital adjustment, yet to be agreed with the purchaser.

<b>(in millions)</b>	
Total consideration	\$ 41.5
Net assets disposed	(33.9)
Other effects	(5.7)
Net gain	\$ 1.9

*Other effects include foreign exchange losses transferred to the income statement*

During the six month period ended June 30, 2015 the Aroma Chemicals business generated pre-tax profits amounting to \$2.6 million (2014: \$6.0 million).

**Table of Contents****Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations for the Three and Six Months Ended June 30, 2015**

This discussion should be read in conjunction with our unaudited interim consolidated financial statements and the notes thereto.

**CRITICAL ACCOUNTING ESTIMATES**

The policies and estimates that the Company considers the most critical in terms of complexity and subjectivity of assessment are those related to contingencies, environmental liabilities, pensions, deferred tax and uncertain income tax positions, business combinations, goodwill, property, plant and equipment and other intangible assets (net of amortization). These policies have been discussed in the Company's 2014 Annual Report on Form 10-K.

**RESULTS OF OPERATIONS**

The following table provides operating income by reporting segment:

(in millions)	Three Months Ended June 30		Six Months Ended June 30	
	2015	2014	2015	2014
<b>Net sales:</b>				
Fuel Specialties	\$ 182.3	\$ 145.1	\$ 381.7	\$ 309.3
Performance Chemicals	54.1	59.4	111.7	115.5
Octane Additives	6.5	16.8	18.7	17.2
	\$ 242.9	\$ 221.3	\$ 512.1	\$ 442.0
<b>Gross profit:</b>				
Fuel Specialties	\$ 68.9	\$ 43.9	\$ 130.4	\$ 95.9
Performance Chemicals	14.8	15.3	29.3	28.9
Octane Additives	3.8	9.4	9.6	9.5
	\$ 87.5	\$ 68.6	\$ 169.3	\$ 134.3
<b>Operating income:</b>				
Fuel Specialties	\$ 27.8	\$ 17.5	\$ 51.3	\$ 43.3
Performance Chemicals	7.5	7.8	13.9	14.3
Octane Additives	2.8	8.3	7.9	7.1
Pension credit/(charge)	0.1	(0.9)	0.1	(1.7)
Corporate costs	(7.4)	(7.4)	(15.5)	(19.7)
Adjustment to fair value of contingent consideration	26.6	0.0	23.1	0.0
Total operating income	\$ 57.4	\$ 25.3	\$ 80.8	\$ 43.3



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(in millions, except ratios)	Three Months Ended			
	June 30			
	2015	2014	Change	
<b>Net sales:</b>				
Fuel Specialties	\$ 182.3	\$ 145.1	\$ 37.2	+26%
Performance Chemicals	54.1	59.4	(5.3)	-9%
Octane Additives	6.5	16.8	(10.3)	-61%
	\$ 242.9	\$ 221.3	\$ 21.6	+10%
<b>Gross profit:</b>				
Fuel Specialties	\$ 68.9	\$ 43.9	\$ 25.0	+57%
Performance Chemicals	14.8	15.3	(0.5)	-3%
Octane Additives	3.8	9.4	(5.6)	-60%
	\$ 87.5	\$ 68.6	\$ 18.9	+28%
<b>Gross margin (%):</b>				
Fuel Specialties	37.8	30.3	+7.5	
Performance Chemicals	27.4	25.8	+1.6	
Octane Additives	58.5	56.0	+2.5	
Aggregate	36.0	31.0	+5.0	
<b>Operating expenses:</b>				
Fuel Specialties	\$ (41.1)	\$ (26.4)	\$ (14.7)	+56%
Performance Chemicals	(7.3)	(7.5)	0.2	-3%
Octane Additives	(1.0)	(1.1)	0.1	-9%
Pension credit/(charge)	0.1	(0.9)	1.0	n/a
Corporate costs	(7.4)	(7.4)	0.0	0%
Adjustment to fair value of contingent consideration	26.6	0.0	26.6	n/a
	\$ (30.1)	\$ (43.3)	\$ 13.2	-30%

**Fuel Specialties**

*Net sales:* the table below details the components which comprise the year on year change in net sales spread across the markets in which we operate:

Change (%)	Three Months Ended June 30, 2015				
	Americas	EMEA	ASPAC	AvTel	Total
Volume	-9	+28	-5	+6	+4
Acquisitions	+56	0	0	0	+29
Price and product mix	0	-3	-2	+11	-1
Exchange rates	0	-19	-2	0	-6

+47	+6	-9	+17	+26
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Revenues in the Americas were flat, after excluding oilfield specialties which declined year over year. Oilfield specialties revenues increased by 2 percent sequentially over the first quarter. Acquisitions in the Americas, relating to Independence Oilfield Chemicals LLC, generated additional sales compared to the prior year. EMEA volumes increased from the prior year driven by strong performance in our core markets. Volumes were lower in ASPAC as a result of the phasing of sales from the second

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quarter into a strong first quarter. Price and product mix in ASPAC adversely impacted the second quarter. AvTel volumes were higher due to the timing of shipments to customers as opposed to any change in the long-term outlook for that market, with an improved price and product mix. EMEA and ASPAC were adversely impacted by exchange rate movements year over year, driven primarily by a weakening of the European Union euro and the British pound sterling against the U.S. dollar.

*Gross margin:* the year on year increase of 7.5 percentage points primarily reflected the higher margins achieved in the Americas including our oilfield specialties businesses, together with the higher margin contribution from AvTel.

*Operating expenses:* the year on year increase of 56%, or \$14.7 million, was due to \$11.2 million of additional costs for the Independence business; together with a \$3.6 million increase in selling expenses primarily related to sales volumes in the Americas; and a \$0.1 million decrease in other expenses.

**Performance Chemicals**

*Net sales:* the table below details the components which comprise the year on year change in net sales spread across the markets in which we operate:

Change (%)	Three Months Ended June 30, 2015			
	Americas	EMEA	ASPAC	Total
Volume	+4	+7	+2	+4
Price and product mix	-3	-7	-8	-5
Exchange rates	-2	-17	-5	-8
	-1	-17	-11	-9

Volumes in the Americas and EMEA were higher, primarily due to increased Personal Care volumes. ASPAC volumes were higher due to increased Fragrance ingredients volumes. The adverse impact of pricing pressures and product mix was seen in all our markets except for Personal Care. A weakening of the European Union euro and the British pound sterling against the U.S. dollar resulted in an adverse exchange variance for all our regions.

*Gross margin:* the year on year increase of 1.6 percentage points, primarily driven by a greater proportion of sales from our higher margin Personal Care business.

*Operating expenses:* the year on year decrease of 3%, or \$0.2 million, was primarily due to the phasing of expenditure year over year.

**Octane Additives**

*Net sales:* the year on year decrease of \$10.3 million was primarily due to the timing of shipments with our one remaining refinery customer.

*Gross margin:* the year on year increase of 2.5 percentage points is driven by the timing of orders and production for our one remaining refinery customer.

*Operating expenses:* the year on year decrease of \$0.1 million was due to the continuing efficient management of the cost base.

**Table of Contents****Other Income Statement Captions**

*Pension credit/(charge)*: is non-cash, and was a \$0.1 million credit in 2015 compared to a \$0.9 million net charge in 2014, primarily driven by a greater reduction in the interest cost on the projected benefit obligation compared to the reduction in the expected return on plan assets.

*Corporate costs*: were unchanged from the prior year. Legal, professional and other expenses were \$1.7 million lower, primarily due to legal fees recovered in the quarter. Personnel-related compensation was \$1.7 million higher, driven by the timing of bonus accruals and the net release of a severance provision in the prior year.

*Adjustment to fair value of contingent consideration*: the credit of \$26.6 million relates to an adjustment of the carrying value of our liability for contingent consideration related to the Independence acquisition of \$29.9 million, partially offset by the accretion charge of \$3.3 million for the quarter.

*Other net income/(expense)*: other net expense of \$4.7 million primarily related to net losses of \$3.0 million on foreign currency forward exchange contracts; together with \$1.7 million of losses on translation of net assets denominated in non-functional currencies in our European businesses. In 2014, other net expense of \$0.7 million related to losses of \$0.7 million on foreign currency forward exchange contracts.

*Interest expense, net*: was \$0.9 million in 2015 and \$0.8 million in 2014.

*Income taxes*: the effective tax rate was 33.4% and 22.3% in the second quarter of 2015 and 2014, respectively. The adjusted effective tax rate, once adjusted for changes to the fair value of contingent consideration, was 26.9% in the second quarter of 2015 compared with 22.3% in the second quarter of 2014. The 4.6% increase in the adjusted effective tax rate was primarily due to the impact of the geographical split of taxable profits in the second quarter. The Company believes that this adjusted effective tax rate, a non-GAAP financial measure, provides useful information to investors and may assist them in evaluating the Company's underlying performance and identifying operating trends. In addition, management uses this non-GAAP financial measure internally to evaluate the performance of the Company's operations and for planning and forecasting in subsequent periods.

(in millions)	Three Months Ended June 30	
	2015	2014
Income before income taxes	\$ 51.8	\$ 23.8
Adjustment to fair value of contingent consideration	(29.9)	0.0
	21.9	23.8
Income taxes	17.3	5.3
Tax on adjustment to fair value of contingent consideration	(11.4)	0.0
	\$ 5.9	\$ 5.3
GAAP effective tax rate	33.4%	22.3%
Adjusted effective tax rate	26.9%	22.3%





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(in millions, except ratios)	Six Months Ended June 30		Change	
	2015	2014		
<b>Net sales:</b>				
Fuel Specialties	\$ 381.7	\$ 309.3	\$ 72.4	+23%
Performance Chemicals	111.7	115.5	(3.8)	-3%
Octane Additives	18.7	17.2	1.5	+9%
	\$ 512.1	\$ 442.0	\$ 70.1	+16%
<b>Gross profit:</b>				
Fuel Specialties	\$ 130.4	\$ 95.9	\$ 34.5	+36%
Performance Chemicals	29.3	28.9	0.4	+1%
Octane Additives	9.6	9.5	0.1	+1%
	\$ 169.3	\$ 134.3	\$ 35.0	+26%
<b>Gross margin (%):</b>				
Fuel Specialties	34.2	31.0	+3.2	
Performance Chemicals	26.2	25.0	+1.2	
Octane Additives	51.3	55.2	-3.9	
Aggregate	33.1	30.4	+2.7	
<b>Operating expenses:</b>				
Fuel Specialties	\$ (79.1)	\$ (52.6)	\$ (26.5)	+50%
Performance Chemicals	(15.4)	(14.6)	(0.8)	+5%
Octane Additives	(1.7)	(2.4)	0.7	-29%
Pension charge	0.1	(1.7)	1.8	n/a
Corporate costs	(15.5)	(19.7)	4.2	-21%
Adjustment to fair value of contingent consideration	23.1	0.0	23.1	n/a
	\$ (88.5)	\$ (91.0)	\$ 2.5	+3%

**Fuel Specialties**

*Net sales:* the table below details the components which comprise the year on year change in net sales spread across the markets in which we operate:

Change (%)	Six Months Ended June 30, 2015				
	Americas	EMEA	ASPAC	AvTel	Total
Volume	-1	+13	+10	-25	+3
Acquisitions	+52	0	0	0	+26
Price and product mix	+1	0	-8	+9	0
Exchange rates	0	-18	-2	0	-6

+52	-5	0	-16	+23
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Revenues in the Americas were higher than the prior year as a result of increased volumes, after excluding oilfield specialties. Acquisitions in the Americas, relating to Independence Oilfield Chemicals LLC, generated additional sales compared to the prior year. EMEA volumes increased from the prior year driven by strong performance in our core markets. Volumes were higher in ASPAC driven by a strong first quarter. An adverse price and product mix in ASPAC negatively impacted

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revenues primarily due to sales of lower margin products compared to the prior year. AvTel volumes were lower due to the timing of shipments to customers as opposed to any change in the long-term outlook for that market, with an improved price and product mix. EMEA and ASPAC were adversely impacted by exchange rate movements year over year, driven primarily by a weakening of the European Union euro and the British pound sterling against the U.S. dollar.

*Gross margin:* the year on year increase of 3.2 percentage points primarily reflected the higher margins achieved in the Americas including our oilfield specialties businesses, together with the higher margin contribution from AvTel.

*Operating expenses:* the year on year increase of 50%, or \$26.5 million, was due to \$21.3 million of additional costs for the Independence business; together with a \$5.6 million increase in selling expenses primarily related to sales volumes in the Americas; and a \$0.4 million decrease in other expenses.

**Performance Chemicals**

*Net sales:* the table below details the components which comprise the year on year change in net sales spread across the markets in which we operate:

<b>Change (%)</b>	<b>Six Months Ended June 30, 2015</b>			
	<b>Americas</b>	<b>EMEA</b>	<b>ASPAC</b>	<b>Total</b>
Volume	+7	+18	-4	+10
Price and product mix	-2	-7	-7	-4
Exchange rates	-1	-19	-4	-9
	+4	-8	-15	-3

Volumes in the Americas and EMEA were higher, primarily due to increased Personal Care volumes which offset adverse pricing pressures affecting the price and product mix in other markets. ASPAC volumes were lower despite increased Fragrance ingredients volumes, with adverse pricing pressures affecting price and product mix in all our markets except for Personal Care. A weakening of the European Union euro and the British pound sterling against the U.S. dollar resulted in an adverse exchange variance for all our regions.

*Gross margin:* the year on year increase of 1.2 percentage points was primarily driven by a greater proportion of sales from our higher margin Personal Care business.

*Operating expenses:* the year on year increase of 5%, or \$0.8 million was primarily due to higher research and development costs together with additional headcount to support our Personal Care growth.

**Octane Additives**

*Net sales:* the year on year increase of \$1.5 million was primarily due to the timing of shipments with our one remaining refinery customer.

*Gross margin:* the year on year decrease of 3.9 percentage points is driven by the timing of orders and production for our one remaining refinery customer.



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*Operating expenses:* the year on year decrease of \$0.7 million was due to the continuing efficient management of the cost base.

**Other Income Statement Captions**

*Pension credit/(charge):* is non-cash, and was a \$0.1 million net credit in 2015 compared to a \$1.7 million net charge in 2014, primarily driven by a greater reduction in the interest cost on the projected benefit obligation compared to the reduction in the expected return on plan assets.

*Corporate costs:* the year on year decrease of 34%, or \$4.2 million, related to \$4.8 million lower legal, professional and other expenses; \$1.4 million lower insurance claims; partly offset by \$2.0 million higher personnel-related compensation, including higher accruals for share-based compensation and the net release of a severance provision in the prior year.

*Adjustment to fair value of contingent consideration:* the credit of \$23.1 million relates to an adjustment of the carrying value of our liability for contingent consideration related to the Independence acquisition of \$29.9 million offset by the accretion charge of \$6.8 million for the first six months.

*Other net income/(expense):* other net expense of \$3.2 million primarily related to net losses of \$1.1 million on foreign currency forward exchange contracts; together with \$2.1 million of losses on translation of net assets denominated in non-functional currencies in our European businesses. In 2014, other net income of \$1.2 million primarily related to gains of \$1.8 million on translation of net assets denominated in non-functional currencies in our European businesses, partly offset by losses of \$0.7 million on foreign currency forward exchange contracts.

*Interest expense, net:* was \$1.9 million in 2015 and \$1.7 million in 2014.

*Income taxes:* the effective tax rate was 30.8% and 17.3% in the first six months of 2015 and 2014, respectively. The adjusted effective tax rate, once adjusted for changes to the fair value of contingent consideration and the adjustment of income tax positions, was 25.8% in the first six months of 2015 compared with 22.4% in the same period in 2014. The 3.4% increase in the adjusted effective tax rate was primarily due to the impact of the geographical split of taxable profits compared to the first six months of 2014. The Company believes that this adjusted effective tax rate, a non-GAAP financial measure, provides useful information to investors and may assist them in evaluating the Company's underlying performance and identifying operating trends. In addition, management uses this non-GAAP financial measure internally to evaluate the performance of the Company's operations and for planning and forecasting in subsequent periods.

(in millions)	Six Months Ended June 30	
	2015	2014
Income before income taxes	\$ 75.7	\$ 42.8
Adjustment to fair value of contingent consideration	(29.9)	0.0
	45.8	42.8
Income taxes	23.3	7.4
Adjustment of income tax positions	(0.1)	2.2

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Tax on adjustment to fair value of contingent consideration	(11.4)	0.0
	\$ 11.8	\$ 9.6
GAAP effective tax rate	30.8%	17.3%
Adjusted effective tax rate	25.8%	22.4%

**Table of Contents****LIQUIDITY AND FINANCIAL CONDITION****Working Capital**

The Company believes that adjusted working capital, a non-GAAP financial measure, (defined by the Company as trade and other accounts receivable, inventories, prepaid expenses, accounts payable and accrued liabilities rather than total current assets less total current liabilities) provides useful information to investors in evaluating the Company's underlying performance and identifying operating trends. Management uses this non-GAAP financial measure internally to allocate resources and evaluate the performance of the Company's operations. Items excluded from the adjusted working capital calculation are listed in the table below and represent factors which do not fluctuate in line with the day to day working capital needs of the business.

<b>(in millions)</b>	<b>June 30, 2015</b>	<b>December 31, 2014</b>
Total current assets	\$ 426.4	\$ 414.2
Total current liabilities	(193.6)	(222.9)
Working capital	232.8	191.3
Less cash and cash equivalents	(64.3)	(41.6)
Less short-term investments	(5.5)	(4.7)
Less current portion of deferred tax assets	(8.2)	(8.4)
Less prepaid income taxes	(1.5)	(2.0)
Less assets held for sale	(42.7)	0.0
Add back current portion of accrued income taxes	3.9	5.6
Add back current portion of long-term debt	0.0	0.4
Add back current portion of finance leases	0.6	0.5
Add back current portion of plant closure provisions	5.1	5.7
Add back current portion of acquisition-related contingent consideration	39.0	45.7
Add back current portion of deferred income	0.2	0.2
Add back liabilities held for sale	7.8	0.0
Adjusted working capital	\$ 167.2	\$ 192.7

In 2015 our adjusted working capital decreased by \$25.5 million, being driven by the collection of accounts receivable following higher sales in the fourth quarter of 2014, together with the reduction of payables to a more normalized level and the reclassification of the assets and liabilities in our Aroma Chemicals business as held for sale.

We had a \$32.8 million decrease in trade and other accounts receivable in 2015, which is primarily related to the collection of receivables in our Fuel Specialties segment following high sales in the fourth quarter of 2014, together with the reclassification of receivables in our Aroma Chemicals business into assets held for sale at the end of the second quarter. Days sales outstanding in our Fuel Specialties segment decreased from 52 days to 45 days (44 days June 30, 2014) and increased from 48 days to 52 days (52 days June 30, 2014) in our Performance Chemicals segment.



We had a \$17.4 million decrease in inventories in 2015, which is primarily related to the reclassification of inventories in our Aroma Chemicals business into assets held for sale at the end of the second quarter. Days sales in inventory in our Fuel Specialties segment increased from 76 days to 94 days (93 days June 30, 2014) and remained unchanged in our Performance Chemicals segment at 99 days (92 days June 30, 2014).

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Prepaid expenses decreased by \$3.1 million in the first six months of 2015 (\$1.9 million 2014) from \$8.3 million to \$5.2 million, primarily related to the normal expensing of prepaid costs together with the reclassification of prepayments in our Aroma Chemicals business into assets held for sale at the end of the second quarter.

We had a \$27.8 million decrease in accounts payable and accrued liabilities in 2015, as our payables unwound following the higher sales in the fourth quarter of 2014, together with payments for personnel-related compensation in the first quarter of 2015. In addition we have reclassified liabilities in our Aroma Chemicals business into liabilities held for sale at the end of the second quarter. Creditor days in our Fuel Specialties segment increased from 40 days to 41 days (29 days June 30, 2014) and in our Performance Chemicals segment remained unchanged at 31 days (25 days June 30, 2014).

## **Operating Cash Flows**

We generated cash from operating activities of \$55.1 million in 2015 compared to \$33.8 million in 2014. Year over year cash from operating activities has benefited from improved operating income and lower working capital requirements driven by a reduction in the inventory in our Fuel Specialties segment during the first six months of 2015.

## **Cash**

At June 30, 2015 and December 31, 2014 we had cash and cash equivalents of \$64.3 million and \$41.6 million, respectively, of which \$46.6 million and \$30.1 million, respectively, were held by non-U.S. subsidiaries principally in the United Kingdom. The Company is in a position to control whether or not to repatriate foreign earnings. We currently do not expect to make a repatriation in the foreseeable future and hence have not provided for future income taxes on the cash held by overseas subsidiaries. If circumstances were to change that would cause these earnings to be repatriated, an additional U.S. tax liability could be incurred, and we continue to monitor this position.

## **Short-term investments**

At June 30, 2015 and December 31, 2014, the Company had short-term investments of \$5.5 million and \$4.7 million, respectively.

## **Debt**

At June 30, 2015, the Company had \$139.0 million of debt outstanding under the revolving credit facility and \$3.0 million of obligations under finance leases relating to certain fixed assets within our Independence business.

The Company has a revolving credit facility that provides for borrowing of up to \$200.0 million which expires on December 14, 2016 and may be drawn down in full in the U.S..

## **Item 3 Quantitative and Qualitative Disclosures about Market Risk**

The Company uses floating rate debt to finance its global operations. The Company is subject to business risks inherent in non-U.S. activities, including political and economic uncertainty, import and export limitations, and market risk related to changes in interest rates and foreign currency exchange rates. The political and economic risks are mitigated by the stability of the major countries in which the Company's largest operations are located. Credit limits, ongoing credit evaluation and account monitoring procedures are used to minimize bad debt risk. Collateral is

not generally required.

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From time to time, the Company uses derivatives, including interest rate swaps, commodity swaps and foreign currency forward exchange contracts, in the normal course of business to manage market risks. The derivatives used in hedging activities are considered risk management tools and are not used for trading purposes. In addition, the Company enters into derivative instruments with a diversified group of major financial institutions in order to manage the exposure to non-performance of such instruments. The Company's objective in managing the exposure to changes in interest rates is to limit the impact of such changes on earnings and cash flows and to lower overall borrowing costs. The Company's objective in managing the exposure to changes in foreign currency exchange rates is to reduce volatility on earnings and cash flows associated with such changes.

The Company offers fixed prices for some long-term sales contracts. As manufacturing and raw material costs are subject to variability the Company, from time to time, uses commodity swaps to hedge the cost of some raw materials thus reducing volatility on earnings and cash flows. The derivatives are considered risk management tools and are not used for trading purposes. The Company's objective is to manage its exposure to fluctuating costs of raw materials.

The Company's exposure to market risk has been discussed in the Company's 2014 Annual Report on Form 10-K and there have been no significant changes since that time.

## **Item 4 Controls and Procedures**

### **Evaluation of Disclosure Controls and Procedures**

Based on an evaluation carried out as of the end of the period covered by this report, under the supervision and with the participation of our management, our Chief Executive Officer and our Chief Financial Officer concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) were effective as of June 30, 2015.

### **Changes in Internal Control over Financial Reporting**

The Company is continuously seeking to improve the efficiency and effectiveness of its operations and of its internal control over financial reporting. This is intended to result in refinements to processes throughout the Company.

There were no changes to our internal control over financial reporting, which were identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, that occurred during the second quarter of 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Table of Contents****PART II OTHER INFORMATION****Item 1 Legal Proceedings****Legal matters**

While we are involved from time to time in claims and legal proceedings that result from, and are incidental to, the conduct of our business including business and commercial litigation, employee and product liability claims, there are no material pending legal proceedings to which the Company or any of its subsidiaries is a party, or of which any of their property is subject. It is possible, however, that an adverse resolution of an unexpectedly large number of such individual claims or proceedings could in the aggregate have a material adverse effect on results of operations for a particular year or quarter.

**Item 1A Risk Factors**

Information regarding risk factors appears in Item 1A of the Company's 2014 Annual Report on Form 10-K and, in management's view, there have been no material changes in the risk factors facing the Company since that time.

**Item 2 Unregistered Sales of Equity Securities and Use of Proceeds**

There have been no unregistered sales of equity securities.

On May 12, 2014, the Company announced that its board of directors has authorized the Company to repurchase up to an aggregate of \$20 million of its shares of common stock. These purchases may be made from time to time, at the discretion of the Company's officers, on the open market or otherwise.

During the quarter ended June 30, 2015, we repurchased 114,064 shares of our common stock at a cost of \$5.1 million, with \$4.0 million remaining under the 2014 authorization at June 30, 2015.

The following table provides information about our repurchases of equity securities during the quarter ended June 30, 2015.

**Issuer Purchases of Equity Securities**

<b>Period</b>	<b>Total number of shares purchased</b>	<b>Average price paid per share</b>	<b>Total number of shares purchased as part of publicly announced plans or programs</b>	<b>Approximate dollar value of shares that may yet be purchased under the plans or programs (in millions)</b>
April 1, 2015 through April 30, 2015	22,797	\$ 46.10	22,797	\$ 8.0

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May 1, 2015 through May 31, 2015	67,300	\$ 44.02	67,300	\$ 5.0
June 1, 2015 through June 30, 2015	23,967	\$ 43.15	23,967	\$ 4.0
Total	114,064	\$ 44.25	114,064	

Repurchases of common stock are held as treasury shares unless reissued under equity compensation plans.

**Item 3 Defaults Upon Senior Securities**

None.

**Item 4 Mine Safety Disclosures**

Not applicable.

**Item 5 Other Information**

None.

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**Item 6 Exhibits**

- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 XBRL Instance Document and Related Items.

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**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.

INNOSPEC INC.  
**Registrant**

Date: August 5, 2015

By /s/ PATRICK S. WILLIAMS  
**Patrick S. Williams**

**President and Chief Executive Officer**

Date: August 5, 2015

By /s/ IAN P. CLEMINSON  
**Ian P. Cleminson**

**Executive Vice President and Chief Financial  
Officer**