Innophos Holdings, Inc.
Form 10-Q
November 01, 2018
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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, 2018

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	08512
(Address of Principal Executive Offices)	(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, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” "accelerated filer," “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	x	Accelerated Filer	o
Non-accelerated filer	o	(Do not check if a smaller reporting company)	
		Smaller reporting company	o
		Emerging growth company	o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. 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 October 24, 2018, the registrant had 19,616,444 shares of common stock outstanding.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Unless the context requires otherwise, references to “Innophos,” “the Company,” “we,” “us” or “our” in this Quarterly Report o Form 10-Q refer to Innophos Holdings, Inc. and its consolidated subsidiaries.

This Quarterly Report on Form 10-Q contains forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, that involve substantial risks and uncertainties. In some cases, you can identify forward-looking statements by the words “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “ “might,” “objective,” “ongoing,” “plan,” “predict,” “project,” “potential,” “should,” “will,” or “would,” and/or the negative of t or other comparable terminology intended to identify statements about the future. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from the information expressed or implied by these forward-looking statements.

Although we believe that we have a reasonable basis for each forward-looking statement contained in this Quarterly Report on Form 10-Q, we caution you that these statements are based on a combination of facts and factors currently known by us and our expectations of the future, about which we cannot be certain. The forward-looking statements in this Quarterly Report on Form 10-Q may include, among other things, statements about: (1) global macroeconomic conditions and trends; (2) the behavior of financial markets, including fluctuations in foreign currencies, interest rates and turmoil in capital markets; (3) changes in regulatory controls regarding tariffs, duties, taxes and income tax rates; (4) our ability to implement and refine our Vision 2022 growth plan; (5) our ability to successfully identify and complete acquisitions in line with our Vision 2022 growth plan and effectively operate and integrate acquired businesses to realize the anticipated benefits of those acquisitions; (6) our ability to realize expected cost savings and efficiencies from our performance improvement and other optimization initiatives; (7) our ability to effectively compete in our markets, and to successfully develop new and competitive products that appeal to our customers; (8) changes in consumer preferences and demand for our products or a decline in consumer confidence and spending; (9) our ability to benefit from our investments in assets and human capital and the ability to complete projects successfully and on budget; (10) economic, regulatory and political risks associated with our international operations, most notably Mexico and China; (11) volatility and increases in the price of raw materials, energy and transportation, and fluctuations in the quality and availability of raw materials and process aids; (12) the impact of a disruption in our supply chain or our relationship with our suppliers; (13) our ability to comply with, and the costs associated with compliance with, U.S. and foreign environmental protection laws; (14) our ability to meet quality and regulatory standards in the various jurisdictions in which we have operations or conduct business; and (15) other information that is not historical information.

You should refer to “Part I, Item 1A. Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2017, filed with the Securities and Exchange Commission on March 1, 2018, for a discussion of important factors that may cause our actual results to differ materially from those expressed or implied by our forward-looking statements. As a result of these factors, we cannot assure you that the forward-looking statements in this Quarterly Report on Form 10-Q will prove to be accurate. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider any such list to be a complete discussion of all potential risks or uncertainties that may substantially impact our business. Moreover, we operate in a competitive and rapidly changing environment. New factors emerge from time to time and it is not possible to predict the impact of all of these factors on our business, financial condition or results of operations.

Furthermore, if our forward-looking statements prove to be inaccurate, the inaccuracy may be material. In light of the significant uncertainties in these forward-looking statements, you should not regard these statements as a representation or warranty by us or any other person that we will achieve our objectives and plans in any specified time frame or at all. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

You should read this Quarterly Report on Form 10-Q and any documents that we reference in this report completely and with the understanding that our actual future results may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements.

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PART I - FINANCIAL INFORMATION

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, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 23,079	$ 28,782
Accounts receivable, net of allowance for doubtful accounts ($592 and $445)	103,092	100,820
Inventories	168,746	145,685
Other current assets	34,282	24,969
Total current assets	329,199	300,256
Property, plant and equipment, net	232,408	219,297
Assets held for sale	6,975	—
Goodwill	152,767	152,700
Intangibles and other assets, net	98,891	112,916
Total assets	$ 820,240	$ 785,169
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of capital leases	$ 4	$ 4
Accounts payable, trade and other	64,784	70,445
Other current liabilities	53,393	43,084
Total current liabilities	118,181	113,533
Long-term debt and capital leases	345,003	310,005
Other long-term liabilities	16,387	28,072
Total liabilities	$ 479,571	$ 451,610
Commitments and contingencies (note 15)		
Common stock, par value $.001 per share; authorized 100,000,000; issued 22,966,747 and 22,884,588; outstanding 19,613,184 and 19,537,872 shares	20	20
Paid-in capital	141,517	137,617
Common stock held in treasury, at cost (3,353,563 and 3,346,716 shares)	(176,497)	(176,246)
Retained earnings	377,391	374,366
Accumulated other comprehensive loss	(1,762)	(2,198)
Total stockholders' equity	340,669	333,559
Total liabilities and stockholders' equity	$ 820,240	$ 785,169

See notes to condensed consolidated financial statements

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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, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Net sales	$196,934	$ 183,839	$609,099	$ 528,923
Cost of goods sold	161,706	142,870	495,259	412,335
Gross profit	35,228	40,969	113,840	116,588
Operating expenses:				
Selling, general and administrative	19,525	20,908	64,548	60,111
Research & development expenses	1,240	1,065	3,989	2,713
Total operating expenses	20,765	21,973	68,537	62,824
Operating income	14,463	18,996	45,303	53,764
Interest expense, net	3,428	1,630	9,530	4,435
Foreign exchange (gain) loss	(531)	100	409	(35)
Other loss, net	(14)	(14)	(42)	(42)
Income before income taxes	11,580	17,280	35,406	49,406
(Benefit) provision for income taxes	(2,510)	5,698	4,155	15,678
Net income	$14,090	$ 11,582	$31,251	$ 33,728
Net income attributable to participating common shareholders	$14,033	$ 11,513	$31,139	$ 33,540
Per share data (note 4):				
Income per participating share:				
Basic	$0.72	$ 0.59	$1.60	$ 1.73
Diluted	$0.71	$ 0.58	$1.57	$ 1.70
Weighted average participating shares outstanding:				
Basic	19,525,284	19,412,474	19,511,097	19,395,317
Diluted	19,838,962	19,699,052	19,790,570	19,695,530
Other comprehensive income (loss), net of tax:				
Change in interest rate swaps, (net of tax of $0, $31, $0, and ($22))	$—	$ (52)	$—	$ 35
Change in pension and post-retirement plans, (net of tax of $16, $43, $228, and $111)	(47)	(103)	436	(255)
Other comprehensive income (loss), net of tax	$(47)	$ (155)	$436	$ (220)
Comprehensive income	$14,043	$ 11,427	$31,687	$ 33,508

See notes to condensed consolidated financial statements

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

	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Cash flows provided by operating activities		
Net income	$31,251	$ 33,728
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	33,317	29,009
Amortization of deferred financing charges	322	322
Deferred income tax provision (benefit)	7,006	(14)
Gain on sale of building	—	(153)
Share-based compensation	4,143	2,996
Changes in assets and liabilities:		
Increase in accounts receivable	(2,272)	(13,024)
(Increase) decrease in inventories	(23,094)	2,873
(Increase) decrease in other current assets	(9,362)	151
Decrease in accounts payable	(5,664)	(7,566)
Increase in other current liabilities	10,291	1,666
Changes in other long-term assets and liabilities	(15,071)	(3,331)
Net cash provided by operating activities	30,867	46,657
Cash flows used for investing activities:		
Capital expenditures	(43,303)	(24,650)
Proceeds from sale of building	—	1,028
Acquisition of Novel Ingredients, net of cash acquired	—	(124,984)
Net cash used for investing activities	(43,303)	(148,606)
Cash flows provided by financing activities:		
Long-term debt borrowings	86,000	146,000
Long-term debt repayments	(51,000)	(36,000)
Restricted stock forfeitures	(251)	(738)
Dividends paid	(28,197)	(28,095)
Net cash provided by financing activities	6,552	81,167
Effect of foreign exchange rate changes on cash and cash equivalents	181	27
Net change in cash	(5,703)	(20,755)
Cash and cash equivalents at beginning of period	28,782	53,487
Cash and cash equivalents at end of period	$23,079	$ 32,732

See notes to condensed consolidated financial statements

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

	Number of Common Shares	Common Stock	Retained Earnings (Deficit)	Paid-in Capital / Treasury Stock	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
Balance, December 31, 2016	19,455	$ 19	$ 389,048	$ (40,357)	$ (1,484)	$ 347,226
Net income			22,445			22,445
Other comprehensive income, (net of tax $241) (a)					(714)	(714)
Effects of U.S. enacted Tax Cuts and Jobs Act (a)			293			293
Proceeds from stock award exercises and issuances	108	1		(900)		(899)
Share-based compensation				3,823		3,823
Excess tax deficiency from exercise of stock options						—
Restricted stock forfeitures	(25)			(1,195)		(1,195)
Dividends declared			(37,420)			(37,420)
Balance, December 31, 2017	19,538	$ 20	$ 374,366	$ (38,629)	$ (2,198)	$ 333,559
Net income			31,251			31,251
Other comprehensive loss, (net of tax $228) (a)					436	436
Effects of U.S. enacted Tax Cuts and Jobs Act (a)			(293)			(293)
Effects of adoption of ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory			360			360
Proceeds from stock award exercises and issuances	82			(243)		(243)
Share-based compensation				4,143		4,143
Restricted stock forfeitures	(7)			(251)		(251)
Dividends declared			(28,293)			(28,293)
Balance, September 30, 2018	19,613	$ 20	$ 377,391	$ (34,980)	$ (1,762)	$ 340,669

(a) Includes the impact of ASU 2018-02, which transferred those amounts from accumulated other comprehensive income (loss) to retained earnings. See Notes 1 and 17 to the Consolidated Financial Statements.

See notes to condensed consolidated financial statements

INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES
Notes to Condensed 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 have been prepared in accordance with generally accepted accounting principles in the United States of America, or U.S. GAAP, for interim financial reporting and do not include all disclosures required by U.S. GAAP for annual financial reporting, and should be read in conjunction with the audited consolidated and combined financial statements of the Company at December 31, 2017 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, 2017 condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP.
Recently Issued Accounting Standards
Adopted
In May 2014, the Financial Accounting Standards Board, or FASB, issued guidance on revenue from contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. In July 2015, the FASB approved the deferral of the effective date of this guidance by one year (with an option to early adopt at the original effective date), making it effective for the interim and annual periods beginning on or after December 15, 2017. The guidance permits the use of either a retrospective or modified retrospective transition method. The Company adopted the standard using the modified retrospective transition method on January 1, 2018. The Company concluded that revenues remain materially unchanged from the prior revenue recognition model and therefore, the adoption of this standard did not have a material impact on its financial position, results of operations and related disclosures. Please see Note 3, "Revenue Recognition", for further disclosures.
In March 2016, the FASB issued ASU 2016-15, Clarification on Classification of Certain Cash Receipts and Cash Payments on the Statement of Cash Flows. ASU 2016-15 clarifies the classification of certain cash receipts and cash payments in the statement of cash flows, including debt prepayment or extinguishment costs, settlement of contingent consideration arising from a business combination, insurance settlement proceeds, and distributions from certain equity method investees. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted. The Company's adoption of this standard did not have a material impact on its financial position, results of operations and related disclosures.
In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory, which reduces the complexity in the accounting standards by allowing the recognition of current and deferred income taxes for an intra-entity asset transfer, other than inventory, when the transfer occurs. Historically, recognition of the income tax consequence was not recognized until the asset was sold to an outside party. This amendment should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. There are no new disclosure requirements. This ASU is effective for annual reporting periods beginning after December 15, 2017. Early adoption is permitted in the first interim period of 2017. The Company adopted this standard as of January 1, 2018 on a modified retrospective

basis in this interim period and recorded an immaterial cumulative adjustment to retained earnings.
In November 2016, the FASB issued ASU No. 2016-18, Restricted Cash, which clarifies guidance on the classification and presentation of restricted cash in the statement of cash flows. Under the ASU, changes in restricted cash and restricted cash equivalents would be included along with those of cash and cash equivalents in the statement of cash flows. As a result, entities

would no longer present transfers between cash/equivalents and restricted cash/equivalents in the statement of cash flows. In addition, a reconciliation between the balance sheet and the statement of cash flows would be disclosed when the balance sheet includes more than one line item for cash/equivalents and restricted cash/equivalents. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The Company's adoption of this standard did not have a material impact on its financial position, results of operations and related disclosures.

In January 2017, the FASB issued ASU No. 2017-01, Clarifying the Definition of a Business, which narrows the existing definition of a business and provides a framework for evaluating whether a transaction should be accounted for as an acquisition (or disposal) of assets or a business. The ASU requires an entity to evaluate if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets; if so, the set of transferred assets and activities (collectively, the set) is not a business. To be considered a business, the set would need to include an input and a substantive process that together significantly contribute to the ability to create outputs. The standard also narrows the definition of outputs. The definition of a business affects areas of accounting such as acquisitions, disposals and goodwill. Under the new guidance, fewer acquired sets are expected to be considered businesses. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The Company's adoption of this standard did not have a material impact on its financial position, results of operations and related disclosures.

In March 2017, the FASB issued ASU No. 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-retirement Benefit Cost, which requires that only the service cost component of net periodic benefit costs be recorded as compensation cost in the operating expense section of the income statement. All other components of net periodic benefit cost (interest cost, expected return on plan assets and amortization of net loss) will be presented in other income (loss), net. This standard update is effective beginning with the first quarter 2018 and must be applied retrospectively. The Company's adoption of this standard did not have a material impact on its financial position, results of operations and related disclosures.

In May 2017, the FASB issued ASU No. 2017-09, Stock Compensation - Scope of Modification Accounting, which requires all modifications to be accounted for as a modification unless the fair value, vesting conditions and classification of the award as equity or liability are the same as the classification of the original award immediately before the original award is modified. The amendments in this ASU are effective for fiscal years beginning after December 15, 2017 and for interim periods therein. The Company's adoption of this standard did not have a material impact on its financial position, results of operations and related disclosures.

In March 2018, the FASB issued ASU 2018-05 associated with the accounting and disclosures around the enactment of the Act and the Securities and Exchange Commission’s Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (“SAB 118”), which the Company has adopted. See Note 14 for the disclosures related to this amended guidance.

Issued but not yet adopted

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) in order to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under previous GAAP. ASU 2016-02 requires that a lessee should recognize a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term on the balance sheet. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018 (including interim periods within those periods) using a modified retrospective approach and early adoption is permitted. In July 2018, the FASB issued updated guidance which allows an additional transition method to adopt the new leases standard at the adoption date, as compared to the beginning of the earliest period presented, and recognize a cumulative-effect adjustment to the beginning balance of retained earnings in the period of adoption. The Company expects to elect this transition method at the adoption date of January 1, 2019. We are currently finalizing our lease portfolio analysis to determine the impact to the Consolidated Financial Statements. We are implementing processes to assist in our ongoing lease data collection and analysis, and updating our accounting policies and internal controls that would be impacted by the new guidance, to ensure readiness for adoption in the first quarter of 2019. While the Company is continuing to assess the effect of adoption, it currently believes the most significant changes relate to the recognition of new right-of-use assets and lease liabilities on its balance sheet for railcars, tank operating leases and buildings. The Company will continue to evaluate the impact of adoption of the ASU on its financial position, results of operations and related disclosures.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and hedging (Topic 815): Targeted improvements to accounting for hedging activities. This standard more closely aligns the results of cash flow and fair value hedge accounting with risk management activities through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results in the financial statements. This standard also addresses specific limitations in current GAAP by expanding hedge accounting for both nonfinancial and financial risk components and by refining the measurement of hedge results to better reflect an entity’s hedging strategies. Additionally, by aligning the timing of recognition of hedge results with the earnings effect of the hedged item for cash flow and net investment hedges, and by including the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is presented, the results of an entity’s hedging program and the cost of executing that program will be more visible to users of financial statements. The new standard is effective for annual reporting periods beginning after December 15, 2018 with early adoption permitted. The Company does not anticipate the adoption of this standard will have a material impact on its financial position, results of operations and related disclosures.

2. Acquisitions

On August 25, 2017, the Company acquired 100% of the outstanding shares of GenNx Novel Holding, Inc. (together with its direct and indirect wholly-owned subsidiaries, "Novel Ingredients"). Novel Ingredients was a privately-held specialty ingredients supplier of botanicals, proteins, amino acids and other healthy ingredients, as well as branded ingredient and custom formulated solutions, headquartered in East Hanover, NJ. The Company made an initial $125 million cash payment, subsequently adjusted lower by $1.3 million for post-closing working capital adjustments, for total consideration of $123.7 million. The acquisition was funded by borrowings under its existing credit facility. The addition of Novel Ingredients grows Innophos' Food, Health, and Nutrition, or FHN, portfolio, expanding its presence in high-growth nutrition end-markets and positioning the Company to more effectively develop innovative ingredient solutions that better serve its customers. Novel Ingredients serves attractive end-markets driven by health and wellness consumer trends such as immune health, sports nutrition, and cognitive health.

On November 3, 2017, the Company acquired 100% of the outstanding equity interests of NutraGenesis LLC, Icon Group LLC, and Tradeworks Group, Inc. (collectively referred to as "NutraGenesis"). NutraGenesis was a privately-held Vermont-based marketer of proprietary, branded and science-backed nutraceutical ingredients. The Company made a $27.4 million cash payment, subsequently adjusted lower by $0.1 million for post-closing working capital adjustments, for total consideration of $27.3 million. The acquisition was funded by borrowings under its existing credit facility. NutraGenesis is highly complementary to the Novel Ingredients acquisition and the Company's branded ingredients portfolio. NutraGenesis serves attractive high-growth end-markets, including stress reduction, weight management, joint health, brain health and metabolic wellness, that are driven by health and wellness consumer trends.

During the three months ended September 30, 2017, the Company's results of operations included revenues of $10.2 million and a $0.6 million net loss attributable to Novel Ingredients. Acquisition related costs of $2.4 million (excluding integration costs of $0.6 million) were expensed as incurred and were included in selling, general and administrative expenses.

The excess of purchase price over the fair value amounts assigned to the assets acquired and liabilities assumed represents the goodwill amount resulting from the acquisition and will be included in the Food, Health and Nutrition operating segment. The goodwill of $68.4 million arising from the acquisitions consists of expected revenue and cost synergies, operational know-how, and acquired workforce. Approximately $24.0 million of the goodwill is deductible for U.S. income tax purposes.

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

The following table summarizes the fair value of the assets acquired and liabilities assumed (in thousands):

	Novel Ingredients	NutraGenesis
Cash	$ 105	$ 82
Accounts receivable, net of allowances of $511 and $0 for Novel Ingredients and NutraGenesis, respectively	11,255	850
Inventory, including fair value adjustment of $4,300 for Novel Ingredients	23,121	—
Other current assets	1,655	638
Property, plant and equipment	4,261	—
Other non-current assets	187	—
Goodwill	54,008	14,387
Intangible assets	52,900	13,699
Accounts payable	(14,726)	(793)
Accrued expenses	(3,910)	(524)
Deferred income taxes	(5,067)	(151)
Customer Deposits	—	(875)
Total	$ 123,789	$ 27,313

Novel Ingredients has Net Operating Loss, or NOL, carryforwards of $16.4 million that are expected to be utilized in future periods.

The intangible assets acquired with Novel Ingredients and NutraGenesis include the following (in thousands):

	Useful life (years)	Novel Ingredients	NutraGenesis
Customer relationships	15-20	$ 46,200	$ 10,499
Trade names	5-10	6,700	3,200
		$ 52,900	$ 13,699

The weighted average useful life (years) of the intangible assets included in the above table is 17.4 years. The weighted average useful life (years) of the trade names included in the above table is 7.9 years. The weighted average useful life (years) of the customer relationships included in the above table is 19.1 years.

The following unaudited pro forma information has been prepared as if the acquisitions had occurred on January 1, 2016 (amounts in thousands, excluding EPS figures). The unaudited pro forma results do not reflect any material adjustments, operating efficiencies and other synergies which may result from the consolidation of operations.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenues	$196,873	$205,023	$588,331	$616,489
Net income	$9,229	$12,744	$31,165	$32,456
Income per common share - Basic	$0.48	$0.66	$1.61	$1.69
Income per common share - Diluted	$0.47	$0.65	$1.58	$1.66

These amounts have been calculated after applying the Company's accounting policies and adjusting the results of Novel Ingredients to reflect the additional depreciation and amortization that would have been charged assuming fair value adjustments to property, plant and equipment and intangible assets had been applied on January 1, 2016. Interest expense related to the borrowing for the acquisition was applied on January 1, 2016. Depreciation and amortization of approximately $3.0 million and interest expense of approximately $2.6 million related to the above were included in the nine months ended

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

September 30, 2017 and September 30, 2016. Further, the above pro forma amounts include a fair value adjustment to inventory of $4.3 million and was applied on January 1, 2016. The three and nine months ended September 30, 2017 include non-recurring transaction costs of approximately $2.4 million.

3. Revenue Recognition

Adoption of ASC Topic 606, "Revenue from Contracts with Customers"
On January 1, 2018, the Company adopted Topic 606 using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Based on the results of the analysis performed on the Company's effective contracts as of the initial application, the Company has concluded that revenues are expected to remain substantially unchanged from the previous revenue recognition model, and therefore, the adoption of the new standard did not have a material impact on the Company's financial position, results of operations or related disclosures.
Revenue Recognition
Revenues are recognized when control of goods is transferred to customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods. Control passes either upon shipment or delivery, depending on the agreed sales terms with customers.
Certain customers may receive cash-based incentives or credits, which are accounted for as variable consideration. The Company estimates these amounts based on the expected amount to be provided to customers and reduce revenues recognized. The Company believes there will not be significant changes to its estimates of variable consideration.
The Company reports its business in three operating segments: Food, Health, and Nutrition; Industrial Specialties; and Other. The Company has three principal product lines within these operating segments: (i) Specialty Ingredients; (ii) Core Ingredients; and (iii) Co-Products and Other. Revenue recognition is measured on the same basis across these segments, products, markets, and geographic countries, with the performance obligation being the transfer of control of goods at a single point in time.

	Three months ended September 30, 2018				
	U.S.	Canada	Mexico	Other Countries	Total
Specialty Ingredients	$105,127	$6,726	$9,754	$ 17,682	$139,289
Core Ingredients	14,431	1,704	21,005	8,152	45,292
Co-Products & Other	10,568	123	1,517	145	12,353
Total	$130,126	$8,553	$32,276	$ 25,979	$196,934
	Three months ended September 30, 2017				
	U.S.	Canada	Mexico	Other Countries	Total
Specialty Ingredients	$90,400	$5,832	$10,558	$ 17,661	$124,451
Core Ingredients	13,677	2,252	21,155	7,444	44,528
Co-Products & Other	12,911	91	1,719	139	14,860
Total	$116,988	$8,175	$33,432	$ 25,244	$183,839

	Nine months ended September 30, 2018				
	U.S.	Canada	Mexico	Other Countries	Total
Specialty Ingredients	$332,525	$19,005	$26,472	$ 57,511	$435,513

Core Ingredients	43,120	5,947	60,988	27,366	137,421
Co-Products & Other	24,764	256	10,574	571	36,165
Total	$400,409	$25,208	$98,034	$ 85,448	$609,099

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	Nine months ended September 30, 2017				
	U.S.	Canada	Mexico	Other Countries	Total
Specialty Ingredients	$256,603	$16,810	$26,366	$ 54,979	$354,758
Core Ingredients	43,578	6,273	58,757	20,273	128,881
Co-Products & Other	25,874	240	6,342	12,828	45,284
Total	$326,055	$23,323	$91,465	$ 88,080	$528,923

Revenues for the geographic information are attributed to geographic areas based on the destination of the sale.
The Company's payment terms vary by geography and location of its customer and the products offered. Invoices are generated upon shipment of the goods, with the term between invoicing and when payment is due being insignificant.

Food, Health, and Nutrition and Industrial Specialties
The Food, Health and Nutrition reporting segment, as well as the Industrial Specialties reporting segment, consists of products in the Specialty Ingredients and Core Ingredients product lines.
Specialty Ingredients are the most value adding products in our portfolio. Specialty Ingredients consist of specialty phosphate products, specialty phosphoric acids, including polyphosphoric acid, and a range of other mineral, enzyme and botanical based specialty ingredients. The Company's Specialty Ingredients products have a wide range of applications, including:
- flavor enhancers in beverages;
- electrolytes in sports drinks;
- texture modifiers in cheeses;
- leavening agents in baked goods;
- calcium and phosphorus fortification in food and beverages;
- moisture and color retention in seafood, poultry and meat;
- mineral, enzyme and botanical sources for a wide variety of fortified foods, beverages and dietary supplements;
- excipients in vitamins, minerals, nutritional supplements and pharmaceuticals; and
- abrasives in toothpaste.

Each product typically has a number of different applications and end uses. For example, the Company's dicalcium phosphate product can be used as an excipient for pharmaceutical and dietary supplements, a leavening agent in bakery products and as an abrasive in oral care products. The Company often works directly with customers to tailor products to their required specifications for their finished product application.
The Company's Core Ingredients product line includes food grade purified phosphoric acid, or PPA, technical grade PPA, sodium tripolyphosphate, or STPP, and detergent grade PPA. Food grade PPA can be used to produce phosphate salts and has a variety of applications in food and beverages. Technical grade PPA has applications in water treatment. The Company also sells technical grade PPA in the merchant market to third-party phosphate derivative producers. STPP is a key ingredient in cleaning products, including industrial and institutional cleaners and automatic dishwashing detergents and consumer laundry detergents outside the United States. In addition to its use in cleaning products, STPP is also used in water treatment, clay processing, and copper ore processing. The end use market for STPP is largely derived from consumer product applications. Detergent Grade PPA is a lower grade form of PPA used primarily in the production of STPP.
Other
The Other reporting segment consists of products in the Co-Products and Other product line.
The Company's Co-Products and Other product line includes granular triple super phosphate, or GTSP, and merchant green phosphoric acid, or MGA. GTSP is generated at the Company's Coatzacoalcos facility in Mexico as a co-product of its purified wet acid manufacturing process. GTSP is a fertilizer product used throughout Latin America

for increasing crop yields in a wide range of agricultural sectors. The Company sells MGA in the merchant market to third party manufacturers of fertilizer products.

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Practical Expedients and Exemptions
Management reviewed the practical expedients which a Company may utilize when implementing Topic 606. As such, the Company has applied the practical expedient related to significant financing components and does not disclose the value of unsatisfied performance obligations for contracts with an original expected length of one year or less.

4. Earnings per Share (EPS)
The Company accounts for earnings per share in accordance with ASC 260, which requires two calculations of earnings per share, or EPS, to be disclosed: basic EPS and diluted EPS. Under ASC Subtopic 260-10-45, unvested awards of share-based payments with rights to receive dividends or dividend equivalents, such as the Company's 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, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Net income	$14,090	$ 11,582	$31,251	$ 33,728
Less: earnings attributable to unvested shares	(57)	(69)	(112)	(188)
Net income available to participating common shareholders	$14,033	$ 11,513	$31,139	$ 33,540
Weighted average number of participating common and potential common shares outstanding:				
Basic number of participating common shares outstanding	19,525,284	19,412,474	19,511,097	19,395,317
Dilutive effect of stock equivalents	313,678	286,578	279,473	300,213
Diluted number of weighted average participating common shares outstanding	19,838,962	19,699,052	19,790,570	19,695,530
Earnings per participating common share:				
Earnings per participating common share—Basic	$0.72	$ 0.59	$1.60	$ 1.73
Earnings per participating common share—Diluted	$0.71	$ 0.58	$1.57	$ 1.70
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	431,751	395,850	465,956	382,215

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5. Dividends
The following is the dividend activity for the three and nine months ended September 30, 2018 and September 30, 2017:

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2018	2017	2018	2017
Dividends declared – per share	$0.48	$0.48	$1.44	$1.44
Dividends declared – aggregate	9,415	9,373	28,197	28,095
Dividends paid – per share	0.48	0.48	1.44	1.44
Dividends paid – aggregate	9,415	9,373	28,197	28,095

Innophos Holdings, Inc. is a holding company that does not conduct any business operations of its own. As a result, it is dependent upon cash dividends, distributions and other transfers from its subsidiaries, most directly Innophos, Inc., its primary operating subsidiary, and Innophos Investments Holdings, Inc., a direct, wholly-owned subsidiary of Innophos Holdings, Inc. and the direct parent company of Innophos, Inc., to make dividend payments on its common stock.

6. Stockholders' Equity / Stock-Based Compensation
Restricted Stock
In April 2018, there were a total of 47,609 restricted shares granted to certain employees with an aggregate fair value of $1.8 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 $39.28. 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.
In August 2018, there were a total of 2,826 restricted shares granted to certain employees with an aggregate fair value of $0.1 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 $44.38. The compensation expense is amortized on a straight-line basis over the requisite vesting period.
Stock Options
In April 2018, the Company granted a total of 196,198 non-qualified stock options at exercise price of $39.28, to certain employees with an aggregate fair value of $1.4 million. The non-qualified stock options vest annually over three years with April 3, 2028 expiration date.
The fair values of the options granted in 2018 were determined using the Black-Scholes option-pricing model. The blended assumptions used in the Black-Scholes option-pricing model were as follows for the April 2, 2018 grant:

Non-qualified stock options		
Expected Volatility	29.7	%
Dividend Yield	4.6	%
Risk-free interest rate	2.61	%
Expected term (years)	6.3	
Weighted average grant date fair value of stock options	$7.28	

For the 2018 grant, the expected volatility and the expected term are based on the Company's historical data. The dividend yield is the expected annual dividend payments divided by the average stock price since announcement of the latest dividend change 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.

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Performance Share Awards

In April 2018, the Company granted 35,702 performance shares to certain employees with an aggregate fair value of $1.4 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.

Stock Grants

In May 2018, the six non-employee members of the Board of Directors were granted a combined total of 11,736 shares of the Company's common stock with an aggregated fair value of approximately $0.6 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, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Stock options	$ 398	$ 221	$ 1,282	$ 825
Restricted stock	580	378	1,860	1,290
Performance shares	173	112	422	251
Stock grants	—	—	579	630
Total share-based compensation expense	$ 1,151	$ 711	$ 4,143	$ 2,996

7. Inventories

Inventories consist of the following:

	September 30, 2018	December 31, 2017
Raw materials	$ 51,509	$ 48,445
Finished products	103,244	83,634
Spare parts	13,993	13,606
	$ 168,746	$ 145,685

Inventory reserves for excess quantities, obsolescence or shelf-life expiration as of September 30, 2018 and December 31, 2017 were $13,402 and $16,168, respectively.

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

	September 30, 2018	December 31, 2017
Creditable taxes (value added taxes)	$ 9,763	$ 7,285
Vendor inventory deposits (prepaid)	8,100	7,807
Prepaid income taxes	11,793	3,394
Prepaid insurance	2,130	2,492
Other	2,496	3,991
	$ 34,282	$ 24,969

9. Goodwill

The following table provides a reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period (in thousands):

	Food, Health and Nutrition	Industrial Specialties	Other	Total
Balance: January 1, 2018	$ 129,417	$ 23,283	$ —	$ 152,700
Add: Goodwill from acquisition	67	—	—	67
Balance: September 30, 2018	$ 129,484	$ 23,283	$ —	$ 152,767

10. Intangibles and Other Assets, net
Intangibles and other assets consist of the following:

	Useful life (years)	September 30, 2018	December 31, 2017
Developed technology and application patents, net of accumulated amortization of $33,708 for 2018 and $30,716 for 2017	7-20	$ 12,567	$ 15,559
Customer relationships, net of accumulated amortization of $26,589 for 2018 and $22,279 for 2017	5-20	68,922	73,232
Trade names and license agreements, net of accumulated amortization of $13,958 for 2018 and $12,023 for 2017	5-20	13,603	15,538
Non-compete agreements, net of accumulated amortization of $1,313 for 2018 and $1,293 for 2017	3-10	20	40
Total intangibles, net		$ 95,112	$ 104,369
Deferred income taxes		$ —	$ 5,058
Deferred financing costs, net of accumulated amortization of $4,224 for 2018 and $3,902 for 2017 (see note 12)		1,399	1,721

Other assets	2,380	1,768
Total other assets, net	$ 3,779	$ 8,547
	$ 98,891	$ 112,916

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

	September 30, 2018	December 31, 2017
Payroll related	$ 15,007	$ 15,684
Taxes other than income taxes	1,864	2,804
Benefits and pensions	5,171	7,730
Freight and rebates	9,888	3,937
Income taxes	8,601	4,933
Restructuring and management transition reserve	217	1,719
Other	12,645	6,277
	$ 53,393	$ 43,084

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

	September 30, 2018	December 31, 2017
Revolver borrowings under the credit facility due 2021	$ 345,000	$ 310,000
Capital leases	7	9
Total borrowings	$ 345,007	$ 310,009
Less current portion of capital leases	4	4
Long-term debt	$ 345,003	$ 310,005

The Company's credit facility includes a revolving line of credit from the lenders of up to $450.0 million, including a $20.0 million letter of credit sub-facility and a $20.0 million swingline loan facility, all maturing on December 22, 2021. The credit agreement governing this facility also provides for possible additional revolving indebtedness under an incremental facility of up to $150.0 million (for an aggregate of revolving capacity up to $600.0 million) upon future request by the Company to existing lenders (and depending on their consent) or from other willing financial institutions invited by the Company and reasonably acceptable to the administrative agent to join in the credit agreement. This revolving credit facility increase, if implemented, may provide for higher applicable margins to either the increased portion or possibly the entire revolving credit facility, with limitations, than those in effect for the original revolving commitments under the credit agreement.
As of September 30, 2018, $345.0 million was outstanding under the revolving line of credit, which approximates fair value (determined using level 2 inputs within the fair value hierarchy) with total availability at $104.3 million, taking into account $0.7 million in face amount of letters of credit issued under the sub-facility. The current weighted average interest rate for all debt is 4.3%.
Among its affirmative covenants, the credit agreement governing this credit facility requires the Company to maintain the following consolidated ratios (as defined and calculated according to the credit agreement) as of the end of each fiscal quarter:
(a) “Total Leverage Ratio” less than or equal to 3.50 to 1.00.
(b) “Interest Coverage Ratio” greater than or equal to 3.00 to 1.00.

As of September 30, 2018, the Company was in full compliance with all debt covenant requirements.
Based on $345.0 million outstanding borrowings as floating rate debt, an immediate increase of one percentage point would cause an increase to interest expense of approximately $3.5 million per year.

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Total interest paid by the Company for all indebtedness for the nine months ended September 30, 2018 and September 30, 2017 was $10.4 million and $4.3 million, respectively.

Interest expense, net consists of the following:

	Three months ended		Nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Interest expense	$3,703	$ 1,667	$10,281	$ 4,432
Deferred financing cost	107	107	322	322
Interest income	(18)	(21)	(50)	(41)
Less: amount capitalized for capital projects	(364)	(123)	(1,023)	(278)
Total interest expense, net	$3,428	$ 1,630	$9,530	$ 4,435

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

	September 30, 2018	December 31, 2017
Deferred income taxes	$ 3,463	$ 2,354
Long term portion of U.S. transition tax	—	12,095
Pension and post retirement liabilities	9,501	8,886
Restructuring and management transition reserve	—	210
Uncertain tax positions	320	1,974
Environmental liabilities	1,100	1,100
Other liabilities	2,003	1,453
	$ 16,387	$ 28,072

14. Income Taxes
The effective income tax rate on income before taxes was approximately 12% for the nine months ended September 30, 2018 compared to approximately 32% for the comparable period in 2017. The change in the components of the effective tax rate is primarily due to the enactment of the U.S.Tax Cuts and Jobs Act, or Tax Act, specifically the revision of the transition tax estimate for fiscal year ended December 31, 2017, and the remeasurement of NOLs used to offset the transition tax. The revision of the transition tax estimate for fiscal year ended December 31, 2017 resulted in a 9% decrease in the effective tax rate and the remeasurement of NOLs used to offset the transition tax resulted in a 13% decrease in the effective tax rate. In addition, the settlement of state income tax examinations resulted in a 2% decrease in the effective tax rate. The decrease in the effective tax rate was partially offset by a 4% increase due to the accrual of Canadian withholding tax, resulting from the reversal of the company's permanent reinvestment assertion on its Canadian subsidiary.
On December 22, 2017, the U.S. enacted the Tax Act. The Tax Act significantly changes U.S. corporate income tax laws by, among other things, reducing the U.S. corporate income tax rate from 35% to 21% effective for tax years beginning after December 31, 2017 and transitioning U.S. international taxation from a worldwide tax system to a territorial tax system.
Beginning in 2018, the Tax Act includes two new U.S. provisions, namely the GILTI provisions and the base-erosion and anti-abuse tax, or BEAT, provisions.

The GILTI provisions require the Company to include in its U.S. income tax return foreign subsidiary earnings in excess of an allowable return on the foreign subsidiary's tangible assets. The Company has elected to treat any potential GILTI inclusions as a period cost during 2018.

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The BEAT provisions in the Tax Act eliminate the deduction of certain base-erosion payments made to related foreign corporations, and impose a minimum tax if greater than regular tax. The Company does not expect to have any material tax impacts of BEAT and therefore has not recorded any related tax impacts in its consolidated financial statements for the period ended September 30, 2018.

On December 22, 2017, the Securities and Exchange Commission issued SAB 118 to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. In accordance with SAB 118 and ASU 2018-05, the Company has recognized the provisional tax impacts related to the re-measurement of our deferred income tax assets and liabilities and the one-time, mandatory transition tax on deemed repatriation during the year ended December 31, 2017. During the quarter ended September 30, 2018, the Company recorded a total provisional benefit of $7.4 million. This provisional benefit included $3.2 million related to adjustments to the transition tax and a $4.2 million benefit related to the remeasurement of certain deferred tax assets and liabilities as a result of the U.S. federal tax return filing, mainly NOLs which were used to offset the transition tax. While the Company does not anticipate any remaining adjustments related to the Tax Act, the measurement period under SAB 118 remains open as there is still anticipated guidance clarifying certain aspects of the Tax Act. Any subsequent adjustment to these amounts will be recorded to tax expense in the fourth quarter of 2018 when the full analysis is complete.

As of September 30, 2018, the Company is still in the process of evaluating the impact of the Tax Act on its permanent reinvestment assertion. Specifically, with respect to the accumulated earnings of its Canadian subsidiary, the Company has reversed its permanent reinvestment assertion and has provided $1.2 million of foreign withholding taxes on these unremitted earnings. The Company will complete its evaluation of its permanent reinvestment assertion within the one year measurement period as allowed by SAB 118. Any subsequent adjustments will be recorded to tax expense in the fourth quarter of 2018 when the full analysis is complete.

Business is conducted in various countries throughout the world and is subject to tax in numerous jurisdictions. A significant number of tax returns are filed and subject to examination by various federal, state and local tax authorities. Tax examinations are often complex, as tax authorities may disagree with the treatment of items reported requiring several years to resolve. As such, the Company maintains liabilities for possible assessments by tax authorities resulting from known tax exposures for uncertain income tax positions. 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 on income tax returns, for the years 2012 through 2015. Also, certain state income tax assessments are under protest and the Company believes its financial position is sustainable. During the quarter ended June 30, 2018, the Company decreased $1.9 million of liability for unrecognized tax benefits resulting from a $1.1 million settlement of state income tax examinations and released $0.8 million. The Company estimates the liability for unrecognized tax benefits may decrease by approximately $0.5 million during the next twelve months as a result of possible settlements of income tax authority examinations. Other than the items mentioned above, as of September 30, 2018, 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 $16.6 million and $14.0 million for the nine months ended September 30, 2018 and September 30, 2017, respectively.

15. Commitments and Contingencies

Environmental

The Company's operations are subject to extensive and changing federal, state, local and international environmental laws, rules 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.

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Future environmental spending is probable at the Company's site in Nashville, Tennessee, the eastern portion of which had been used historically as a landfill, and a western parcel therein, previously acquired from a third party, which reportedly had housed, but no longer does, a fertilizer and pesticide manufacturing facility. The Company has an estimated liability with a range of $0.9 million-$1.3 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, 2018.

Other Legal Matters

In addition, the Company is a party to legal proceedings and contractual disputes that arise in the ordinary course of its business. Except as to the matters specifically discussed, management believes the likelihood that the ultimate disposition of these matters will have a material adverse effect on the Company's business, results of operations, financial condition and/or cash flows is remote. 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 the Company's business, results of operations, financial condition, and/or cash flows.

16. Pension Plans and Postretirement Benefits

Net periodic benefit expense for the United States plans:

	For the three months ended September 30, 2018			For the three months ended September 30, 2017		
	Pension benefits	Other benefits	Total	Pension benefits	Other benefits	Total
Service cost	$—	$ 36	$36	$—	$ 34	$34
Interest cost	24	29	53	25	31	56
Expected return on assets	(38)	—	(38)	(35)	—	(35)
Amortization of						
prior service cost	—	—	—	—	—	—
unrecognized (gain) loss	—	(39)	(39)	—	(50)	(50)
net transition obligation	—	—	—	—	—	—
Net periodic cost	$(14)	$ 26	$12	$(10)	$ 15	$5

	For the nine months ended September 30, 2018			For the nine months ended September 30, 2017		
	Pension benefits	Other benefits	Total	Pension benefits	Other benefits	Total
Service cost	$—	$ 109	$109	$—	$ 101	$101
Interest cost	71	87	158	76	92	168
Expected return on assets	(113)	—	(113)	(105)	—	(105)
Amortization of						
prior service cost	—	—	—	—	—	—
unrecognized (gain) loss	—	(119)	(119)	—	(149)	(149)
net transition obligation	—	—	—	—	—	—
Net periodic cost	$(42)	$ 77	$35	$(29)	$ 44	$15

Innophos has no minimum contribution requirements and does not plan to make cash contributions for its U.S. defined benefit pension plan in 2018.
Innophos made its entire cash contribution of $3.1 million for the U.S. defined contribution plan during the first quarter of 2018 for the plan year 2017.

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Net periodic benefit expense for the Canadian plans:

	For the three months ended September 30, 2018			For the three months ended September 30, 2017		
	Pension benefits	Other benefits	Total	Pension benefits	Other benefits	Total
Service cost	$110	$ 15	$125	$98	$ 13	$111
Interest cost	128	14	142	132	14	146
Expected return on assets	(199)	—	(199)	(209)	—	(209)
Amortization of						
actuarial loss (gain)	47	1	48	45	—	45
prior service cost	13	—	13	27	—	27
net transition obligation	—	6	6	—	6	6
Exchange rate changes	(97)	32	(65)	(53)	18	(35)
Net periodic cost	$2	$ 68	$70	$40	$ 51	$91

	For the nine months ended September 30, 2018			For the nine months ended September 30, 2017		
	Pension benefits	Other benefits	Total	Pension benefits	Other benefits	Total
Service cost	$332	$ 47	$379	$285	$ 38	$323
Interest cost	389	43	432	384	41	425
Expected return on assets	(602)	—	(602)	(609)	—	(609)
Amortization of						
actuarial loss (gain)	142	3	145	131	—	131
prior service cost	39	—	39	80	—	80
net transition obligation	—	18	18	—	17	17
Exchange rate changes	121	(41)	80	(199)	63	(136)
Net periodic cost	$421	$ 70	$491	$72	$ 159	$231

Innophos Canada, Inc. plans to make cash contributions to its Canadian defined benefit plan of approximately $0.5 million in 2018.

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17. Accumulated Other Comprehensive Income (Loss)
Changes in accumulated other comprehensive income (loss) by Component:

For the three months ended September 30, 2018	Pension and Other Postretirement Adjustments	Changes in Fair Value of Effective Cash Flow Hedges	Total
Balance at June 30, 2018	$ (1,715)	$ —	$(1,715)
Other comprehensive income before reclassifications	(47)	—	(47)
Amounts reclassified from accumulated other comprehensive income	—	—	—
Net current period other comprehensive income	(47)	—	(47)
Balance at September 30, 2018	$ (1,762)	$ —	$(1,762)

For the three months ended September 30, 2017	Pension and Other Postretirement Adjustments	Changes in Fair Value of Effective Cash Flow Hedges	Total
Balance at June 30, 2017	$ (1,645)	$ 96	$(1,549)
Other comprehensive loss before reclassifications	(103)	(52)	(155)
Amounts reclassified from accumulated other comprehensive income	—	—	—
Net current period other comprehensive loss	(103)	(52)	(155)
Balance at September 30, 2017	$ (1,748)	$ 44	$(1,704)

For the nine months ended September 30, 2018	Pension and Other Postretirement Adjustments	Changes in Fair Value of Effective Cash Flow Hedges	Total
Balance at December 31, 2017	$ (2,198)	$ —	$(2,198)
Other comprehensive income before reclassifications	143	—	143
Amounts reclassified from accumulated other comprehensive income	293	—	293
Net current period other comprehensive income	436	—	436
Balance at September 30, 2018	$ (1,762)	$ —	$(1,762)

For the nine months ended September 30, 2017	Pension and Other Postretirement	Changes in Fair Value of	Total

	Adjustments	Effective Cash Flow Hedges	
Balance at December 31, 2016	$ (1,493)	$ 9	$(1,484)
Other comprehensive (loss) income before reclassifications	(255)	35	(220)
Amounts reclassified from accumulated other comprehensive income	—	—	—
Net current period other comprehensive (loss) income	(255)	35	(220)
Balance at September 30, 2017	$ (1,748)	$ 44	$(1,704)

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18. Restructuring Costs

During 2015, management evaluated several initiatives to improve the overall operating efficiency of the organization. As a result of this evaluation, the Company launched an initiative to reduce its cost structure by implementing various staff reduction actions during the third quarter of 2015.
In addition, during the fourth quarter of 2015, the Company experienced a management transition of certain high-level positions, most notably the Chief Executive Officer and the Chief Financial Officer.
The following table summarizes the fiscal year 2018 activities related to these restructuring initiatives for severance and benefits:

For the three months ended September 30, 2018	Restructuring Costs
Balance at June 30, 2018	$ 217
Expense recorded	—
Payments made	—
Balance at September 30, 2018	$ 217

For the nine months ended September 30, 2018	Restructuring Costs
Balance at December 31, 2017	$ 1,929
Expense recorded	—
Payments made	(1,712)
Balance at September 30, 2018	$ 217

19. Assets Held for Sale

The Company plans to complete a sale leaseback transaction during the fourth quarter of 2018 on a non-core asset for an estimated $20 million in net cash. The assets involved in this transaction, which are allocated among our Food, Health and Nutrition and Industrial Specialties segments, have a net book value of $7.0 million as of September 30, 2018.

20. 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 EBITDA (defined as net income (loss) before interest, income taxes, depreciation and amortization). All references to sales in this Quarterly Report on Form 10-Q 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 chief executive officer is the chief operating decision maker and has determined to assess the Company's performance and allocate the appropriate resources based on the following operating segments: (1) Food, Health and Nutrition; (2) Industrial Specialties; and (3) Other. These reporting segments accurately reflect the underlying business dynamics and align with the strategic direction of the Company.

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INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES
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(Dollars in thousands, except per share amounts, share amounts or where otherwise noted)

For the three months ended September 30, 2018	Food, Health and Nutrition	Industrial Specialties	Other	Total
Sales	$115,132	$ 65,667	$16,135	$196,934
EBITDA	$14,563	$ 8,885	$2,424	$25,872
Depreciation and amortization expense	$7,142	$ 3,153	$569	$10,864

For the three months ended September 30, 2017	Food, Health and Nutrition	Industrial Specialties	Other	Total
Sales	$98,276	$ 67,682	$17,881	$183,839
EBITDA	$16,442	$ 13,491	$(1,145)	$28,788
Depreciation and amortization expense	$5,664	$ 3,488	$726	$9,878

For the nine months ended September 30, 2018	Food, Health and Nutrition	Industrial Specialties	Other	Total
Sales	$367,159	$ 195,767	$46,173	$609,099
EBITDA	$48,494	$ 26,772	$2,987	$78,253
Depreciation and amortization expense	$21,677	$ 10,257	$1,383	$33,317

For the nine months ended September 30, 2017	Food, Health and Nutrition	Industrial Specialties	Other	Total
Sales	$281,558	$ 198,721	$48,644	$528,923
EBITDA	$49,098	$ 31,666	$2,086	$82,850
Depreciation and amortization expense	$16,884	$ 10,346	$1,779	$29,009

A reconciliation of net income to EBITDA follows:

	Three months ended	
	September 30, 2018	September 30, 2017
Net income	$14,090	$ 11,582
(Benefit) provision for income taxes	(2,510)	5,698
Interest expense, net	3,428	1,630
Depreciation and amortization	10,864	9,878
EBITDA	$25,872	$ 28,788

	Nine months ended	
	September 30, 2018	September 30, 2017
Net income	$31,251	$ 33,728
Provision for income taxes	4,155	15,678

Interest expense, net	9,530	4,435
Depreciation and amortization	33,317	29,009
EBITDA	$78,253	$ 82,850

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

Innophos is a leading international producer of specialty ingredient solutions that deliver versatile benefits for the food, health, nutrition and industrial markets. Innophos combines more than a century of experience in specialty phosphate manufacturing with a broad range of other specialty nutritional ingredients. 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 they also provide a wide range of nutritional fortification solutions for food, beverage and nutritional supplement manufacturers.

Recent Trends and Outlook

Revenue is expected to grow 10% to 12% in 2018 compared with full-year 2017, which equates to a range of $791 million to $806 million.

As previously announced, the impact from specific strategic value chain repositioning transition charges is expected to affect 2018 GAAP earnings as these transition costs are incurred ahead of the $20 million negotiated payment from Nutrien accruing to earnings.

Overall market conditions and the competitive landscape are expected to be similar in Q4 compared with prior quarters with Q4 expected to reflect the usual seasonality and thus be the softest sales quarter in the year.

Selling price increases have continued to be effective in offsetting input cost increases and the Company has continued to take further price increase actions.

Excluding the Q3 2018 adjustment to the tax provision, the Company anticipates the effective tax rate in 2018 to operate in the 29-31% range.

Free cash flow is expected to benefit significantly in Q4 from two key initiatives: the Company’s previously announced intention to complete a sale leaseback transaction and the $20 million Nutrien contractual payment.

The Company continues to diligently work through the multi-faceted value chain repositioning and manufacturing optimization program. By the end of 2019, the program is estimated to deliver adjusted diluted EPS improvement of 10%, which represents an estimated run rate of $0.25 to $0.27 per share.

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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, 2018		Three Months Ended September 30, 2017	
	Amount	%	Amount	%
Net sales	$196.9	100.0	$183.8	100.0
Cost of goods sold	161.7	82.1	142.8	77.7
Gross profit	35.2	17.9	41.0	22.3
Operating expenses:				
Selling, general and administrative	19.5	9.9	20.9	11.4
Research & development	1.2	0.6	1.1	0.6
Income from operations	14.5	7.4	19.0	10.3
Interest expense, net	3.4	1.7	1.6	0.9
Foreign exchange (gain) loss, net	(0.5)	(0.3)	0.1	0.1
(Benefit) provision for income taxes	(2.5)	(1.3)	5.7	3.1
Net income	$14.1	7.2	$11.6	6.3

	Nine Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
	Amount	%	Amount	%
Net sales	$609.1	100.0	$528.9	100.0
Cost of goods sold	495.3	81.3	412.3	78.0
Gross profit	113.8	18.7	116.6	22.0
Operating expenses:				
Selling, general and administrative	64.5	10.6	60.1	11.4
Research & development	4.0	0.6	2.7	0.5
Income from operations	45.3	7.4	53.8	10.2
Interest expense, net	9.5	1.6	4.4	0.8
Foreign exchange loss, net	0.4	0.1	—	—
Provision for income taxes	4.1	0.7	15.7	3.0
Net income	31.3	5.1	33.7	6.4

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Three months ended September 30, 2018 compared to the three months ended September 30, 2017
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, 2018 were $196.9 million, an increase of $13.1 million, or 7.1%, as compared to $183.8 million for the same period in 2017, with prices up 4.1%, and volumes higher by 3.0%. Acquisitions made during the second half of 2017 contributed 7.4% to volume growth, while the legacy business recorded a decrease of 4.4%. Food, Health and Nutrition segment sales were up 17.2%, or $16.8 million, with selling prices higher by 2.5%, or $2.4 million, and volumes higher by 14.7%, or $14.4 million. The 2017 acquisitions contributed $13.6 million, or 13.8%, of the volume growth and the legacy business grew by $0.8 million, or 0.9%. Industrial Specialties sales were down 3.0%, or $2.0 million, with volumes lower by 9.3%, or $6.3 million, but selling prices higher by 6.3%, or $4.3 million. Other sales were lower by 9.8%, or $1.7 million, with volume lower by 14.6%, or $2.6 million, but selling prices higher by 4.8%, or $0.9 million.
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 three months ended September 30, 2018 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
Food, Health and Nutrition	2.5%	14.7 %	17.2 %
Industrial Specialties	6.3%	(9.3)%	(3.0)%
Other	4.8%	(14.6)%	(9.8)%
Total	4.1%	3.0 %	7.1 %

Gross Profit
Gross profit represents net sales less cost of goods sold. Gross profit for the three months ended September 30, 2018 was $35.2 million, a decrease of $5.8 million, or 14.1%, as compared to $41.0 million for the same period in 2017. Gross profit as a percentage of net sales decreased to 17.9% for the three months ended September 30, 2018 versus 22.3% for the same period in 2017. Gross profit in 2018 was unfavorably affected by $7.4 million of higher raw material costs, mostly sulfur and MGA, $3.3 million of higher manufacturing costs, $2.3 million of value chain transition costs, and $1.9 million disputed natural gas cost at our Coatzacoalcos, Mexico manufacturing facility. Gross profit was favorably affected in 2018 by $7.6 million higher selling prices which covered the raw material cost increases. Included in 2017 was a $1.4 million charge for fair value inventory purchase accounting related to the Novel acquisition.
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, 2018 were $20.7 million, a decrease of $1.3 million, or 5.9%, as compared to $22.0 million for the same period in 2017. The decrease was mainly due to lower strategic project expenses, partially offset by the 2017 acquisitions being included in the current year cost base.
Operating Income
Operating income for the three months ended September 30, 2018 was $14.5 million, a decrease of $4.5 million, or 23.7%, as compared to $19.0 million for the same period in 2017. Operating income as a percentage of net sales decreased to 7.4% versus 10.3% for the same period in 2017, for the reasons noted above.
Interest Expense, net
Net interest expense, including deferred financing amortization expense, for the three months ended September 30, 2018 was $3.4 million, an increase of $1.8 million, or 112.5%, as compared to $1.6 million for the same period in

2017. The increase was primarily due to higher market interest rates and a higher average loan balance due to the 2017 acquisitions.

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Foreign Exchange
Foreign exchange for the three months ended September 30, 2018 was a loss of $0.5 million as compared to a gain of $0.1 million for the same period in 2017. The U.S. Dollar is the functional currency of our Mexican and Canadian operations. The Company has greater foreign denominated asset balances (largely Mexican Peso and Canadian Dollar), such as VAT receivables and prepaid income taxes in foreign jurisdictions, than offsetting foreign denominated liability balances. 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 on income before taxes was approximately -22% for the three months ended September 30, 2018 compared to approximately 33% for the comparable period in 2017. The change in the components of the effective tax rate is primarily due to the enactment of the Tax Act, including the revision of the transition tax estimate for fiscal year ended December 31, 2017, and the remeasurement of NOLs used to offset the transition tax. The revision of the transition tax estimate for fiscal year ended December 31, 2017 decreased the effective tax rate by 28% and the remeasurement of NOLs used to offset the transition tax resulted in a 36% decrease in the effective tax rate. Additionally, the reduction in the statutory U.S. Federal corporate tax rate and a change of mix of U.S. to foreign earnings resulted in a 1% net decrease in the effective tax rate. The decreases in the effective tax rate were partially offset by 10% due to the accrual of Canadian withholding tax, resulting from the reversal of the company’s permanent reinvestment assertion on its Canadian subsidiary.
Net Income
Net income for the three months ended September 30, 2018 was $14.1 million, as compared to $11.6 million for the same period in 2017, due to the factors described above.

Nine months ended September 30, 2018 compared to the nine months ended September 30, 2017
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, 2018 were $609.1 million, an increase of $80.2 million, or 15.2%, as compared to $528.9 million for the same period in 2017, with prices up 2.9%, and volumes higher by 12.3%, of which 14.8% of the volume increase resulted from acquisitions made during the second half of 2017, which was partially offset by a volume decrease of 2.5% resulting from the less differentiated portion of the legacy business. Food, Health and Nutrition segment sales were up 30.4%, or $85.6 million, with selling prices higher by 1.4%, or $4.1 million, and volumes higher by 29.0%, or $81.5 million. The 2017 acquisitions contributed $78.4 million, or 27.9%, of the volume growth and the legacy business grew by $3.1 million, or 1.1%. Industrial Specialties sales were down 1.5%, or $2.9 million, with volumes lower by 5.6%, or $11.0 million, but selling prices higher by 4.1%, or $8.1 million. Other sales were lower by 5.1%, or $2.5 million, with volume lower by 11.3%, or $5.5 million, but selling prices higher by 6.2%, or $3.0 million.
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, 2018 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
Food, Health and Nutrition	1.4%	29.0 %	30.4 %
Industrial Specialties	4.1%	(5.6)%	(1.5)%

Other	6.2%	(11.3)%	(5.1)%
Total	2.9%	12.3 %	15.2 %

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Gross Profit

Gross profit represents net sales less cost of goods sold. Gross profit for the nine months ended September 30, 2018 was $113.8 million, a decrease of $2.8 million, or 2.4%, as compared to $116.6 million for the same period in 2017. Gross profit as a percentage of net sales decreased to 18.7% for the nine months ended September 30, 2018 versus 22.0% for the same period in 2017. Gross profit in 2018 was unfavorably affected by $15.3 million of higher raw material costs, mostly sulfur and MGA, $9.1 million of higher manufacturing costs, $6.4 million value chain transition costs, $4.5 million higher depreciation and intangible amortization expense, $2.6 million annual maintenance outage expense at our Coatzacoalcos, Mexico manufacturing facility, and $1.9 million disputed natural gas cost at our Coatzacoalcos, Mexico manufacturing facility. Gross profit was favorably affected in 2018 by $17.3 million from higher sales volumes and $15.1 million higher selling prices. Included in 2017 was $3.2 million of expenses for the implementation of Phase 2 of Operational Excellence initiatives and a $1.4 million charge for fair value inventory purchase accounting related to the Novel acquisition.

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, 2018 were $68.5 million, an increase of $5.7 million, or 9.1%, as compared to $62.8 million for the same period in 2017. The increase was mainly due to acquisitions included in the current year cost base partially offset by lower strategic project expenses.

Operating Income

Operating income for the nine months ended September 30, 2018 was $45.3 million, a decrease of $8.5 million, or 15.8%, as compared to $53.8 million for the same period in 2017. Operating income as a percentage of net sales decreased to 7.4% versus 10.2% for the same period in 2017, for the reasons noted above.

Interest Expense, net

Net interest expense, including deferred financing amortization expense, for the nine months ended September 30, 2018 was $9.5 million, an increase of $5.1 million, or 115.9%, as compared to $4.4 million for the same period in 2017. The increase was primarily due to higher market interest rates and a higher average loan balance due to the 2017 acquisitions.

Foreign Exchange

Foreign exchange for the nine months ended September 30, 2018 was a loss of $0.4 million as compared to approximately zero for the same period in 2017. The U.S. Dollar is the functional currency of our Mexican and Canadian operations. The Company has greater foreign denominated asset balances (largely Mexican Peso and Canadian Dollar), such as VAT receivables and prepaid income taxes in foreign jurisdictions, than offsetting foreign denominated liability balances. 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 on income before taxes was approximately 12% for the nine months ended September 30, 2018 compared to approximately 32% for the comparable period in 2017. The change in the components of the effective tax rate is primarily due to the enactment of the U.S.Tax Cuts and Jobs Act, or Tax Act, specifically the revision of the transition tax estimate for fiscal year ended December 31, 2017, and the remeasurement of NOLs used to offset the transition tax. The revision of the transition tax estimate for fiscal year ended December 31, 2017 resulted in a 9% decrease in the effective tax rate and the remeasurement of NOLs used to offset the transition tax resulted in a 13% decrease in the effective tax rate. In addition, the settlement of state income tax examinations resulted in a 2% decrease in the effective tax rate. The decrease in the effective tax rate was partially offset by a 4% increase due to the accrual of Canadian withholding tax, resulting from the reversal of the company's permanent reinvestment assertion on its Canadian subsidiary.

Net Income

Net income for the nine months ended September 30, 2018 was $31.3 million, as compared to $33.7 million for the same period in 2017, due to the factors described above.

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Segment Reporting

The Company's chief executive officer is the chief operating decision maker and has determined to assess the Company's performance and allocate the appropriate resources based on the following operating segments: (1) Food, Health and Nutrition; (2) Industrial Specialties; and (3) Other. The new reporting segments accurately reflect the underlying business dynamics and align with the strategic direction of the Company. The primary performance indicators for the chief operating decision maker are sales and earnings before interest, taxes, depreciation and amortization, or EBITDA. The following table sets forth the results of these indicators by segment for the three and nine months ended September 30, 2018 and 2017:

	Three Months Ended		
	September 30, 2018	September 30, 2017	Net Sales % Change
Segment Net Sales			
Food, Health and Nutrition	$115,132	$98,276	17.2 %
Industrial Specialties	65,667	67,682	(3.0)%
Other	16,135	17,881	(9.8)%
Total	$196,934	$183,839	7.1 %
Segment EBITDA			
Food, Health and Nutrition	$14,563	$16,442	
Industrial Specialties	8,885	13,491	
Other	2,424	(1,145)	
Total	$25,872	$28,788	
Segment EBITDA % of net sales			
Food, Health and Nutrition	12.6 %	16.7 %	
Industrial Specialties	13.5 %	19.9 %	
Other	15.0 %	(6.4)%	
Total	13.1 %	15.7 %	
Depreciation and amortization expense			
Food, Health and Nutrition	$7,142	$5,664	
Industrial Specialties	3,153	3,488	
Other	569	726	
Total	$10,864	$9,878	

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	Nine Months Ended		
	September 30, 2018	September 30, 2017	Net Sales % Change
Segment Net Sales			
Food, Health and Nutrition	$367,159	$ 281,558	30.4 %
Industrial Specialties	195,767	198,721	(1.5)%
Other	46,173	48,644	(5.1)%
Total	$609,099	$ 528,923	15.2 %
Segment EBITDA			
Food, Health and Nutrition	$48,494	$ 49,098	
Industrial Specialties	26,772	31,666	
Other	2,987	2,086	
Total	$78,253	$ 82,850	
Segment EBITDA % of net sales			
Food, Health and Nutrition	13.2 %	17.4 %	
Industrial Specialties	13.7 %	15.9 %	
Other	6.5 %	4.3 %	
Total	12.8 %	15.7 %	
Depreciation and amortization expense			
Food, Health and Nutrition	$21,677	$ 16,884	
Industrial Specialties	10,257	10,346	
Other	1,383	1,779	
Total	$33,317	$ 29,009	

A reconciliation of net income to EBITDA follows:

	Three months ended	
	September 30, 2018	September 30, 2017
Net income	$14,090	$ 11,582
(Benefit) provision for income taxes	(2,510)	5,698
Interest expense, net	3,428	1,630
Depreciation and amortization	10,864	9,878
EBITDA	$25,872	$ 28,788

	Nine months ended	
	September 30, 2018	September 30, 2017
Net income	$31,251	$ 33,728
Provision for income taxes	4,155	15,678
Interest expense, net	9,530	4,435
Depreciation and amortization	33,317	29,009
EBITDA	$78,253	$ 82,850

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Three months ended September 30, 2018 compared to the three months ended September 30, 2017
Segment Net Sales:
Food, Health and Nutrition net sales increased 17.2% for the three months ended September 30, 2018 compared with the same period in 2017 due primarily to the inclusion of the 2017 acquisitions along with price and volume growth in the legacy business. Volumes increased 14.7%, of which 13.8% was due to the 2017 acquisitions, and average selling price increased 2.5%.
Industrial Specialties net sales decreased 3.0% for the three months ended September 30, 2018 compared with the same period in 2017. Volumes decreased 9.3%, but average selling prices increased by 6.3%.
Other net sales decreased 9.8% for the three months ended September 30, 2018 compared with the same period in 2017. Volumes decreased 14.6%, but average selling prices increased 4.8%.
Segment EBITDA Percentage of Net Sales:

The 410 basis point decrease in Food, Health and Nutrition EBITDA margins for the three months ended September 30, 2018 compared with the same period in 2017 is due to higher manufacturing and operating costs which decreased margins by 460 basis points, higher raw material costs, largely sulfur and MGA, which decreased margins by 310 basis points, value chain transition costs which decreased margins by 220 basis points, and other items that decreased margins by 50 basis points. This decrease was partially offset by higher sales volume/mix which increased margins by 290 basis points and higher average selling prices which increased margins by 200 basis points. Fair value inventory purchase accounting charges in 2017 related to the Novel acquisition increased margins by 140 basis points in 2018.

The 640 basis point decrease in Industrial Specialties EBITDA margins for the three months ended September 30, 2018 compared with the same period in 2017 is due to higher raw material costs which decreased margins by 630 basis points, lower sales volume/mix which decreased margins by 200 basis points, higher manufacturing and operating costs which decreased margins by 140 basis points, Mexican natural gas costs which decreased margins by 130 basis points, and value chain transition costs which decreased margins by 20 basis points. This decrease was partially offset by higher average selling prices which increased margins by 480 basis points.

The 2,140 basis point increase in Other EBITDA margins for the three months ended September 30, 2018 compared with the same period in 2017 is due to lower strategic project costs which increased margins by 1,650 basis points, higher selling prices which increased margins 490 basis points, the change in translation which increased margins by 430 basis points, and lower manufacturing and operating costs which increased margins 230 basis points. This increase was partially offset by Mexican natural gas costs which decreased margins by 320 basis points, lower sales volume/mix which decreased margins by 260 basis points, and other items that decreased margins by 80 basis points.

Nine months ended September 30, 2018 compared to the nine months ended September 30, 2017
Segment Net Sales:
Food, Health and Nutrition net sales increased 30.4% for the nine months ended September 30, 2018 compared with the same period in 2017 due primarily to the inclusion of the 2017 acquisitions along with price and volume growth in the legacy business. Volumes increased 29.0%, of which 27.9% was due to the 2017 acquisitions, and average selling price increased by 1.4%.
Industrial Specialties net sales decreased 1.5% for the nine months ended September 30, 2018 compared with the same period in 2017. Volumes decreased 5.6% while average selling prices increased by 4.1%.
Other net sales decreased 5.1% for the nine months ended September 30, 2018 compared with the same period in 2017. Volumes decreased 11.3% but average selling prices increased 6.2%.
Segment EBITDA Percentage of Net Sales:

The 420 basis point decrease in Food, Health and Nutrition EBITDA margins for the nine months ended September 30, 2018 compared with the same period in 2017 is due to higher manufacturing and operating costs which decreased margins by 480 basis points, increased raw material costs, largely sulfur and MGA, which decreased margins by 270 basis points, value chain transition costs which decreased margins by 150 basis points, and other items that decreased margins by 50 basis points.

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This decrease was partially offset by higher sales volume/mix which increased margins by 250 basis points, higher average selling prices which increased margins by 120 basis points, and lower strategic project costs which increased margins by 110 basis points. Fair value inventory purchase accounting charges in 2017 related to the Novel acquisition increased margins by 50 basis points in 2018.

The 220 basis point decrease in Industrial Specialties EBITDA margins for the nine months ended September 30, 2018 compared with the same period in 2017 is due to higher raw material costs which decreased margins by 390 basis points, higher manufacturing and operating costs which decreased margins by 220 basis points, value chain transition costs which decreased margins by 100 basis points, turnaround costs which decreased margins by 90 basis points, and Mexican natural gas costs which decreased margins by 40 basis points. This decrease was partially offset by higher average selling prices which increased margins by 330 basis points, higher sales volume/mix which increased margins by 170 basis points, and lower strategic project costs which increased margins by 120 basis points.

The 220 basis point increase in Other EBITDA margins for the nine months ended September 30, 2018 compared with the same period in 2017 is due to lower strategic project costs which increased margins by 650 basis points, higher selling prices which increased margins 560 basis points, lower operating costs which increased margins by 90 basis points, and lower raw material costs which increased margins by 20 basis points. This increase was partially offset by higher manufacturing costs which decreased margins 490 basis points, lower sales volume/mix which decreased margins by 330 basis points, Mexican natural gas costs which decreased margins by 120 basis points, value chain transition costs which decreased margins by 100 basis points, and other items that decreased margins by 60 basis points.

Liquidity and Capital Resources

Cash Flow Summary

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, 2018	September 30, 2017
Operating Activities	$30.9	$ 46.7
Investing Activities	(43.3)	(148.6)
Financing Activities	6.6	81.2
Effect of foreign exchange rate changes	0.2	—

Nine months ended September 30, 2018 compared to nine months ended September 30, 2017

Net cash from operating activities was $30.9 million for the nine months ended September 30, 2018 compared to $46.7 million for the same period in 2017, a decrease in cash of $15.8 million. The decrease in operating activities cash resulted from unfavorable changes of $13.8 million in working capital, $11.7 million in other long term assets and liabilities, and $2.5 million in net income as described above, partially offset by a favorable change of $12.2 million in non-cash adjustments to income.

The change in working capital is derived from it being a use of cash of $29.7 million in 2018 compared to a use of $15.9 million the same period in 2017, a decrease in cash of $13.8 million. The change in working capital was due to unfavorable changes in inventory of $26.0 million, primarily to support the value chain repositioning program, and other current assets of $9.1 million. These unfavorable effects were partially offset by favorable changes in accounts receivable of $10.8 million, other current liabilities of $8.6 million, and accounts payable of $1.9 million.

Net cash used for investing activities was $43.3 million for the nine months ended September 30, 2018, compared to $148.6 million for the same period in 2017, an increase in cash of $105.3 million. The increase was due to the $125.0 million acquisition of Novel in 2017 partially offset by $18.7 million increase in capital spending due to value chain repositioning investment and $1.0 million of cash received from the sale of an administrative building in 2017.

Approximately 54% of the 2018 capital spending was for strategic growth initiatives and the remaining 46% was for plant maintenance projects. Our expectation for 2018 net capital cash outflow is approximately $45 million due to additional requirements to support strategic manufacturing initiatives, along with continuous improvement in our plants. The Company plans to enter into a sale leaseback transaction during the fourth quarter of 2018 on a non-core asset for an estimated \$20 million in net cash. The assets involved in this transaction have a net book value of \$7.0 million as of September 30, 2018.

Net cash from financing activities for the nine months ended September 30, 2018 was a source of \$6.6 million, compared to a source of \$81.2 million the same period in 2017, a decrease in cash of \$74.6 million. This decrease in cash was largely due to decreased loan borrowings for the 2017 Novel acquisition, partially offset by increased borrowing for capital spending and working capital needs to support the value chain repositioning and manufacturing optimization program.

In connection with the new MGA supply agreement executed with Nutrien, the Company is expecting a \$20 million payment during the fourth quarter of 2018.

The Company 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.

During the nine months ended September 30, 2018, the Company spent \$1.7 million related to restructuring activities initiated during the third quarter of 2015, and anticipates spending \$0.2 million within the next twelve months.

On September 30, 2018, the Company had cash and cash equivalents outside the United States of \$15.5 million, or 67% of the Company's balance. The foreign cash amounts are not restricted by law to be used in other countries. The Company's current operating plan does not include any other repatriation of any additional 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 pay additional taxes, such as withholding taxes, to repatriate these funds.

The Company’s available financial resources allow for the continuation of dividend payments, pursuit of 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 in our credit agreement, 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, our future operating cash flows and our existing revolving line of credit. 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.

Critical Accounting Estimates and Policies

There have been no material changes from the critical accounting estimates previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017.

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 credit 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, 2018, we had a \$450.0 million revolving credit facility, of which \$345.0 million of variable-rate debt was outstanding, which approximates fair value (determined using level 2 inputs within the fall value hierarchy).

Total remaining availability was $104.3 million, taking into account $0.7 million in face amount of letters of credit issued under the sub-facility.

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 operating cash flow and available borrowing capacity on our credit facility has been used to repurchase shares, pay dividends, fund capital expenditures,

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fund working capital needs and service debt, which may affect our ability to make future acquisitions. We have and may continue, but presently do not, 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 $345.0 million outstanding borrowings as floating rate debt, an immediate increase of one percentage point would cause an increase to interest expense of approximately $3.5 million per year.

We do not currently, but may from time to time, hedge our currency rate and energy 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 remeasured at current exchange rates, non-monetary assets and liabilities are remeasured at historical exchange rates, and revenue and expenses are remeasured 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. However, the strength or weakness of the U.S. Dollar versus other currencies can affect our competitiveness in the United States and export markets.

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.

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.

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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, as amended) 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, 2018, 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.

The Company acquired Novel Ingredients on August 25, 2017 and NutraGenesis on November 3, 2017, both wholly owned subsidiaries, and is in the process of integrating these companies into the Company’s existing internal controls over financial reporting. The Management’s Report on Internal Control Over Financial Reporting to be included in the Annual Report on Form 10-K for the year ending December 31, 2018 will include Novel Ingredients and NutraGenesis.

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 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS
Note 15 of Notes to Consolidated Condensed Financial Statements in “Part I, 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 Annual Report on Form 10-K for the year ended December 31, 2017.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS
The Company did not have any share repurchases on the open market during the third quarter of 2018. From time to time, the Company reacquires shares from employees in connection with the vesting, exercise and forfeiture of awards under its equity compensation plans. No such reacquisitions took place in the third quarter of 2018.

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 November 1, 2018 pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer dated November 1, 2018 pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Principal Executive Officer dated November 1, 2018 pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Principal Financial Officer dated November 1, 2018 pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Not to be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, 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, as amended.

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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.

INNOPHOS HOLDINGS, INC.

	/s/ Kim Ann Mink
By:	Kim Ann Mink
Its:	Chief Executive Officer, President and Director
	(Principal Executive Officer)

Dated: November 1, 2018

INNOPHOS HOLDINGS, INC.

	/s/ Han Kieftenbeld
By:	Han Kieftenbeld
Its:	Senior Vice President and Chief Financial Officer
	(Principal Financial Officer)

Dated: November 1, 2018

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