

Innophos Holdings, Inc.
Form 10-Q
July 31, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission File Number 001-33124

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

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

20-1380758
(I.R.S. Employer
Identification No.)

259 Prospect Plains Road
Cranbury, New Jersey
(Address of Principal Executive Offices)

08512
(Zip Code)

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

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

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

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

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

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

As of June 30, 2013, the registrant had 21,967,792 shares of common stock outstanding.

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PART I

ITEM 1. FINANCIAL STATEMENTS

INNOFOS HOLDINGS, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets (Unaudited)

(Dollars in thousands, except per share amounts, the number of shares or where otherwise noted)

	June 30, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$32,385	\$26,815
Accounts receivable, net	101,545	94,033
Inventories	153,663	162,941
Other current assets	85,082	99,927
Total current assets	372,675	383,716
Property, plant and equipment, net	197,266	195,723
Goodwill	83,879	83,879
Intangibles and other assets, net	74,917	75,948
Total assets	\$728,737	\$739,266
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$4,013	\$4,000
Accounts payable, trade and other	40,230	36,485
Other current liabilities	30,749	46,030
Total current liabilities	74,992	86,515
Long-term debt	164,007	172,000
Other long-term liabilities	34,567	36,428
Total liabilities	\$273,566	\$294,943
Commitments and contingencies (note 12)		
Common stock, par value \$.001 per share; authorized 100,000,000; issued 22,248,684 and 22,110,249; outstanding 21,967,792 and 21,830,870 shares	22	22
Paid-in capital	116,241	115,782
Common stock held in treasury, at cost (280,892 and 279,379 shares)	(12,481)	(12,411)
Retained earnings	355,480	346,866
Accumulated other comprehensive loss	(4,091)	(5,936)
Total stockholders' equity	455,171	444,323
Total liabilities and stockholders' equity	\$728,737	\$739,266

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		Six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Net sales	\$213,176	\$214,180	\$427,617	\$442,432
Cost of goods sold	172,281	171,812	349,688	344,196
Gross profit	40,895	42,368	77,929	98,236
Operating expenses:				
Selling, general and administrative	17,939	15,236	36,295	32,270
Research & development expenses	826	849	1,579	1,544
Total operating expenses	18,765	16,085	37,874	33,814
Operating income	22,130	26,283	40,055	64,422
Interest expense, net	1,594	1,595	2,746	3,222
Foreign exchange loss (gain)	2,915	(108)	2,417	(399)
Income before income taxes	17,621	24,796	34,892	61,599
Provision for income taxes	6,054	8,292	10,922	17,507
Net income	\$11,567	16,504	\$23,970	44,092
Net income attributable to participating common shareholders	\$11,549	\$16,493	\$23,932	\$44,063
Per share data (note 2):				
Income per participating share:				
Basic	\$0.53	\$0.76	\$1.09	\$2.02
Diluted	\$0.52	\$0.73	\$1.07	\$1.94
Weighted average participating shares outstanding:				
Basic	21,925,207	21,805,239	21,925,057	21,803,101
Diluted	22,320,172	22,713,254	22,322,561	22,706,499
Other comprehensive income, net of tax:				
Change in interest rate swaps, (net of tax \$792, \$117, \$913 and \$176)	\$1,293	\$192	\$1,489	\$288
Change in pension and post-retirement plans, (net of tax \$169, \$84, \$254 and \$88)	138	252	356	247
Other comprehensive income, net of tax	\$1,431	\$444	\$1,845	\$535
Comprehensive income	\$12,998	\$16,948	\$25,815	\$44,627

See notes to condensed consolidated financial statements

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

	Six months ended	
	June 30, 2013	June 30, 2012
Cash flows from operating activities		
Net income	\$23,970	\$44,092
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation and amortization	18,851	21,555
Amortization of deferred financing charges	288	287
Deferred income tax provision (benefit)	1,331	(359)
Share-based compensation	1,751	2,328
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(7,512)	) 6,322
Decrease in inventories	9,278	17,096
Decrease in other current assets	10,451	2,584
Increase in accounts payable	3,745	8,006
Decrease in other current liabilities	(15,281)	) (25,042)
Changes in other long-term assets and liabilities	(3,143)	) (3,488)
Net cash provided from operating activities	43,729	73,381
Cash flows used for investing activities:		
Capital expenditures	(15,879)	) (10,491)
Net cash used for investing activities	(15,879)	) (10,491)
Cash flows used for financing activities:		
Proceeds from exercise of options	75	14
Long-term debt borrowings	28,000	5,000
Long-term debt repayments	(36,000)	) (24,000)
Excess tax benefits from exercise of stock options	1,041	2,310
Common stock repurchases	(70)) —
Dividends paid	(15,326)	) (11,290)
Net cash used for financing activities	(22,280)	) (27,966)
Net change in cash	5,570	34,924
Cash and cash equivalents at beginning of period	26,815	35,242
Cash and cash equivalents at end of period	\$32,385	\$70,166

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	Paid-in Capital	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
Balance, December 31, 2011	21,620	\$22	\$292,144	\$106,037	\$ (4,995)	\$393,208
Net income			74,190			74,190
Other comprehensive loss, (net of tax \$643)					(941)	(941)
Proceeds from stock award exercises and issuances	340			(2,255)		(2,255)
Share-based compensation				1,912		1,912
Excess tax benefits from exercise of stock options				3,931		3,931
Common stock repurchases	(150)			(7,254)		(7,254)
Treasury stock reissued for acquisition of business	21			1,000		1,000
Dividends declared			(19,468)			(19,468)
Balance, December 31, 2012	21,831	\$22	\$346,866	\$103,371	\$ (5,936)	\$444,323
Net income			23,970			23,970
Other comprehensive loss, (net of tax \$1,167)					1,845	1,845
Proceeds from stock award exercises and issuances	138			(2,333)		(2,333)
Share-based compensation				1,751		1,751
Excess tax benefits from exercise of stock options				1,041		1,041
Common stock repurchases	(1)			(70)		(70)
Dividends declared			(15,356)			(15,356)
Balance, June 30, 2013	21,968	\$22	\$355,480	\$103,760	\$ (4,091)	\$455,171

See notes to condensed consolidated financial statements

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INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

(Dollars in thousands, except per share amounts, the number of shares or where otherwise noted)

1. Basis of Statement Presentation

Summary of Significant Accounting Policies

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

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

Out of Period Adjustments

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

Recently Issued Accounting Standards

Adopted

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

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

Issued but not yet adopted

None.

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INNPHOS HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

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

2. Earnings per share (EPS)

The Company accounts for earnings per share in accordance with ASC 260 and related guidance, which requires two calculations of earnings per share (EPS) to be disclosed: basic EPS and diluted EPS. Under ASC Subtopic 260-10-45, as of January 1, 2009 unvested awards of share-based payments with rights to receive dividends or dividend equivalents, such as our restricted stock, are considered participating securities for purposes of calculating EPS. Under the two-class method, a portion of net income is allocated to these participating securities and therefore is excluded from the calculation of EPS allocated to common stock, as shown in the table below.

The numerator for basic and diluted earnings per share is net earnings attributable to shareholders reduced by dividends attributable to unvested shares. The denominator for basic earnings per share is the weighted average number of common stock outstanding during the period. The denominator for diluted earnings per share is weighted average shares outstanding adjusted for the effect of dilutive outstanding stock options, performance share awards and restricted stock awards.

The following is a reconciliation of the weighted average basic number of common shares outstanding to the diluted number of common and common stock equivalent shares outstanding and the calculation of earnings per share using the two-class method:

	Three Months Ended		Six Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Net income	\$ 11,567	\$ 16,504	\$ 23,970	\$ 44,092
Less: earnings attributable to unvested shares	(18	) (11	) (38	) (29
Net income available to participating common shareholders	\$ 11,549	\$ 16,493	\$ 23,932	\$ 44,063
Weighted average number of participating common and potential common shares outstanding:				
Basic number of participating common shares outstanding	21,925,207	21,805,239	21,925,057	21,803,101
Dilutive effect of stock equivalents	394,965	908,015	397,504	903,398
Diluted number of weighted average participating common shares outstanding	22,320,172	22,713,254	22,322,561	22,706,499
Earnings per participating common share:				
Earnings per participating common share—Basic	\$0.53	\$0.76	\$1.09	\$2.02
Earnings per participating common share—Diluted	\$0.52	\$0.73	\$1.07	\$1.94
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	411,832	236,127	409,293	240,744

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INNPHOS HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

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

3. Dividends

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

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2013	2012	2013	2012
Dividends declared – per share	\$0.35	\$0.27	\$0.70	\$0.54
Dividends declared – aggregate	7,685	5,932	15,326	11,817
Dividends paid – per share	0.35	0.27	0.70	0.52
Dividends paid – aggregate	7,685	5,885	15,326	11,290

We are a holding company that does not conduct any business operations of our own. As a result, we are dependent upon cash dividends, distributions and other transfers from our subsidiaries, most directly Innophos, Inc., our primary operating subsidiary, and Innophos Investments Holdings, Inc., its parent, to make dividend payments on our Common Stock.

4. Stockholders' Equity / Stock-Based Compensation

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

Stock options, which entitle the holder to purchase, after the end of a vesting term, a specified number of shares of the Company's common stock at an exercise price per share set equal to the market price of the Company's common stock on the date of grant.

Performance share awards which entitle the holder to receive, at the end of a vesting term, a number of shares of the Company's common stock, within a range of shares from zero to a specified maximum (generally 200%), calculated using a combination of performance indicators as defined solely by reference to the Company's own activities.

Amounts equivalent to dividends will accrue over the performance period and are paid on performance share awards when vested and distributed.

Restricted stock grants, which entitle the holder to receive, at the end of each vesting term, a specified number of shares of the Company's common stock, and which also entitle the holder to receive dividends paid on such grants throughout the vesting period.

Annual stock retainer grants, which entitle independent members of the Board of Directors to receive a number of shares of the Company's common stock equal to a fixed retainer value.

Restricted Stock

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

Stock Options

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

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INNPHOS HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

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

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

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

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

Performance Share Awards

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

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

Stock Grants

In May 2013 the five external members of the Board of Directors were each granted 1,136 shares of the Company's common stock with an aggregated fair value of \$0.3 million which immediately vested as part of their director fees. The following table summarizes the components of stock-based compensation expense, all of which has been classified as selling, general and administrative expense:

	Three Months Ended		Six Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Stock options	\$273	\$349	\$699	\$856
Restricted stock	252	57	348	123
Performance shares	208	341	404	989
Stock grants	300	360	300	360
Total share-based compensation expense	\$1,033	\$1,107	\$1,751	\$2,328

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INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

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

5. Inventories

Inventories consist of the following:

	June 30, 2013	December 31, 2012
Raw materials	\$41,960	\$49,856
Finished products	102,543	103,563
Spare parts	9,160	9,522
	\$153,663	\$162,941

Inventory reserves for excess quantities, obsolescence or shelf-life expiration as of June 30, 2013 and December 31, 2012 were \$12,451 and \$11,551, respectively.

6. Other Current Assets

Other current assets consist of the following:

	June 30, 2013	December 31, 2012
Creditable taxes (value added taxes)	\$18,249	\$35,181
Vendor inventory deposits (prepaid)	27,665	19,445
Prepaid income taxes	28,532	22,000
Deferred income taxes	9,217	13,611
Other prepaids	1,395	2,884
Other	24	6,806
	\$85,082	\$99,927

7. Intangibles and Other Assets, net

Intangibles and other assets consist of the following:

	Useful life (years)	June 30, 2013	December 31, 2012
Developed technology and application patents, net of accumulated amortization of \$17,580 for 2013 and \$16,155 for 2012	7-20	\$26,900	\$28,325
Customer relationships, net of accumulated amortization of \$8,967 for 2013 and \$7,666 for 2012	5-15	28,083	29,384
Tradenames and license agreements, net of accumulated amortization of \$5,520 for 2013 and \$4,852 for 2012	5-20	11,930	12,598
Non-compete agreements, net of accumulated amortization of \$719 for 2013 and \$644 for 2012	4-10	591	666
Total intangibles		\$67,504	\$70,973
Deferred financing costs, net of accumulated amortization of \$1,381 for 2013 and \$1,092 for 2012 (see note 9)		\$2,279	\$2,567
Deferred income taxes		1,229	—
Other assets		3,905	2,408
Total other assets		\$7,413	\$4,975

\$74,917

\$75,948

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INNPHOS HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

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

8. Other Current Liabilities

Other current liabilities consist of the following:

	June 30, 2013	December 31, 2012
Payroll related	\$9,152	\$10,723
Freight and rebates	5,281	4,604
Benefits and pensions	5,049	6,727
Taxes other than income taxes	4,518	8,352
CNA water tax claims (see Note 12)	—	10,855
Other	6,749	4,769
	\$30,749	\$46,030

9. Short-term Borrowings, Long-Term Debt, and Interest Expense

Short-term borrowings and long-term debt consist of the following:

	June 30, 2013	December 31, 2012
Term loan due 2015	\$98,000	\$100,000
Revolver borrowings under the credit facility	70,000	76,000
Capital leases	20	—
Total borrowings	\$168,020	\$176,000
Less current portion	4,013	4,000
Long-term debt	\$164,007	\$172,000

The Company's credit facility includes a term loan of \$100.0 million and a revolving line of credit from the Lenders of up to \$225.0 million, including a \$20.0 million letter of credit sub-facility, all maturing on December 21, 2017.

Repayments of the term loan are required at the rate of 1% of original principal amount per quarter beginning on March 31, 2013.

As of June 30, 2013, \$98.0 million was outstanding under the Term Loan and \$70.0 million was outstanding under the revolving line of credit, both of which approximate fair value because they have a floating interest rate, Level 2 input within the fair value hierarchy, with total availability at \$153.1 million, taking into account \$1.9 million in face amount of letters of credit issued under the sub-facility. The current weighted average interest rate for all debt is 2.5%. Simultaneously with initiating the new senior facility, Innophos entered into an interest rate swap, swapping the LIBOR exposure on \$100.0 million adjusting quarterly consistent with the Term Loan, with a fixed rate of 0.9475% plus the applicable margin on the debt expiring in December 2017. This interest rate swap has been designated as a cashflow hedge (Level 2) with the changes in value recorded through other comprehensive income. The fair value of this interest rate swap is an asset of approximately \$1.4 million as of June 30, 2013.

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

Total interest paid by the Company for all indebtedness for the six months ended June 30, 2013 and June 30, 2012 was \$2,394 and \$2,982.

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

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INNPHOS HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

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

Interest expense, net consists of the following:

	Three months ended		Six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Interest expense	\$1,538	1,475	\$2,616	2,979
Deferred financing cost	141	142	288	287
Interest income	(10	) (22	) (21	) (44
Less: amount capitalized for capital projects	(75	) —	(137) —
Total interest expense, net	\$1,594	\$1,595	\$2,746	\$3,222

10. Other Long-Term Liabilities

Other long-term liabilities consist of the following:

	June 30, 2013	December 31, 2012
Deferred income taxes	\$20,583	\$21,497
Pension and post retirement liabilities (U.S. and Canada only)	7,153	7,253
Profit sharing and post employment liabilities	4,512	4,435
Environmental liabilities	1,100	1,100
Other liabilities	1,219	2,143
	\$34,567	\$36,428

11. Income Taxes

The effective income tax rate on income before taxes was approximately 31% for the six months ended June 30, 2013 compared to approximately 28% for the comparable period in 2012. The variance in the effective tax rate is primarily due to the Mexican CNA Water Tax Claims (see note 12, Mexican CNA Water Tax Claims) being recorded as discrete items for income tax provision purposes which had 2% and 5% effects on the effective tax rates for the 2013 and 2012 periods respectively.

The Company has recorded a tax contingency of \$1.1 million, net of Federal benefit, for uncertain state income tax positions in accordance with ASC 740-10-05-6. The Company's policy is to accrue associated penalties in selling, general and administrative expenses and to accrue interest in net interest expense. Currently, the Company is under examination, or has been contacted for examination, by certain foreign jurisdictions for its income tax returns for the years 2006 through 2008. In 2011, our subsidiary, Innophos Mexicana requested a refund of \$2.5 million for the 2009 tax year which was disputed by the Mexican tax authorities, however, in June of 2013, the Mexican courts ruled in the Company's favor. In addition, our subsidiary, Innophos Canada, Inc. was assessed approximately \$4.0 million for the tax years 2006, 2007, and 2008 by the Canadian tax authorities. In April 2012, the Company filed a response to the Canadian tax authorities for the above tax matter disputing the full assessment. The Company believes that its tax position is more likely than not to be sustained and has not recorded a charge for this tax matter. On March 19, 2013, Internal Revenue Service commenced an examination of the Company's 2010 tax return. Other than the assessments mentioned above, as of June 30, 2013, no material adjustments have been proposed to the Company's tax positions and the Company currently does not anticipate any adjustments that would result in a material change to its financial position during the next twelve months.

Income taxes paid were \$17,769 and \$28,324 for the six months ended June 30, 2013 and June 30, 2012, respectively.

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12. Commitments and Contingencies

Environmental

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

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

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

Litigation

2008 RCRA Civil Enforcement - Geismar, Louisiana plant

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

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

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

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

Although we cannot give assurances as to the future course or ultimate outcome of ongoing negotiations, including whether litigation may ultimately ensue, we believe, based on our appreciation of the current state of the proceedings,

that deep well injection is likely to be employed as the technologically acceptable approach for Raffinate and that we will not be asked to contribute substantially to the cost of the deep well to be specified by the Government Parties in an anticipated consent decree for settlement of this enforcement matter. However, in negotiated settlements leading to consent decrees with the Governmental Parties, it is also common for penalties relating to previous “non-compliance” to be assessed and, in that connection, we have

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been advised by the Governmental Parties that they expect to seek penalties against both PCS and us in this case. Although we have argued and made submissions to the effect that for purposes of settlement penalties there is no basis for any substantial penalty to be levied against us, nevertheless, we can give no assurance as to that outcome, or if a penalty is initially assessed as to its amount, or whether it will be necessary for us to oppose or seek indemnity for the assessment by further litigation. As a result, we have concluded that the contingent liability arising from compliance costs in this matter remains, as we have previously disclosed, neither remote nor probable, but reasonably possible.

Other Legal Matters

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

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

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

13. Pension Plans and Postretirement Benefits

Net periodic benefit expense for the United States plans:

	For the three months ended June 30, 2013			For the three months ended June 30, 2012		
	Pension benefits	Other benefits	Total	Pension benefits	Other benefits	Total
Service cost	\$—	\$91	\$91	\$—	\$81	\$81
Interest cost	27	40	67	27	36	63
Expected return on assets	(27)	—	(27)	(27)	—	(27)
Amortization of prior service cost	—	—	—	—	32	32
unrecognized (gain) loss	14	—	14	3	(7)	(4)
Net periodic cost	\$14	\$131	\$145	\$3	\$142	\$145

	For the six months ended June 30, 2013			For the six months ended June 30, 2012		
	Pension benefits	Other benefits	Total	Pension benefits	Other benefits	Total
Service cost	\$—	\$182	\$182	\$—	162,000	\$162
Interest cost	54	81	135	54	72,000	126
Expected return on assets	(55)	—	(55)	(54)	—	(54)
Amortization of prior service cost	—	—	—	—	64	64
unrecognized (gain) loss	28	—	28	6	(14)	(8)
Net periodic cost	\$27	\$263	\$290	\$6	\$284	\$290

In April 2013, Innophos contributed approximately \$0.2 million to its U.S. defined benefit pension plan to satisfy the full year 2013 minimum contribution requirements.

Innophos made its entire cash contribution of \$3.0 million for the U.S. defined contribution plan during the first quarter of 2013 for the plan year 2012.

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

Net periodic benefit expense for the Canadian plans:

	For the three months ended June 30, 2013			For the three months ended June 30, 2012			
	Pension benefits	Other benefits	Total	Pension benefits	Other benefits	Total	
Service cost	\$88	\$19	\$107	\$84	\$20	\$104	
Interest cost	140	20	160	150	24	174	
Expected return on assets	(226) —	(226) (235) —	(235)
Amortization of actuarial loss (gain)	79	9	88	65	12	77	
prior service cost	25	—	25	26	—	26	
net transition obligation	—	8	8	—	8	8	
Exchange rate changes	94	(21) 73	(110) 34	(76)
Net periodic cost	\$200	\$35	\$235	\$(20	) \$98	\$78

	For the six months ended June 30, 2013			For the six months ended June 30, 2012			
	Pension benefits	Other benefits	Total	Pension benefits	Other benefits	Total	
Service cost	\$177	\$39	\$216	\$168	\$40	\$208	
Interest cost	282	41	323	300	48	348	
Expected return on assets	(456) —	(456) (470) —	(470)
Amortization of actuarial loss (gain)	160	18	178	130	24	154	
prior service cost	51	—	51	52	—	52	
net transition obligation	—	15	15	—	16	16	
Exchange rate changes	204	(47	) 157	20	7	27
Net periodic cost	\$418	\$66	\$484	\$200	\$135	\$335	

Innophos Canada, Inc. made cash contributions to its Canadian defined benefit plan of \$0.4 million during the six months ended June 30, 2013. Innophos Canada, Inc. plans to make additional cash contributions to its Canadian defined benefit plan of approximately \$0.4 million during the remainder of 2013.

14. Segment Reporting

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

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

consists of the products lines Specialty Ingredients, Food & Technical Grade PPA, and STPP & Detergent Grade PPA. GTSP & Other includes fertilizer co-product GTSP and other non-specialty phosphate products.

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

For the three months ended June 30, 2013	Specialty Phosphates US & Canada	Specialty Phosphates Mexico	GTSP & Other	Eliminations	Total
Sales	\$159,054	\$43,370	\$10,752	\$—	\$213,176
Intersegment sales	778	14,860	128	(15,766)) —
Total sales	\$159,832	\$58,230	\$10,880	\$(15,766)	) \$213,176
Operating income	\$23,759	\$1,333	\$(2,962)	) \$—	\$22,130
Depreciation and amortization expense	\$6,465	\$2,318	\$682	\$—	\$9,465

For the three months ended June 30, 2012	Specialty Phosphates US & Canada	Specialty Phosphates Mexico	GTSP & Other	Eliminations	Total
Sales	\$146,270	\$47,800	\$20,110	\$—	\$214,180
Intersegment sales	532	13,696	129	(14,357)) —
Total sales	\$146,802	\$61,496	\$20,239	\$(14,357)	) \$214,180
Operating income (b)	\$20,267	\$8,534	\$(2,518)	) \$—	\$26,283
Depreciation and amortization expense	\$6,178	\$3,790	\$1,348	\$—	\$11,316

For the six months ended June 30, 2013	Specialty Phosphates US & Canada	Specialty Phosphates Mexico	GTSP & Other	Eliminations	Total
Sales	\$310,045	\$82,285	\$35,287	\$—	\$427,617
Intersegment sales	1,301	27,123	239	(28,663)) —
Total sales	\$311,346	—\$109,408	\$35,526	\$(28,663)	) \$427,617
Operating income (a) (b)	\$34,551	\$1,990	\$3,514	\$—	\$40,055
Depreciation and amortization expense	\$13,572	\$4,076	\$1,203	\$—	\$18,851

For the six months ended June 30, 2012	Specialty Phosphates US & Canada	Specialty Phosphates Mexico	GTSP & Other	Eliminations	Total
Sales	\$287,865	\$98,728	\$55,839	\$—	\$442,432
Intersegment sales	848	30,995	263	(32,106)) —
Total sales	\$288,713	\$129,723	\$56,102	\$(32,106)	) \$442,432
Operating income (a) (b)	\$47,503	\$14,796	\$2,123	\$—	\$64,422
Depreciation and amortization expense	\$11,548	\$7,563	\$2,444	\$—	\$21,555

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

(b) The six month period ended June 30, 2013 includes a \$2.3 million charge to earnings for out of period costs in the US. The three and six months ended June 30, 2012 include \$3.9 million and \$2.4 million, respectively, of out of

period cost in Mexico in GTSP & Other.

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15. Acquisitions

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

In December 2012, Innophos acquired the assets of Triarco Industries, Inc. ("Triarco"). Triarco, a privately held company based in New Jersey, has been manufacturing high quality custom ingredients for the food, beverage and dietary supplement industries for more than 30 years. Triarco specializes in botanical and enzyme based ingredients that provide important nutritional benefits and are often formulated with bioactive minerals and specialty phosphates. In the transaction, an Innophos subsidiary purchased all of Triarco's assets for \$44.8 million in cash plus \$1 million in shares of Innophos Holdings, Inc. Common Stock. The allocation of the purchase price for the acquisition has been prepared on a preliminary basis and changes to that allocation may occur as additional information becomes available. An additional fair value adjustment decreasing inventory (and increasing goodwill) by approximately \$0.7 million was recognized in the period ended March 31, 2013. This fair value adjustment has been reclassified on the December 31, 2012 balance sheet.

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

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

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

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Recent Trends and Outlook

Moderate market demand growth was evident for Specialty Phosphates in the second quarter 2013, and, together with the success of our growth strategy, resulted in the strongest volume quarter for the US/Canada business in over three years. Mexico volumes were affected by production issues related to unexpected equipment failures that began in the first quarter and continued through mid-May, but June returned to our short-term target levels after the issues were resolved. This resulted in a significant sequential improvement in year-over-year sales volume variance. The overall Specialty Phosphates volume growth was 6% with 5% coming from acquisitions and the core business contributing a net 1% growth despite the Mexico production issues.

Momentum behind our growth strategy continues to improve, as evidenced by success with new products and continued export sales strength. We continue to expect modest market growth in 2013, with recent favorable demand trends, particularly in consumer oriented end markets, supporting this view. The June improvement seen in Mexico manufacturing performance and sales volumes gives us confidence that second half 2013 sales volumes for that business will return to second half 2012 levels, an improvement of 6-7% compared to the first half 2013.

Overall, our second half 2013 Specialty Phosphates year-over-year growth expectation, excluding the benefit of recent acquisitions, remains within our 4-6% long-term target range. Strong performance by our recent acquisitions is expected to continue, and this, together with the full year benefit of the two acquisitions made in 2012, is expected to contribute an additional 4% revenue growth for the second half 2013 in comparison to the prior year period.

We do not expect any major changes in raw material purchase prices or underlying Specialty Phosphates selling prices through the third quarter 2013.

During the second quarter 2013, the Company revised its methodology for estimating phosphate rock inventories on hand. As a result, we recorded a \$2 million write-down of phosphate rock inventory in the second quarter 2013. In addition to this inventory charge, the Mexico business incurred elevated cost of goods sold of \$4 million from lower efficiencies and higher maintenance costs resulting from Mexico production issues. Of the total \$6 million of higher costs noted above, Mexico Specialty Phosphates incurred \$4 million and GTSP & Other incurred \$2 million. Specialty Phosphates operating income margins were 12% for the second quarter 2013 as reported and met our second half expectation of 15% when adjusting out the additional Mexico costs noted above. Continued improvement in US/Canada business mix is expected to support improved margins for that business in the third quarter 2013.

However, sequential margin improvement will not reach its full potential in the third quarter for Mexico because of a planned maintenance outage in Coatzacoalcos that typically occurs every 12 to 18 months and typically costs \$2-3 million. This outage is not expected to have a significant effect on sales volumes in the second half 2013. Specialty Phosphates operating income margins are therefore expected to remain at 15% for the second half, as fourth quarter improvements in the Mexico margins will likely be offset by seasonally lower volumes affecting fixed cost leverage for the US/Canada business.

GTSP & Other profitability slipped to a small loss for the second quarter 2013 on an adjusted basis. Low market demand, which affected sales volumes in the quarter, resulted in weaker market pricing at the end of the quarter compared to the beginning. Based on current market price conditions, GTSP is expected to operate at a small loss through the third quarter.

Net debt (total long-term debt (including any current portion) less cash and cash equivalents) increased sequentially by \$8 million in the second quarter 2013 to \$136 million as a result of increased working capital in Mexico to support improved production and sales.

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Historical Performance

Results of Operations

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

	Three Months Ended June 30, 2013		Three Months Ended June 30, 2012	
	Amount	%	Amount	%
Net sales	\$213.2	100.0	\$214.2	100.0
Cost of goods sold	172.3	80.8	171.8	80.2
Gross profit	40.9	19.2	42.4	19.8
Operating expenses:				
Selling, general and administrative	18.0	8.4	15.3	7.1
Research & development	0.8	0.4	0.8	0.4
Income from operations	22.1	10.4	26.3	12.3
Interest expense, net	1.6	0.8	1.6	0.7
Foreign exchange losses (gains), net	2.9	1.4	(0.1)	—
Provision for income taxes	6.0	2.8	8.3	3.9
Net income	\$11.6	5.4	\$16.5	7.7
	Six Months Ended June 30, 2013		Six Months Ended June 30, 2012	
	Amount	%	Amount	%
Net sales	\$427.6	100.0	\$442.4	100.0
Cost of goods sold	349.7	81.8	344.2	77.8
Gross profit	77.9	18.2	98.2	22.2
Operating expenses:				
Selling, general and administrative	36.2	8.5	32.3	7.3
Research & development	1.6	0.4	1.5	0.3
Income from operations	40.1	9.4	64.4	14.6
Interest expense, net	2.7	0.6	3.2	0.7
Foreign exchange losses (gains), net	2.5	0.6	(0.4)	(0.1)
Provision for income taxes	10.9	2.5	17.5	4.0
Net income	\$24.0	5.6	\$44.1	10.0

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

Net Sales

Net sales represent the selling price of the products, net of any customer-related rebates, plus freight and any other items invoiced to customers. Net sales for the three months ended June 30, 2013 were \$213.2 million, a decrease of \$1.0 million, or 0.5%, as compared to \$214.2 million for the same period in 2012. Higher sales in Specialty Phosphates resulting from acquisition benefits and growth in the US/Canada core business nearly offset lower sales in GTSP & Other. Specialty Phosphates volumes were 6.1% higher, with acquisition benefits accounting for 5.1% of the increase, and selling prices were down 1.8%, primarily due to a price reset on a long-term contract in Mexico and US/Canada sales mix. Global demand for phosphate and potash fertilizers was weak due to the Indian government policy in effect which favors nitrogen fertilizers; therefore, the typical spring acceleration in market fertilizer prices did not happen. As a result of the low global market demand, GTSP & Other volumes declined 46% versus the year ago period.

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

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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 June 30, 2013 the percentage changes in net sales by reportable segment compared with the same period of the prior year, including the effect of price and volume/mix changes upon revenue:

	Price		Volume/Mix		Total	
Specialty Phosphates US & Canada	(1.1	)%	9.8	%	8.7	%
Specialty Phosphates Mexico	(3.9	)%	(5.4	)%	(9.3)%
Total Specialty Phosphates	(1.8	)%	6.1	%	4.3	%
GTSP & Other	(0.5	)%	(46.0	)%	(46.5)%
Total	(1.6	)%	1.1	%	(0.5)%

Note: Included within Specialty Phosphates US & Canada and Total Specialty Phosphates volume/mix variances were benefits of 6.8% and 5.1%, respectively, from the AMT business acquired in the third quarter of 2012 and the Triarco business acquired in December 2012.

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

	Price		Volume/Mix		Total	
Specialty Ingredients	(2.3	)%	8.7	%	6.4	%
Food & Technical Grade PPA	0.6	%	1.2	%	1.8	%
STPP & Detergent Grade PPA	(2.3	)%	(2.1	)%	(4.4)%

Note: Included within Specialty Ingredients volume/mix variance was a 7.3% benefit from the AMT business acquired in the third quarter of 2012 and the Triarco business acquired in December 2012.

Gross Profit

Gross profit represents net sales less cost of goods sold. Gross profit for the three months ended June 30, 2013 was \$40.9 million, a decrease of \$1.5 million, or 3.5%, as compared to \$42.4 million for the same period in 2012. Gross profit percentage decreased to 19.2% for the three months ended March 31, 2013 versus 19.8% for the same period in 2012. Gross profit in 2013 was unfavorably affected by \$3.5 million for lower selling prices, primarily due to US/Canada sales mix and a price reset on a long-term contract in Mexico, and \$6.3 million in elevated cost of goods sold for Mexico, of which \$2.1 million related to a revision of estimates for phosphate rock physical inventories and \$4.2 million related to lower efficiencies and increased maintenance costs to address the equipment failure that we began to fix in the first quarter 2013. These unfavorable effects were partially offset by \$2.7 million lower depreciation expense in the core business in 2013, \$2.3 million benefit from acquisitions completed in 2012, \$0.6 million favorable sales volume effects and \$2.7 million of expense in the second quarter 2012 for adjustments to cost of goods sold, including amounts for prior periods. Overall raw material cost effects were insignificant when compared against the year ago period.

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 June 30, 2013 were \$18.8 million, an increase of \$2.7 million, or 16.8%, as compared to \$16.1 million for the same period in 2012. The increase was primarily due to the acquired AMT and Triarco businesses and an elevated focus on our quality and business process improvement programs.

Operating Income

Operating income for the three months ended June 30, 2013 was \$22.1 million, a decrease of \$4.2 million, or 16.0%, as compared to \$26.3 million for the same period in 2012. Operating income as a percentage of net sales decreased to 10.4% versus 12.3% for the same period in 2012, for the reasons noted above.

Interest Expense, net

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Net interest expense, including deferred financing amortization expense, for the three months ended June 30, 2013 was \$1.6 million, no change when compared to \$1.6 million for the same period in 2012.

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Foreign Exchange

Foreign exchange for the three months ended June 30, 2013 was a loss of \$2.9 million as compared to a gain of \$0.1 million for the same period in 2012. The loss was primarily due to the weakening of the Mexican peso against the U.S. Dollar during the second quarter 2013. The U.S. Dollar is the functional currency of our Mexican and Canadian operations. Consequently, foreign exchange gain or loss is recorded on remeasurement of non-U.S. dollar denominated monetary assets and liabilities. Such gains and losses fluctuate from period to period as the foreign currencies strengthen or weaken against the U.S. dollar and the amount of non-U.S. dollar denominated assets and liabilities increases or decreases.

Provision for Income Taxes

The effective income tax rate was 34% for the three months ended June 30, 2013 compared to 33% for the same period in 2012.

Net Income

Net income for the three months ended June 30, 2013 was \$11.6 million, a decrease of \$4.9 million as compared to \$16.5 million for the same period in 2012, due to the factors described above.

Six months ended June 30, 2013 compared to the six months ended June 30, 2012

Net Sales

Net sales represent the selling price of the products, net of any customer-related rebates, plus freight and any other items invoiced to customers. Net sales for the six months ended June 30, 2013 were \$427.6 million, a decrease of \$14.8 million, or 3.3%, as compared to \$442.4 million for the same period in 2012. The decrease was primarily due to lower GTSP & Other sales which had 33.7% lower volumes and 3.1% lower prices due to soft fertilizer market conditions. Specialty Phosphates volumes were 3.2% higher, with a 5.2% benefit from acquisitions and a net 2.0% decline in our core business primarily resulting from operating issues in Mexico. Specialty Phosphates selling prices were down 1.7%, primarily due to a price reset on a long-term contract in Mexico and US/Canada sales mix. 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 six months ended June 30, 2013 the percentage changes in net sales by reportable segment compared with the same period of the prior year, including the effect of price and volume/mix changes upon revenue:

	Price		Volume/Mix		Total	
Specialty Phosphates US & Canada	(0.8	)%	8.5	%	7.7	%
Specialty Phosphates Mexico	(4.2	)%	(12.5	)%	(16.7)%
Total Specialty Phosphates	(1.7	)%	3.2	%	1.5	%
GTSP & Other	(3.1	)%	(33.7	)%	(36.8)%
Total	(1.9	)%	(1.4	)%	(3.3)%

Note: Included within Specialty Phosphates US & Canada and Total Specialty Phosphates volume/mix variances were benefits of 7.0% and 5.2%, respectively, from the AMT business acquired in the third quarter of 2012 and the Triarco business acquired in December 2012.

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

	Price		Volume/Mix		Total	
Specialty Ingredients	(2.5	)%	8.2	%	5.7	%
Food & Technical Grade PPA	1.4	%	(2.5	)%	(1.1)%
STPP & Detergent Grade PPA	(1.7	)%	(16.3	)%	(18.0)%

Note: Included within Specialty Ingredients volume/mix variance was a 7.6% benefit from the AMT business acquired in the third quarter of 2012 and the Triarco business acquired in December 2012.

Gross Profit

Gross profit represents net sales less cost of goods sold. Gross profit for the six months ended June 30, 2013 was \$77.9 million, a decrease of \$20.3 million, or 20.7%, as compared to \$98.2 million for the same period in 2012. Gross profit percentage decreased to 18.2% for the six months ended June 30, 2012 versus 22.2% for the same period in 2012.

Gross profit in 2013 was unfavorably affected by \$8.2 million for lower selling prices, due to a price reset on a long-term contract in Mexico, lower fertilizer market prices and US/Canada sales mix, \$2.4 million from lower sales volumes primarily the result of Mexico manufacturing issues, \$5.4 million higher fixed costs including change in inventory effects from inventory reductions in Mexico, and \$15.4 million in elevated cost of goods sold, of which \$7.9 million related to Mexico manufacturing issues, \$2.1 million related to a revision of estimates for phosphate rock inventories in Mexico, \$2.3 million related to an out of period adjustment related to a long term supply agreement, \$2.4 million related to demurrage on raw material purchases and other inventory related costs, and \$0.7 million related to acquisition accounting expenses. The \$31.4 million total of unfavorable effects were partially offset by \$5.1 million benefit from acquisitions, \$3.5 million for lower depreciation and \$2.4 million of expense in the second quarter 2012 for adjustments made to cost of goods sold, including amounts for prior periods. Overall raw material cost effects were insignificant when compared against the year ago period, with lower Mexico raw material costs for phosphate rock and sulfur in the current period essentially offset by a first half 2012 benefit in US/Canada for lagged raw material price increases that did not affect cost of goods sold until the second quarter 2012 and forward. Both periods included a benefit of approximately \$7 million as we made progress in reducing the amounts required to be paid to settle historical water duty claims by the Mexican authorities.

Operating Expenses and Research and Development

Operating expenses consist primarily of selling, general and administrative and research and development expenses. Operating expenses for the six months ended June 30, 2013 were \$37.8 million, an increase of \$4.0 million, or 11.8%, as compared to \$33.8 million for the same period in 2012. The increase was primarily due to the acquired AMT and Triarco businesses an elevated focus on our quality and business process improvement programs.

Operating Income

Operating income for the six months ended June 30, 2013 was \$40.1 million, a decrease of \$24.3 million, or 37.7%, as compared to \$64.4 million for the same period in 2012. Operating income as a percentage of net sales decreased to 9.4% versus 14.6% for the same period in 2012, for the reasons noted above.

Interest Expense, net

Net interest expense, including deferred financing amortization expense, for the six months ended June 30, 2013 was \$2.7 million, a decrease of \$0.5 million, or 15.6% as compared to \$3.2 million for the same period in 2012.

Foreign Exchange

Foreign exchange for the six months ended June 30, 2013 was a loss of \$2.5 million as compared to a gain of \$0.4 million for the same period in 2012. The loss was primarily due to the weakening of the Mexican peso against the U.S. Dollar during the second quarter 2013. The U.S. Dollar is the functional currency of our Mexican and Canadian operations. Consequently, foreign exchange gain or loss is recorded on remeasurement of non-U.S. dollar

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

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Provision for Income Taxes

The effective income tax rate was 31% for the six months ended June 30, 2013 compared to 28% for the same period in 2012. The variance in the effective tax rate is due to the Mexican CNA Water Tax Claims being recorded as discrete items for income tax provision purposes which lowered the effective tax rate 2% in 2013 and 5% in 2012.

Net Income

Net income for the six months ended June 30, 2013 was \$24.0 million, a decrease of \$20.1 million as compared to \$44.1 million for the same period in 2012, due to the factors described above.

Segment Reporting

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

	Three Months Ended		Net Sales % Change	
	June 30, 2013	June 30, 2012		
Segment Net Sales				
Specialty Phosphates US & Canada	\$159,054	\$146,270	8.7	%
Specialty Phosphates Mexico	43,370	47,800	(9.3)%
Total Specialty Phosphates	202,424	194,070	4.3	%
GTSP & Other	10,752	20,110	(46.5)%
Total	\$213,176	\$214,180	(0.5)%
Segment Operating Income				
Specialty Phosphates US & Canada	\$23,759	\$20,267		
Specialty Phosphates Mexico	1,333	8,534		
Total Specialty Phosphates	25,092	28,801		
GTSP & Other (a)	(2,962	) (2,518)	
Total	\$22,130	\$26,283		
Segment Operating Income % of net sales				
Specialty Phosphates US & Canada	14.9	% 13.9	%	
Specialty Phosphates Mexico	3.1	% 17.9	%	
Total Specialty Phosphates	12.4	% 14.8	%	
GTSP & Other (a)	(27.5	)% (12.5)%	
Total	10.4	% 12.3	%	
Depreciation and amortization expense				
Specialty Phosphates US & Canada	\$6,465	\$6,178		
Specialty Phosphates Mexico	2,318	3,790		
Total Specialty Phosphates	\$8,783	9,968		
GTSP & Other	682	1,348		
Total	\$9,465	\$11,316		

(a) The three month period ended June 30, 2012 includes a \$3.9 million charge to earnings for out of period costs in Mexico.

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	Six Months Ended		Net Sales % Change	
	June 30, 2013	June 30, 2012		
Segment Net Sales				
Specialty Phosphates US & Canada	\$ 310,045	\$ 287,865	7.7	%
Specialty Phosphates Mexico	82,285	98,728	(16.7)%
Total Specialty Phosphates	392,330	386,593	1.5	%
GTSP & Other	35,287	55,839	(36.8)%
Total	\$ 427,617	\$ 442,432	(3.3)%
Segment Operating Income				
Specialty Phosphates US & Canada	\$ 34,551	\$ 47,503		
Specialty Phosphates Mexico	1,990	14,796		
Total Specialty Phosphates	36,541	62,299		
GTSP & Other (a) (b)	3,514	2,123		
Total	\$ 40,055	\$ 64,422		
Segment Operating Income % of net sales				
Specialty Phosphates US & Canada	11.1	% 16.5	%	
Specialty Phosphates Mexico	2.4	% 15.0	%	
Total Specialty Phosphates	9.3	% 16.1	%	
GTSP & Other (a) (b)	10.0	% 3.8	%	
Total	9.4	% 14.6	%	
Depreciation and amortization expense				
Specialty Phosphates US & Canada	\$ 13,572	\$ 11,548		
Specialty Phosphates Mexico	4,076	7,563		
Total Specialty Phosphates	\$ 17,648	19,111		
GTSP & Other	1,203	2,444		
Total	\$ 18,851	\$ 21,555		

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

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

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

Segment Net Sales:

Specialty Phosphates US & Canada net sales increased 8.7% for the three months ended June 30, 2013 when compared with the same period in 2012. Volumes increased 9.8% due to a benefit of 6.8% from the AMT and Triarco acquisitions and 3.0% growth from the core business, due to success on geographical expansion and product innovation growth strategies, while average selling prices decreased by 1.1% due to sales mix which improved from the first quarter 2013 but was still not at prior year levels.

Specialty Phosphates Mexico net sales decreased 9.3% for the three months ended June 30, 2013 when compared with the same period in 2012. Volumes decreased 5.4% as the business experienced continued operating issues early in the quarter which limited production and sales. Selling prices decreased 3.9% primarily from a price reset upon the renewal of a long term contract and declines in the less differentiated detergent grade products.

GTSP & Other net sales decreased 46.5% for the three months ended June 30, 2013 when compared with the same period in 2012. Volumes decreased 46.0% and selling prices decreased 0.5% under weak fertilizer market conditions that did not reflect the typical spring acceleration in market fertilizer prices and demand.

Segment Operating Income Percentage of Net Sales:

The 100 basis point increase in Specialty Phosphates US & Canada for the three months ended June 30, 2013 compared with the same period in 2012 is primarily due to higher volumes which added 80 basis points, lower fixed costs which added 50 basis points, lower depreciation expense on the core business which added 50 basis points and lower selling prices which decreased margins by 100 basis points.

The 1,480 basis point decrease in Specialty Phosphates Mexico for the three months ended June 30, 2013 compared with the same period in 2012 is primarily due to higher cost of goods sold for manufacturing issues and a revision of estimates for phosphate rock inventories which decreased margins by 940 basis points. Lower selling prices decreased margins by 340 basis points and lower sales volumes decreased margins by 180 basis points.

The 1,500 basis point decrease in GTSP & Other for the three months ended June 30, 2013 compared with the same period in 2012 is primarily due to lower sales volumes which decreased margins by 1,520 basis points.

Overall raw material cost effects for all segments were insignificant when compared against the year ago period.

Six months ended June 30, 2013 compared to the six months ended June 30, 2012

Segment Net Sales:

Specialty Phosphates US & Canada net sales increased 7.7% for the six months ended June 30, 2013 when compared with the same period in 2012. Volumes increased 8.5% due to a benefit of 7.0% from the AMT and Triarco acquisitions and 1.5% growth from the core business, due to success on geographical expansion and product innovation growth strategies. Selling prices decreased by 0.8% due primarily to sales mix.

Specialty Phosphates Mexico net sales decreased 16.7% for the six months ended June 30, 2013 when compared with the same period in 2012. Volumes decreased 12.5% as the business experienced operating issues in the period which limited production and sales. Selling prices decreased 4.2% primarily from a price reset upon the renewal of a long term contract and declines in the less differentiated detergent grade products.

GTSP & Other net sales decreased 36.8% for the six months ended June 30, 2013 when compared with the same period in 2012. Volumes decreased 33.7% and selling prices decreased 3.1% .

Segment Operating Income Percentage of Net Sales:

The 540 basis point decrease in Specialty Phosphates US & Canada for the six months ended June 30, 2013 compared with the same period in 2012 is primarily due to increased costs of goods sold in 2013 compared to an inventory lag benefit in the first quarter 2012 which decreased margins by 290 basis points, elevated cost of goods sold in the first quarter 2013 for revisions in inventory accounting estimates, an out of period adjustment related to a long term supply agreement, demurrage on raw material purchases and acquisition accounting expenses which decreased margins by 190 basis points, and lower selling prices which decreased margins by 70 basis points.

The 1,260 basis point decrease in Specialty Phosphates Mexico for the six months ended June 30, 2013 compared with the same period in 2012 is primarily due to higher cost of goods sold for manufacturing issues and a revision of estimates for

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phosphate rock inventories which decreased margins by 760 basis points. Lower sales volume effects were offset by lower depreciation expenses. Lower selling prices decreased margins by 380 basis points which was partially offset by lower raw material costs, primarily from lower rock and sulfur market prices, which increased margins by 460 basis points. Higher plant fixed costs decreased margins by 590 basis points.

The 620 basis point increase in GTSP & Other for the six months ended June 30, 2013 compared with the same period in 2012 is primarily due to lower raw material costs, mainly from lower rock and sulfur market prices, which increased margins by 440 basis points. Lower manufacturing fixed costs increased margins by 330 basis points and lower depreciation added 210 basis points. Lower selling prices decreased margin by 300 basis points and lower volumes decreased margins by 80 basis points.

Liquidity and Capital Resources

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

(Dollars in millions)	Six months ended	
	June 30, 2013	June 30, 2012
Operating Activities	\$43.7	\$73.4
Investing Activities	(15.9	) (10.5
Financing Activities	(22.3	) (28.0

Six months ended June 30, 2013 compared to six months ended June 30, 2012

Net cash provided by operating activities was \$43.7 million for the six months ended June 30, 2013 as compared to \$73.4 million for 2012, a decrease of \$29.7 million. The decrease in operating activities cash resulted from unfavorable changes of 20.1 million in net income as described earlier, \$8.3 million in working capital and \$1.6 million in non-cash adjustments to income, partially offset by a favorable change of \$0.3 million in other long term assets and liabilities.

The unfavorable change in working capital is derived from it being a source of cash of \$0.7 million in 2013 compared to a source in 2012 of \$9.0 million, a decrease in cash of \$8.3 million. Collections improved on the backlog of value added tax, or VAT, refunds due the Company from the Mexican government; however, this was offset by less cash generation from inventory movements due to increased requirements in Mexico to support improved production performance. Accounts receivable was a \$7.5 million use of cash in 2013 compared to a \$6.3 million source of cash in 2012, but remained at a consistent trend as a percent of quarterly sales, when adjusted for GTSP open accounts receivable of \$1.6 million, \$15.3 million and \$4.3 million as of June 30, 2013, March 31, 2013 and December 31, 2012, respectively.

Net cash used for investing activities was \$15.9 million for the six months ended June 30, 2013, compared to \$10.5 million for 2012 an increase in spending of \$5.4 million. The change is mainly due to \$5.5 million higher capital spending at our Coatzacoalcos, Mexico manufacturing facility as we continue to make investments to improve the business.

Management projects total 2013 capital expenditures to be approximately \$35-40 million. Investment continues to be focused on capacity enhancements for US/Canada and Mexico Specialty Ingredients facilities, expanding geographically and enhancing Mexico's capability to process multiple grades of rock, consistent with the Company's supply chain diversification strategy. In addition, the Company has a planned sulfuric maintenance outage at our Coatzacoalcos, Mexico manufacturing facility in the third quarter which will cost \$2-3 million.

Innophos currently estimates that full exploration costs to a proven reserves standard for its Baja California mining concessions could require expenditures of \$10 to \$15 million over a period, currently estimated at three to five years, inclusive of expenditures to date. This estimate includes mineral rights payments, taxes, mineral resource measurement, beneficiation process design and completion of feasibility studies. Full expenditures would only occur if interim milestone goals were successfully attained. Combined 2010 through 2012 expenditures on the exploration of the Baja California Sur concession deposits were approximately \$3.1 million, and management currently expects to

spend at a similar annual trend rate in 2013. Spending is expected to increase in 2014 by \$2-3 million above the previous annual trend rate to accelerate evaluations of the Santo Domingo concession. Innophos intends to seek one or more partners for these efforts, but anticipates no difficulties in completing the exploration phase without a partnership.

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Net cash from financing activities for the six months ended June 30, 2013, was a use of \$22.3 million, compared to a use of \$28.0 million in 2012, a decrease in the use of cash of \$5.7 million. This was due to \$23.0 million increased loan borrowings partially offset by \$12.0 million higher loan repayments, \$4.0 million higher dividend payments, and \$1.3 million lower excess tax benefits from exercise of stock options.

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

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

On June 30, 2013, the Company had cash and cash equivalents outside the United States of \$24.3 million, or 75% of the Company's balance. Further, the foreign cash amounts are not restricted by law to be used in other countries. Our current operating plan does not include repatriation of any of the cash and cash equivalents held outside the United States to fund the United States operations. However, in the event we do repatriate cash and cash equivalents held outside of the United States, we may be required to accrue and pay United States taxes to repatriate these funds. The Company's available financial resources allow for the continuation of dividend payments, pursuit of several "bolt-on" acquisition projects and further geographic expansion initiatives. We further believe that on-hand cash combined with cash generated from operations, including our Mexican operations, and availability under our revolving line of credit, will be sufficient to meet our obligations such as debt service, tax payments, capital expenditures and working capital requirements for at least the next twelve months. We expect to fund all these obligations through our existing cash and our future operating cash flows. However, future operating performance for the Company is subject to prevailing economic and competitive conditions and various other factors that are uncertain. If the cash flows and other capital resources available to the Company, such as its revolving loan facility, are insufficient to fund our debt and other liquidity needs, the Company may have to take alternative actions that differ from current operating plans.

Critical Accounting Estimates and Policies

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

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

At June 30, 2013, we had \$98 million principal amount of variable-rate debt and a \$225.0 million revolving credit facility, of which \$70.0 million was outstanding, both of which approximate fair value, determined using level 2 inputs within the fair value hierarchy. Total remaining availability was \$153.1 million, taking into account \$1.9 million in face amount of letters of credit issued under the sub-facility. Simultaneously with initiating the new senior facility, Innophos entered into an interest rate swap, swapping the LIBOR exposure on \$100.0 million of floating rate debt with a fixed rate of 0.9475% plus the applicable margin on the debt expiring in December 2017. This interest rate swap has been designated as a cashflow hedge (Level 2) with the changes in value recorded through other comprehensive income. The fair value of this interest rate swap is an asset of approximately 1.4 million as of June 30, 2013.

Changes in economic conditions could result in higher interest rates, thereby increasing our interest expense on our revolving line of credit. Changes in economic conditions may also result in lower operating income, reducing our funds available for capital investment, operations or other purposes. In addition, a substantial portion of our cash flow has been used to service debt and fund working capital needs, which may affect our ability to make future acquisitions or capital expenditures. We may from time to time use interest rate protection agreements to minimize our exposure to interest rate fluctuation. Regardless of hedges, we may experience economic loss and a negative impact on earnings or net assets as a result of interest rate fluctuations. Based on \$70.0 million outstanding borrowings as floating rate debt (not included in the swap) under our revolving credit facility, an immediate increase of one percentage point would cause an increase to interest expense of approximately \$0.7 million per year.

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

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

Foreign Currency Exchange Rates

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

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

Inflation and changing prices

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

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Off-Balance Sheet Arrangements

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

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Control and Procedures

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

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

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

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during or with respect to the second quarter of 2013 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

ITEM 1. LEGAL PROCEEDINGS

Note 12 of Notes to Consolidated Condensed Financial Statements in "Item 1. Financial Statements" contained in this Quarterly Report on Form 10-Q is incorporated herein by reference.

ITEM 1A. RISK FACTORS

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

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

Exhibit No.	Description
31.1	Certification of Principal Executive Officer dated July 31, 2013 pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer dated July 31, 2013 pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Principal Executive Officer dated July 31, 2013 pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Principal Financial Officer dated July 31, 2013 pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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

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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.

By: /s/ Randolph Gress
Randolph Gress
Its: Chief Executive Officer and Director
(Principal Executive Officer)

Dated: July 31, 2013

INNOPHOS HOLDINGS, INC.

By: /s/ Mark Feuerbach
Mark Feuerbach
Its: Vice President and Chief Financial Officer
(Principal Financial Officer)

Dated: July 31, 2013

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EXHIBIT INDEX

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