

INNOSPEC INC.
Form 10-Q
May 06, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2015

or

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

For the transition period from _____ to _____

Commission file number 1-13879

INNOSPEC INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

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

8310 South Valley Highway

Suite 350

Englewood

Colorado
(Address of principal executive offices)

80112
(Zip Code)

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

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

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

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

Large accelerated filer Accelerated filer

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

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

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

Class	Outstanding as of April 30, 2015
Common Stock, par value \$0.01	24,240,306

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CAUTIONARY STATEMENT RELATIVE TO FORWARD-LOOKING STATEMENTS

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

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

(in millions, except share and per share data)	Three Months Ended March 31	
	2015	2014
Net sales	\$ 269.2	\$ 220.7
Cost of goods sold	(187.4)	(155.0)
Gross profit	81.8	65.7
Operating expenses:		
Selling, general and administrative	(48.7)	(42.0)
Research and development	(6.2)	(5.7)
Adjustment to fair value of contingent consideration	(3.5)	0.0
Total operating expenses	(58.4)	(47.7)
Operating income	23.4	18.0
Other net income	1.5	1.9
Interest expense, net	(1.0)	(0.9)
Income before income taxes	23.9	19.0
Income taxes	(6.0)	(2.1)
Net income	\$ 17.9	\$ 16.9
Earnings per share:		
Basic	\$ 0.74	\$ 0.69
Diluted	\$ 0.72	\$ 0.69
Weighted average shares outstanding (in thousands):		
Basic	24,301	24,362
Diluted	24,808	24,635

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

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INNOSPEC INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(in millions)	Three Months Ended	
	March 31	
	2015	2014
Net income	\$ 17.9	\$ 16.9
Other comprehensive income/(loss):		
Changes in cumulative translation adjustment	(8.0)	(1.2)
Amortization of prior service credit, net of tax of \$0.1, and \$0.1, respectively	(0.2)	(0.3)
Amortization of actuarial net losses, net of tax of \$(0.3), and \$(0.3), respectively	1.0	1.1
Total other comprehensive loss	(7.2)	(0.4)
Total comprehensive income	\$ 10.7	\$ 16.5

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

Table of Contents**INNOSPEC INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(in millions, except share and per share data)	March 31, 2015 (Unaudited)	December 31, 2014
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 46.5	\$ 41.6
Short-term investments	5.2	4.7
Trade and other accounts receivable (less allowances of \$3.7 and \$3.9, respectively)	147.7	164.3
Inventories (less allowances of \$9.8 and \$10.2, respectively):		
Finished goods	114.4	127.0
Work in progress	2.0	1.2
Raw materials	59.6	56.7
Total inventories	176.0	184.9
Current portion of deferred tax assets	8.4	8.4
Prepaid expenses	6.6	8.3
Prepaid income taxes	1.0	2.0
Total current assets	391.4	414.2
Property, plant and equipment:		
Gross cost	185.7	187.0
Less accumulated depreciation	(105.7)	(106.2)
Net property, plant and equipment	80.0	80.8
Goodwill	275.9	276.1
Other intangible assets	178.6	181.1
Deferred finance costs	0.9	1.1
Deferred tax assets, net of current portion	0.7	0.7
Pension asset	48.9	45.2
Other non-current assets	0.4	0.7
Total assets	\$ 976.8	\$ 999.9

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

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INNOSPEC INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS - (Continued)

(in millions, except share and per share data)	March 31, 2015 (Unaudited)	December 31, 2014
<u>Liabilities and Stockholders Equity</u>		
Current liabilities:		
Accounts payable	\$ 59.4	\$ 87.6
Accrued liabilities	71.9	77.2
Current portion of long-term debt	0.2	0.4
Current portion of finance leases	0.6	0.5
Current portion of plant closure provisions	4.9	5.7
Current portion of accrued income taxes	4.8	5.6
Current portion of acquisition-related contingent consideration	47.3	45.7
Current portion of deferred income	0.2	0.2
Total current liabilities	189.3	222.9
Long-term debt, net of current portion	139.0	139.0
Finance leases, net of current portion	2.3	1.7
Plant closure provisions, net of current portion	29.4	28.4
Unrecognized tax benefits, net of current portion	6.3	6.2
Deferred tax liabilities, net of current portion	25.3	23.0
Pension liability	9.3	10.4
Acquisition-related contingent consideration	51.4	49.5
Deferred income, net of current portion	0.8	0.9
Other non-current liabilities	1.6	2.0
Total liabilities	454.7	484.0
Stockholders equity:		
Common stock, \$0.01 par value, authorized 40,000,000 shares, issued 29,554,500 shares	0.3	0.3
Additional paid-in capital	308.9	308.8
Treasury stock (5,291,396 and 5,263,481 shares at cost, respectively)	(83.3)	(78.7)
Retained earnings	409.7	391.8
Accumulated other comprehensive loss	(113.5)	(106.3)
Total stockholders equity	522.1	515.9
Total liabilities and stockholders equity	\$ 976.8	\$ 999.9

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

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INNOSPEC INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in millions)	Three Months Ended	
	March 31	
	2015	2014
<u>Cash Flows from Operating Activities</u>		
Net income	\$ 17.9	\$ 16.9
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8.5	7.4
Adjustment to fair value of contingent consideration	3.5	0.0
Deferred taxes	1.1	0.4
Excess tax benefit from stock-based payment arrangements	(0.7)	(0.2)
Cash contributions to defined benefit pension plans	(2.7)	(2.9)
Non-cash expense of defined benefit pension plans	0.2	1.0
Stock option compensation	0.9	0.6
Changes in assets and liabilities, net of effects of acquired and divested companies:		
Trade and other accounts receivable	14.1	14.2
Inventories	6.4	(1.1)
Prepaid expenses	1.5	1.5
Accounts payable and accrued liabilities	(33.1)	(21.4)
Accrued income taxes	0.2	8.0
Plant closure provisions	0.5	0.3
Unrecognized tax benefits	0.1	(4.0)
Other non-current assets and liabilities	(0.2)	0.2
Net cash provided by operating activities	18.2	20.9
<u>Cash Flows from Investing Activities</u>		
Capital expenditures	(3.4)	(2.3)
Internally developed software	(2.7)	(1.5)
Purchase of short-term investments	(1.8)	(1.2)
Sale of short-term investments	1.1	2.0
Net cash used in investing activities	(6.8)	(3.0)
<u>Cash Flows from Financing Activities</u>		
Repayments of revolving credit facility	0.0	(8.0)
Repayments of term loans	(0.2)	(0.3)
Excess tax benefit from stock-based payment arrangements	0.7	0.2
Issue of treasury stock	0.7	0.3
Repurchase of common stock	(6.3)	(0.2)
Net cash used in financing activities	(5.1)	(8.0)

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Effect of foreign currency exchange rate changes on cash	(1.4)	0.0
Net change in cash and cash equivalents	4.9	9.9
Cash and cash equivalents at beginning of period	41.6	80.2
Cash and cash equivalents at end of period	\$ 46.5	\$ 90.1

Amortization of deferred finance costs of \$0.2 million (2014 \$0.2 million) are included in depreciation and amortization in the cash flow statement but in interest expense in the income statement.

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

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INNOSPEC INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

(Unaudited)

(in millions)	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders Equity
Balance at December 31, 2014	\$ 0.3	\$ 308.8	\$ (78.7)	\$ 391.8	\$ (106.3)	\$ 515.9
Net income				17.9		17.9
Changes in cumulative translation adjustment					(8.0)	(8.0)
Treasury stock re-issued		(1.5)	1.7			0.2
Treasury stock repurchased			(6.3)			(6.3)
Excess tax benefit from stock-based payment arrangements		0.7				0.7
Stock option compensation		0.9				0.9
Amortization of prior service credit, net of tax					(0.2)	(0.2)
Amortization of actuarial net losses, net of tax					1.0	1.0
Balance at March 31, 2015	\$ 0.3	\$ 308.9	\$ (83.3)	\$ 409.7	\$ (113.5)	\$ 522.1

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

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INNOSPEC INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 BASIS OF PRESENTATION

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

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

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

We have reclassified certain prior period amounts to conform to the current period presentation.

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

Table of Contents**NOTE 2 SEGMENTAL REPORTING**

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

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

(in millions)	Three Months Ended	
	March 31	
	2015	2014
Net sales:		
Fuel Specialties	\$ 199.4	\$ 164.2
Performance Chemicals	57.6	56.1
Octane Additives	12.2	0.4
	\$ 269.2	\$ 220.7
Gross profit:		
Fuel Specialties	\$ 61.5	\$ 52.0
Performance Chemicals	14.5	13.6
Octane Additives	5.8	0.1
	\$ 81.8	\$ 65.7
Operating income:		
Fuel Specialties	\$ 23.5	\$ 25.8
Performance Chemicals	6.4	6.5
Octane Additives	5.1	(1.2)
Pension charge	0.0	(0.8)
Corporate costs	(8.1)	(12.3)
Fair value of contingent consideration	(3.5)	0.0
Total operating income	\$ 23.4	\$ 18.0

Restructuring charges separately disclosed in prior periods have been reclassified to corporate costs. We have reclassified the prior period amounts to conform to the current period presentation.

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

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

(in millions)	Three Months Ended March 31	
	2015	2014
Depreciation:		
Fuel Specialties	\$ 1.9	\$ 1.2
Performance Chemicals	0.8	0.9
Octane Additives	0.1	0.1
Corporate	0.4	0.6
	\$ 3.2	\$ 2.8
Amortization:		
Fuel Specialties	\$ 3.2	\$ 2.2
Performance Chemicals	1.0	1.3
Corporate	0.9	0.9
	\$ 5.1	\$ 4.4

NOTE 3 EARNINGS PER SHARE

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

	Three Months Ended March 31	
	2015	2014
Numerator (in millions):		
Net income available to common stockholders	\$ 17.9	\$ 16.9
Denominator (in thousands):		
Weighted average common shares outstanding	24,301	24,362
Dilutive effect of stock options and awards	507	273
Denominator for diluted earnings per share	24,808	24,635
Net income per share, basic:	\$ 0.74	\$ 0.69
Net income per share, diluted:	\$ 0.72	\$ 0.69

In the three months ended March 31, 2015, the average number of anti-dilutive options excluded from the calculation of diluted earnings per share were 33,734 (three months ended March 31, 2014 - 8,049).

Table of Contents**NOTE 4 GOODWILL**

The following table summarizes goodwill at the balance sheet dates:

(in millions)	March 31, 2015	December 31, 2014
Gross cost ⁽¹⁾	\$ 512.4	\$ 512.6
Accumulated impairment losses	(236.5)	(236.5)
Net book amount	\$ 275.9	\$ 276.1

⁽¹⁾ Gross cost for 2015 and 2014 is net of \$298.5 million of historical accumulated amortization. The movement in gross cost for the period is due to foreign currency translation.

NOTE 5 OTHER INTANGIBLE ASSETS

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

(in millions)	Three Months Ended March 31	
	2015	2014
Gross cost at January 1	\$ 247.6	\$ 175.5
Capitalization of internally developed software	2.7	1.5
Exchange effect	(0.1)	0.0
Gross cost at March 31	250.2	177.0
Accumulated amortization at January 1	(66.5)	(48.7)
Amortization expense	(5.1)	(4.4)
Exchange effect	0.0	0.1
Accumulated amortization at March 31	(71.6)	(53.0)
Net book amount at March 31	\$ 178.6	\$ 124.0

Capitalization of internally developed software

We are continuing with the implementation of our new, company-wide, information system platform. At March 31, 2015, we had capitalized \$30.5 million (2014 \$20.1 million) in relation to this internally developed software.

Amortization expense

(in millions)	Three Months Ended	
	March 31	
	2015	2014
Product rights	\$ (0.9)	\$ (1.0)
Brand names	(0.3)	(0.1)
Technology	(0.9)	(0.6)
Customer relationships	(1.7)	(1.3)
Patents	0.0	(0.1)
Non-compete agreements	(0.2)	(0.2)
Marketing related	(0.2)	(0.2)
Internally developed software	(0.9)	(0.9)
Total	\$ (5.1)	\$ (4.4)

Table of Contents**NOTE 6 PENSION PLANS**

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

(in millions)	Three Months Ended March 31	
	2015	2014
Plan net pension credit/(charge):		
Service cost	\$ (0.4)	\$ (0.4)
Interest cost on projected benefit obligation	(7.0)	(8.7)
Expected return on plan assets	8.4	9.3
Amortization of prior service credit	0.3	0.4
Amortization of actuarial net losses	(1.3)	(1.4)
	\$ 0.0	\$ (0.8)

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

The Company also maintains an unfunded defined benefit pension plan covering a number of its current and former employees in Germany (the German plan). The German plan is closed to new entrants and has no assets. The net pension charge for the German plan was \$0.2 million in the first quarter of 2015 (\$0.2 million - 2014).

NOTE 7 INCOME TAXES

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

(in millions)	Unrecognized Tax Benefits	Interest and Penalties	Total
	Opening balance at January 1, 2015	\$ 5.7	\$ 0.5
Additions for tax positions of prior periods	0.0	0.1	0.1
Closing balance at March 31, 2015	5.7	0.6	6.3
Current	0.0	0.0	0.0
Non-current	\$ 5.7	\$ 0.6	\$ 6.3

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

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

The Company or one of its subsidiaries files income tax returns with the U.S. federal government, and various state and foreign jurisdictions. One of the Company's U.S. subsidiaries received notification in March 2015 of a federal income tax examination by the IRS in respect of 2013. It is currently anticipated that adjustments, if any, arising out of this tax audit would not result in a material change to the Company's financial position as at March 31, 2015.

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

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

NOTE 8 LONG-TERM DEBT

Long-term debt consists of the following:

(in millions)	March 31, 2015	December 31, 2014
Revolving credit facility	\$ 139.0	\$ 139.0
Other long-term debt	0.2	0.4
	139.2	139.4
Less current portion	(0.2)	(0.4)
	\$ 139.0	\$ 139.0

NOTE 9 PLANT CLOSURE PROVISIONS

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

Movements in the provisions are summarized as follows:

**Three Months Ended
March 31**

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(in millions)	2015	2014
Total at January 1	\$ 34.1	\$ 32.4
Charge for the period	1.1	0.7
Utilized in the period	(0.5)	(0.4)
Exchange effect	(0.4)	0.0
Total at March 31	34.3	32.7
Due within one year	(4.9)	(5.4)
Due after one year	\$ 29.4	\$ 27.3

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

NOTE 10 FAIR VALUE MEASUREMENTS

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

(in millions)	March 31, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Non-derivatives:				
Cash and cash equivalents	\$ 46.5	\$ 46.5	\$ 41.6	\$ 41.6
Short-term investments	5.2	5.2	4.7	4.7
Liabilities				
Non-derivatives:				
Long-term debt (including current portion)	\$ 139.2	\$ 139.2	\$ 139.4	\$ 139.4
Finance leases (including current portion)	2.9	2.9	2.2	2.2
Derivatives (Level 1 measurement):				
Other non-current liabilities:				
Foreign currency forward exchange contracts	1.5	1.5	1.8	1.8
Non-financial liabilities (Level 3 measurement):				
Acquisition-related contingent consideration	98.7	98.7	95.2	95.2
Stock equivalent units	5.2	5.2	7.2	7.2

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

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

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

Derivatives: The fair value of derivatives relating to interest rate swaps, foreign currency forward exchange contracts and commodity swaps are derived from current settlement prices and comparable contracts using current assumptions. Foreign currency forward exchange contracts primarily relate to contracts entered into to hedge future known transactions or hedge balance sheet net cash positions. The movements in the carrying amounts and fair values of these contracts are largely due to changes in exchange rates against the U.S. dollar.

Acquisition-related contingent consideration: Contingent consideration payable in cash is discounted to its fair value. Where contingent consideration is dependent upon pre-determined financial targets, an estimate of the fair value of the likely consideration payable is made on a quarterly basis.

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

NOTE 11 DERIVATIVE INSTRUMENTS AND RISK MANAGEMENT

The Company enters into various foreign currency forward exchange contracts to minimize currency exchange rate exposure from expected future cash flows. As at March 31, 2015 the contracts have maturity dates of up to eighteen months at the date of inception. These foreign currency forward exchange contracts have not been designated as hedging instruments, and their impact on the income statement for the first three months of 2015 was a gain of \$1.9 million.

NOTE 12 COMMITMENTS AND CONTINGENCIES

Legal matters

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

Guarantees

The Company and certain of the Company's consolidated subsidiaries are contingently liable for certain obligations of affiliated companies primarily in the form of guarantees of debt and performance under contracts entered into as a normal business practice. This includes guarantees of non-U.S. excise taxes and customs duties. As at March 31, 2015, such guarantees which are not recognized as liabilities in the consolidated financial statements amounted to \$3.7 million.

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

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

NOTE 13 STOCK-BASED COMPENSATION PLANS

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

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The following table summarizes the transactions of the Company's stock option plans for the three months ended March 31, 2015:

	Number of Options	Weighted Average Exercise Price	Weighted Average Grant-Date Fair Value
Outstanding at December 31, 2014	728,640	\$ 19.55	
Granted - at discount	54,717	\$ 0.00	\$ 36.18
- at market value	23,550	\$ 43.95	\$ 9.89
Exercised	(113,920)	\$ 6.25	
Forfeited	(3,931)	\$ 16.49	
Outstanding at March 31, 2015	689,056	\$ 20.96	

At March 31, 2015, there were 115,793 stock options that were exercisable, of which 39,000 had performance conditions attached.

The stock option compensation cost for the first three months of 2015 was \$0.9 million (2014 \$0.6 million). The total intrinsic value of options exercised in the first three months of 2015 was \$2.0 million (2014 \$0.5 million).

The total compensation cost related to non-vested stock options not yet recognized at March 31, 2015 was \$5.7 million and this cost is expected to be recognized over the weighted-average period of 2.34 years.

Stock equivalent units

The following table summarizes the transactions of the Company's SEUs for the three months ended March 31, 2015:

	Number of SEUs	Weighted Average Exercise Price	Weighted Average Grant-Date Fair Value
Outstanding at December 31, 2014	286,563	\$ 3.41	
Granted - at discount	69,280	\$ 0.00	\$ 36.65
- at market value	6,336	\$ 43.95	\$ 9.89
Exercised	(81,695)	\$ 2.31	
Forfeited	(1,495)	\$ 29.56	
Outstanding at March 31, 2015	278,989	\$ 3.67	

At March 31, 2015 there were 73,890 SEUs that are exercisable, of which 63,838 had performance conditions attached.

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

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The SEU compensation cost for the first three months of 2015 was \$1.0 million (2014 - \$0.6 million). The total intrinsic value of SEUs exercised in the first three months of 2015 was \$1.9 million (2014 - \$3.0 million).

The weighted-average remaining vesting period of non-vested SEUs is 2.03 years.

Additional exceptional long-term incentive plan

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

(in millions)	2015	2014
Balance at January 1	\$ 0.1	\$ 0.0
Compensation charge for the period	0.1	0.1
Balance at March 31	\$ 0.2	\$ 0.1

The following assumptions were used in the Monte Carlo model at March 31:

	2015	2014
Dividend yield	1.19%	1.11%
Volatility of Innospec's share price	25.91%	36.04%
Risk free interest rate	0.89%	0.90%

NOTE 14 RECLASSIFICATIONS OUT OF ACCUMULATED OTHER COMPREHENSIVE LOSS

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