

# REVITALIZED FOR GROWTH



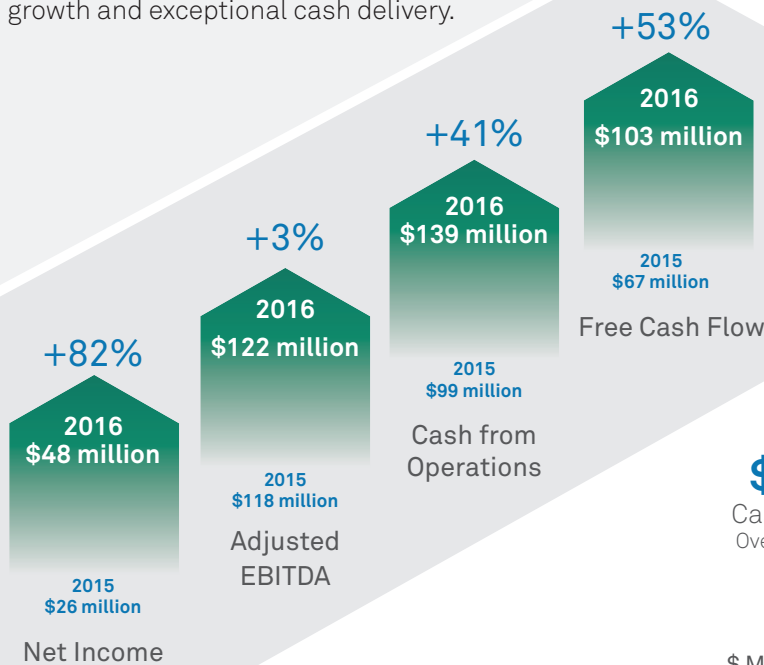
# Innophos is a global specialty ingredient producer with strong cash delivery, an attractive EBITDA profile and \$725m in revenue in 2016.

## Growth Across Key Metrics Despite Topline Pressure

Despite an 8% decline in sales in 2016, Innophos delivered very strong net income and Adjusted EBITDA growth and exceptional cash delivery.

Innophos provides specialty ingredients that deliver far-reaching, versatile benefits for the Food, Health, Nutrition and Industrial markets. We leverage our expertise in the science and technology of blending and formulating phosphate, mineral and botanical based ingredients to help our customers offer products that are tastier, healthier, more sustainable, nutritious and economical.

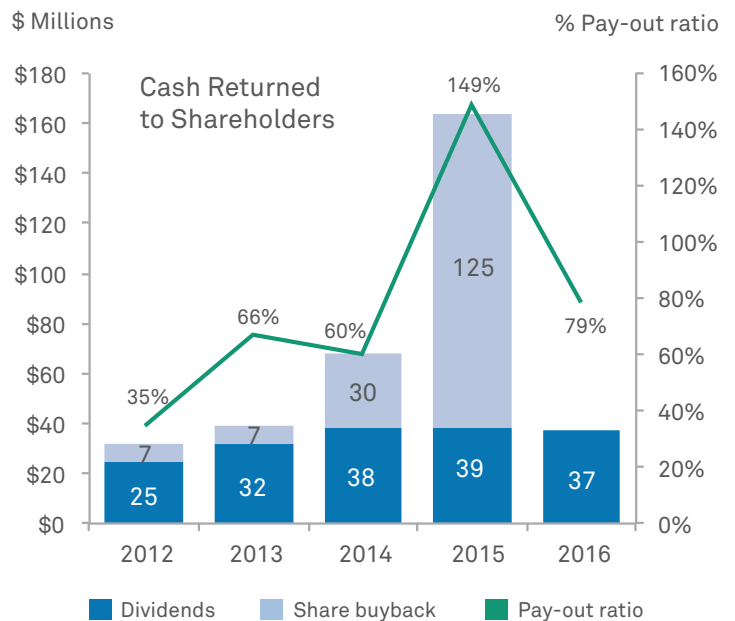
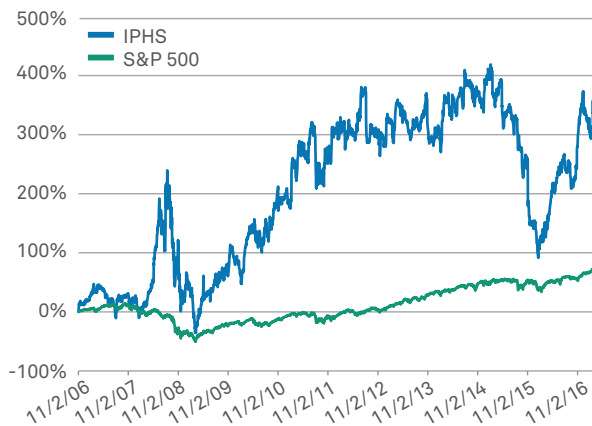
For more information please visit [www.innophos.com](http://www.innophos.com).



## Solid Cash Generation Supports Strong Shareholder Returns



## Cumulative Return Comparison



For GAAP to non-GAAP reconciliations, please see the tables in the Company's latest Earnings Results Press Release available at [www.innophos.com](http://www.innophos.com).

### Safe Harbor for Forward-Looking and Cautionary Statements

This 2016 Annual Report contains forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, that involve substantial risks and uncertainties. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from the information expressed or implied by these forward-looking statements. Although we believe that we have a reasonable basis for each forward-looking statement contained in this 2016 Annual Report, we caution you that these statements are based on a combination of facts and factors currently known by us and our expectations of the future, about which we cannot be certain. The forward-looking statements in this 2016 Annual Report may include, among other things, statements about our plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions, the demand for our products and services, the markets in which we compete and other information that is not historical information. You should read this 2016 Annual Report in conjunction with our Annual Report on Form 10-K provided herewith. You should refer to "Part I, Item 1A. Risk Factors" of our Annual Report on Form 10-K for a discussion of important factors that may cause our actual results to differ materially from those expressed or implied by our forward-looking statements. As a result of these factors, we cannot assure you that the forward-looking statements in this 2016 Annual Report will prove to be accurate. If our forward-looking statements prove to be inaccurate, the inaccuracy may be material. In light of the significant uncertainties in these forward-looking statements, you should not regard these statements as a representation or warranty by us or any other person that we will achieve our objectives and plans in any specified time frame or at all. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. We qualify all of our forward-looking statements by these cautionary statements.

Unless the context otherwise indicates, all references in this 2016 Annual Report to the "Company," "Innophos," "we," "us" or "our" or similar words are to Innophos Holdings, Inc. and its consolidated subsidiaries.



## Dear Shareholders,

2016 was an important and transformative year for Innophos. By focusing on the factors that we could control and executing against our three strategic pillars of Operational Excellence, Commercial Excellence and Strategic Growth, we strengthened the foundation of our business, delivered significant bottom line improvement and laid the groundwork for long-term growth.

The highlight of 2016 was the success we achieved in driving higher profitability -- including an 82% increase in net income and 3% adjusted EBITDA improvement -- and exceptional cash delivery, with free cash flow up 53% from the prior year. This was accomplished in the face of continued end market headwinds due to our focus on cost reductions, productivity improvements and efficient working capital. We owe this success to our dedicated employees, who have worked so hard, embraced our transformation, and displayed a deep commitment to excellence, transparency and accountability.

During the year, we made significant changes to the organization to strengthen our foundation. We brought new skill sets, fresh ideas and external best practices into the Company. Today you see a revitalized executive team with the depth and breadth of experience upon which we can effectively execute the initiatives around our three strategic pillars. We also made important organizational changes to better align our structure with strategic goals and position Innophos to be more profitable and competitive. Namely, we consolidated our Supply Chain, Purchasing, and Customer Service functions across the corporation, as well as our Marketing and Technology teams. This integrated approach allows us to more effectively leverage best-in-class processes and ensure a sustained focus on growth through customer responsiveness, market leadership, and innovation.

We made remarkable progress in getting the business fit by executing against our Operational Excellence initiatives. Through investments and improvements in our supply chain and purchasing processes, we achieved a \$44 million, or 26%, reduction in inventory for the year, and identified a procurement savings pipeline in the range of \$15 million to \$18 million from direct and indirect spend. \$12 million of these procurement savings were realized in the 2016 P&L and \$4 million is expected to be realized in 2017. We also accomplished several strategic goals, including completing our Commercial Excellence market-centric blueprint and customer segmentation that better align our sales organization with market opportunities and key customers. In addition, we delivered on the significant milestone of defining our Strategic Growth roadmap.

## The Path Forward: Food, Health and Nutrition

We are proud of our accomplishments in 2016, but we are not resting on our laurels as there is more work to be done. As we look ahead, although 2017 is expected to be a transition year, we believe it will be a meaningful one for Innophos. The guiding principle of our efforts this year will be to more deeply align Innophos with growing segments of the Food, Health and Nutrition markets.

Under Operational Excellence, we have moved into the second phase of initiatives where the focus is on yielding further bottom line savings by implementing a strategic purchasing process with an eye on logistics, packaging and MRO parts and labor. We expect these efforts will deliver an estimated \$13 million of identified cost savings.

Building on the changes made in 2016, we continue to adjust the structure of the organization to enhance our competitive market position. Under Operational Excellence, we are evolving to a center-led supply chain team that will maximize functional excellence in each discipline, with clear delineation of strategic and operational roles, and customer facing roles aligned with strategic end markets.

Under our Commercial Excellence pillar, we are executing against our new sales organization blueprint that will more deeply align our sales efforts with the end markets that we serve. In addition, based on our customer segmentation, we are implementing a new customer engagement strategy, whereby we will allocate resources to drive the organization to serve customers appropriately. This approach will help to accelerate top-line growth by getting closer to key accounts, while also delivering bottom line benefits through increased efficiency.

This brings us to our Strategic Growth pillar. Through the work we did in 2016, we now have a clearly defined long-term vision and strategic growth roadmap that will set the course for Innophos for the years to come. To realize our vision of transforming Innophos into a market-oriented growth company that provides a broad set of value-added and innovative technology-based vital ingredient solutions for the Food, Health, and Nutrition markets, our strategic growth roadmap has two clearly defined mandates that we

must execute against concurrently. First, we must transform our phosphate business to maintain our leadership position in the North American phosphate market and protect our cash-generating core base. Second, we must build meaningful growth through M&A. We are actively evaluating acquisition opportunities that will bring new value-add technologies to our portfolio and extend our presence into attractive, high growth Food, Health and Nutrition market adjacencies.

We are firing on all operational and strategic cylinders and are excited for what lies ahead for Innophos. We are proud of the progress that we have made in getting the foundation of our business fit while methodically putting our strategic growth plan in place. Although the core markets that we participate in today will continue to face headwinds this year, we are confident that we are taking the appropriate and decisive actions to enhance our profitability while concurrently positioning Innophos for sustained and revitalized growth.

In closing, I sincerely thank you, our shareholders, for your continued support of Innophos and our customers for their ongoing partnership. We look forward to new achievements and even greater success in 2017.

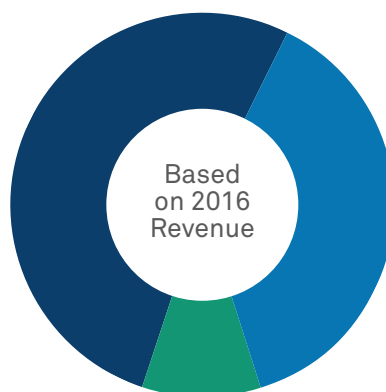
*Sincerely,*

Kim Ann Mink, Ph.D.  
Chairman, President and Chief Executive Officer  
April 3, 2017

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Market Leading Positions in the  
**Food, Health, Nutrition and  
Industrial Specialties Markets**

**52%**  
Food,  
Health &  
Nutrition



**38%**  
Industrial  
Specialties

**10%** Co-Products & Other

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON DC, 20549**

**FORM 10-K**

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

For the fiscal year ended December 31, 2016

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**INNOPHOS HOLDINGS, INC.**  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

**Delaware**  
(state or other jurisdiction  
of incorporation)

**001-33124**  
(Commission File number)

**20-1380758**  
(IRS Employer  
Identification No.)

**259 Prospect Plains Road**  
**Cranbury, New Jersey 08512**  
(Address of Principal Executive Officer, including Zip Code)

**(609) 495-2495**  
(Registrants' Telephone Number, Including Area Code)

**Not Applicable**  
(Former name or former address, if changed since last report)

**Securities registered pursuant to Section 12(b) of the Act:**

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$.001 per share	Nasdaq Global Select Market

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

**The aggregate market value of the voting common equity held by non-affiliates of the registrant was approximately \$0.8 billion as of June 30, 2016, the last business day of the Registrant's most recently completed second quarter (based on the Nasdaq Global Select Market closing price on that date).**

**As of February 17, 2017, the registrant had 19,458,064 shares of common stock outstanding.**

**DOCUMENTS INCORPORATED BY REFERENCE**

Document	Incorporated By Reference In Part No.
Portions of Innophos Holdings, Inc. Proxy Statement to be filed for its Annual Meeting of Stockholders to be held May 16, 2017	III (Items 10, 11, 12, 13 and 14)



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## FORWARD-LOOKING STATEMENTS

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

Although we believe that we have a reasonable basis for each forward-looking statement contained in this Annual Report on Form 10-K, we caution you that these statements are based on a combination of facts and factors currently known by us and our expectations of the future, about which we cannot be certain.

The forward-looking statements in this Annual Report on Form 10-K may include, among other things, statements about our plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions, the demand for our products and services, the markets in which we compete and other information that is not historical information.

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

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

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

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Unless the context otherwise indicates, all references in this Annual Report on Form 10-K to the “Company,” “Innophos,” “we,” “us” or “our” or similar words are to Innophos Holdings, Inc. and its consolidated subsidiaries. Innophos Holdings, Inc. is a Delaware corporation and was incorporated on July 15, 2004.

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This Annual Report on Form 10-K includes trademarks, service marks and trade names owned by us or other companies. All trademarks, service marks and trade names included in this Annual Report on Form 10-K are the property of their respective owners.

## PART I

### ITEM 1. BUSINESS

#### Our Company

Innophos is a leading international producer of specialty ingredient solutions that deliver versatile benefits for the food, health, nutrition and industrial markets. We leverage our expertise in the science and technology of blending and formulating phosphate, mineral, enzyme and botanical based ingredients to help our customers offer products that are tasty, healthy, nutritious and economical. Headquartered in Cranbury, New Jersey, Innophos has manufacturing operations across the United States, in Canada, Mexico and China.

Innophos combines more than a century of experience in specialty phosphate manufacturing with a broad range of other specialty nutritional ingredients. Utilizing our capabilities in consumer insight, research and product development and application expertise, we partner with our customers to provide differentiated product offerings that respond to consumer preferences and megatrends. We utilize this collaborative approach in order to attempt to generate market share gains for our customers.

Many of Innophos' products are application-specific compounds engineered to meet customer performance requirements and are often critical to the taste, texture, performance or nutritional content 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 and cleaning agents in toothpaste, and they also provide a wide range of nutritional fortification solutions for food, beverage and nutritional supplement manufacturers.

Over the past six years, Innophos has expanded its product offering to include botanical, enzyme and mineral based nutritional ingredients. Bioactive mineral ingredients are mineral based ingredients for food, beverage and dietary supplement end markets that are manufactured to be readily digestible. Innophos has always enjoyed a strong position in "macronutrients," such as calcium, magnesium and potassium that are required in relatively large amounts for a balanced diet. More recently, Innophos has built a strong position in "micronutrients", such as chromium, selenium, zinc and iron, small quantities of which are also essential to the human diet. As with the bioactive mineral ingredients, botanical and enzyme based specialty nutritional ingredients are important to Innophos' customers for their nutritional value, and mineral, botanical and specialty phosphate ingredients are often formulated together.

Innophos commenced operations as an independent company in August 2004 after purchasing its North American specialty phosphates business from affiliates of Rhodia, S.A., or Rhodia, which has been a part of Solvay S.A. since 2011. In November 2006, Innophos completed an initial public offering and listed its common stock for trading on the Nasdaq Global Select Market under the symbol "IPHS".

#### *Key Product Lines*

We have four principal product lines: (i) Specialty Ingredients; (ii) Food and Technical Grade Purified Phosphoric Acid, or PPA; (iii) Technical Grade Sodium Tripolyphosphate, or STPP, & Detergent Grade PPA and (iv) Granular Triple Super Phosphate, or GTSP, & Other. The first three product lines comprise our two Specialty Phosphates reporting segments, US & Canada and Mexico, with GTSP & Other reported separately in a third reporting segment.

In 2016, we achieved sales of \$725 million of which 93% can be attributed to our two Specialty Phosphates reporting segments, US & Canada and Mexico, and the remaining 7% to the GTSP & Other segment.

#### *Specialty Ingredients*

Specialty Ingredients are the most highly engineered products in our portfolio. Specialty ingredients consist of specialty phosphate salts, specialty phosphoric acids and a range of other mineral, enzyme and botanical based specialty ingredients. They have a wide range of applications such as flavor enhancers in beverages, electrolytes in sports drinks, texture modifiers in cheeses, leavening agents in baked goods, mineral and botanical sources for nutritional supplements, pharmaceutical excipients and abrasives in toothpaste. Specialty phosphoric acids are used in industrial applications such as asphalt modification and petrochemical catalysis.



The table below presents a list of the principal Specialty Ingredients sold by us in 2016:

<b>Product</b>	<b>Description/End-Use Application</b>
Sodium Aluminum Phosphate, Acidic and Basic (SALP)	Premier leavening agent for baking mixes, cakes, self-rising flours, baking powders, batter and breadings (acidic). Improves melting properties of cheese (basic).
Sodium Acid PyroPhosphate (SAPP)	Leavening agent for baking powders, doughnuts, and biscuits; inhibits browning in potatoes; provides moisture and color retention in poultry and meat.
Sodium HexaMetaPhosphate (SHMP)	Water treatment applications; anti-microbial and sequestrant utility in beverages; cheese emulsifier; improves tenderness in meat, seafood and poultry applications.
Monocalcium Phosphate (MCP)	Leavening agent in double-acting baking powder; acidulant; buffering agent.
Calcium Acid Pyrophosphate (CAPP)	Calcium based, slow acting, multifunctional leavening acid used in a wide variety of baked goods
Dicalcium Phosphate (DCP)	Toothpaste abrasive; leavening agent; calcium fortification.
Tricalcium Phosphate (TCP)	Calcium and phosphorus fortifier in food and beverage applications (e.g., orange juice, cereals, and cheese); flow aid; additive in expandable polystyrene.
Pharma Calcium Phosphates (A-Tab <sup>®</sup> , Di-Tab <sup>®</sup> , TriTab <sup>®</sup> , Nutra Tab <sup>™</sup> )	Excipients in vitamins, minerals, nutritional supplements and pharmaceuticals.
Ammonium Phosphates (MAP, DAP)	High-end fertilizer products for horticultural use; flame retardant; cigarette additives; culture nutrient.
Potassium Phosphates (TKPP, DKP, MKP, KTPP)	Water treatment; sports drinks; buffering agent; improves tenderness in meat, seafood and poultry applications; horticulture applications.
Specialty Acids (e.g., Polyacid) (including INNOVALT <sup>®</sup> )	Additive improving performance properties of asphalt.
Sodium Blends (e.g., Sodium Tripolyphosphate (STPP (food grade)))	Ingredient improving yield, tenderness, shelf life, moisture and color retention in meat, seafood and poultry applications.
Other (Sodium Bicarbonate, Tetrasodium Pyrophosphate (TSPP), Mono, Di, & Trisodium Phosphates (MSP, DSP, TSP))	Baking powders; gelling agent in puddings; cheese emulsifiers.
Organic mineral salts and blends including calcium, chromium, copper, iron, lithium, magnesium, manganese, phosphorous, potassium, selenium, strontium, vanadium, and zinc	Bioactive mineral nutrients used in a wide variety of fortified foods, beverages and dietary supplements.
Plant based botanical, enzyme and mineral nutrients	Fortification for food, beverage and sports nutrition.

Each salt or acid derivative typically has a number of different applications and end uses. For example, DCP can be used both as a leavening agent in bakery products and as an abrasive in oral care products. However, several food grade salts are unique to the end user in their particular finished product application. We often work directly with customers to tailor products to their required specifications.

The phosphates industry is highly competitive. Many of our products are viewed as basic ingredients that compete with virtually identical products and derivatives manufactured by other companies in the industry. The United States is a competitive market with several competitors importing products from overseas. Our major competitor in the downstream Specialty Ingredients market is Israel Chemicals Limited, or ICL, which is our principal competitor in the specialty phosphates industry. We also compete in the specialty phosphates industry with imports from Germany, Belgium, Israel, Russia, North Africa and China. Our nutritional ingredients business faces competition from a number of competitors as the industries in which we compete in connection with this business are less consolidated than the specialty phosphates industry.

### *Food and Technical Grade PPA*

Food and Technical Grade PPA are high purity forms of PPA, distinct from the agricultural-grade merchant green phosphoric acid, or MGA, used in fertilizer production. PPA is used to manufacture specialty phosphate salts and acids and is also used directly in beverage applications as a flavor enhancer and in water treatment applications. We also sell technical grade PPA in the merchant market to third-party phosphate derivative producers.

Our major PPA competitor is Potash Corporation of Saskatchewan Inc., or PCS, a global fertilizer company for which specialty phosphates represents only a small part of its business. We consume the majority of our PPA production in our downstream operations and sell the remainder on the North American merchant market and to other downstream phosphate derivative producers, where we compete with PCS. We also compete with imports from China, Belgium and Israel.

### *STPP & Detergent Grade PPA*

STPP is a specialty phosphate derived from reacting PPA with a sodium alkali. STPP is a key ingredient in cleaning products, including industrial and institutional cleaners and automatic dishwashing detergents and consumer laundry detergents outside the United States. In addition to its use in cleaning products, STPP is also used in water treatment, clay processing, and copper ore processing. The end use market for STPP is largely derived from consumer product applications. Detergent Grade PPA is a lower grade form of PPA used primarily in the production of STPP.

Our major North American STPP competitor is Mexichem, S.A.B. de C.V., or Mexichem, in Mexico. Currently, Mexichem produces STPP at two manufacturing locations in Mexico. We also compete with imports from North Africa, Europe, Russia and China.

Over the past several decades, there have been efforts to reduce the use of STPP in consumer and institutional cleaners. In the 1980's, STPP use in consumer laundry applications was discontinued in the United States and Canada. STPP use was essentially eliminated in consumer automatic dishwashing applications in the United States and Canada in 2010. The industrial and institutional cleaner market has also reformulated some of its products to reduce STPP content in an effort to market a reduced phosphate content product line.

### *GTSP & Other*

GTSP is generated at our Coatzacoalcos facility in Mexico as a co-product of our purified wet acid manufacturing process described further below under "Our Industry". GTSP is a fertilizer product used throughout Latin America for increasing crop yields in a wide range of agricultural sectors.

For financial information about our segments and geographic areas, please see Note 20 (Segment Reporting) of the Notes to Financial Statements in "Part II, Item 8. Consolidated Financial Statements and Supplemental Data" included elsewhere in this Annual Report on Form 10-K.

## **Our Industry**

### ***Overview***

The North American marketplaces for each of our product lines have experienced consolidation to two primary producers and several secondary suppliers, distributors and importers. We consider the two key producers in each product category to be: (i) Innophos and ICL in Specialty Ingredients; (ii) Innophos and PCS in Food and Technical Grade PPA; and (iii) Innophos and Mexichem in Technical Grade STPP. We are not a significant supplier to the GTSP fertilizer market.

The production of specialty phosphates begins with phosphate rock, which can be processed in two alternative ways to produce PPA: (i) the thermal acid method, in which elemental phosphorus is combusted in a furnace and subsequently hydrated to produce PPA; or (ii) the purified wet acid method, or PWA, in which mined phosphate rock is reacted with a strong acid (most often sulfuric acid) to produce MGA, which is then purified through solvent-based extraction into PPA. The conversion of MGA into PPA is a technically complex and a capital-intensive process.

The thermal acid method of production is based on the electrolytic production of elemental phosphorus and is therefore electricity intensive, while PPA made by the purified wet acid process requires the use of significant amounts of sulfuric acid. The relative overall costs of the two methods depend on the availability and cost of their component processes, which are electricity and metallurgical or petroleum coke for the former and sulfur for the latter. PPA is reacted with appropriate mineral salts or inorganic compounds to produce various specialty phosphate salts as required. We currently use PPA manufactured via the wet acid process for all of our Specialty Ingredients manufacturing needs. Other alternative methods of production, such as a kiln-based thermal method, are under research and development which, if implemented, could add to the future capital needs of phosphate producers and change the competitive landscape in the industry.

We also produce a wide range of botanical, enzyme and mineral based ingredients as part of our nutrition business through a variety of customized production processes resulting in an extensive suite of product formulations. The North American botanical, enzyme and mineral industries are less consolidated than the specialty phosphates industry with Albion Minerals, acquired by Balchem Corporation in 2016, and Jost Chemical Company considered the leading competitors in mineral chelates, and Naturex Inc. and BI Nutraceuticals Inc. considered the leading competitors in botanical ingredients, alongside a number of smaller producers in each of these markets.

### ***Penetration of North American Market from Imports***

Over the past several years, we estimate that imports, including domestically located production facilities owned by foreign based organizations, have accounted for approximately 19-22% of the North American specialty phosphate market. This market share has slightly increased over the last three years. In addition, in 2016, we experienced pricing pressure from manufacturing overcapacity outside of North America, which we expect to continue for the foreseeable future.

For a discussion of the risks associated with the competition that we face in our markets, see “Part I, Item 1A. Risk Factors-Risks Related to Our Business Operations-Competition -The success of our business depends on our ability to successfully compete in extremely competitive markets.” appearing elsewhere in this Annual Report on Form 10-K.

### **Our Customers**

We supply a broad range of customers in over 70 countries worldwide. No customer accounted for more than ten percent of our net sales in 2016, 2015 or 2014. For the years ended December 31, 2016, 2015 and 2014, we generated net sales of \$725.3 million, \$789.1 million and \$839.2 million, respectively.

Our customer base is principally composed of consumer goods manufacturers, distributors and specialty chemical manufacturers. Our customers manufacture products such as soft drinks, sports drinks and juices, various food products, toothpaste and other dental products, petroleum and petrochemical products, and various cleaners and detergents. Our customers include major consumer goods manufacturers with global market recognition in the food, beverage, pharmaceutical and cleaning product markets. We have maintained long-term relationships with the majority of our key customers, with the average customer relationship having lasted over 15 years, and some relationships spanning many decades. Our specialty ingredient products are often critical ingredients in the formulation of our customers’ product, and typically represent only a small percentage of their total product costs. As a result, we believe that the risks associated with our customers switching suppliers can in some instances outweigh the potential gains.

### **Raw Materials and Energy**

We purchase a range of raw materials and energy sources on the open market, including phosphate rock, sulfur and sulfuric acid, MGA, PPA, natural gas and electricity. To help secure supply, we purchase several of our key raw materials under long-term contracts generally providing for fixed or minimum quantities of materials, or purchase of our full requirements, and predetermined pricing formulae based on various market indices and other factors. We do not engage in any significant futures or other derivative contracts to hedge against fluctuations of raw materials. We are not currently integrated vertically back to our sources of supply by ownership interests, joint ventures or affiliated companies, as a result of which raw materials acquisition at economical price levels is an important risk of our business. See “Part I, Item 1A. Risk Factors - Raw Materials Availability and Pricing - The success of our business depends on our ability to successfully source sufficient amounts of the raw materials used in our products at competitive prices, often from a limited number of suppliers, some of whom with we do not have a long-term contract in place.” in this Annual Report on Form 10-K for a discussion of the risks associated with our sourcing raw materials.

*Phosphate Rock and MGA.* MGA, which is purified to produce PPA, is the main raw material for the creation of our downstream salts and acids. We purchase MGA for processing at our Geismar, Louisiana facility through a long-term agreement for MGA with PCS. At our Coatzacoalcos facility in Mexico, we typically purchase phosphate rock in order to produce MGA internally; however, we can also process externally purchased MGA available from various suppliers globally. In addition to our primary sources, we have options for other spot suppliers and will continue to qualify and develop additional sources for potential future supply.

*Sulfur and Sulfuric Acid.* Sulfur is the key raw material used in the production of sulfuric acid, a key raw material used in the production of MGA by the wet method. We produce the vast majority of the sulfuric acid required to operate our Coatzacoalcos facility. The majority of the sulfuric acid required for the production of MGA by PCS supplied to our Geismar, Louisiana facility is supplied by Solvay. Our U.S. needs for sulfuric acid and our Mexican needs for sulfur are handled through contracts with Solvay and Pemex-Gas y Petroquimica Basica, respectively.

*Purified Phosphoric Acid.* The key raw material input for all of our downstream specialty phosphate salt and specialty phosphoric acid operations is PPA. In addition to purifying MGA to produce PPA internally, we also purchase certain quantities of our PPA supply from third parties to optimize our consumption and net sales, including from PCS with whom we have a supply contract for PPA (distinct from the supply contract for MGA) which will expire in July 2018. In 2016, Innophos produced approximately three quarters and purchased approximately one quarter of its total PPA supply.

*Natural Gas and Electricity.* Natural gas and electricity are used to operate our facilities and generate heat and steam for the various manufacturing processes. We typically purchase natural gas and electricity on the North American open market at so-called “spot rates.” From time to time, we will enter into longer term natural gas and electricity supply contracts in an effort to eliminate some of the volatility in our energy costs. We did not enter into any economic hedges in the past three years.

## **Research and Development**

Our product application and development activities are aimed at developing and enhancing products, processes, applications and technologies to strengthen our position in our markets and with our customers. We focus on:

- developing new or improved application-specific specialty phosphate and other mineral, enzyme and botanical based specialty ingredients based on our existing product line and identified or anticipated customer needs;
- creating new products to be used in new applications or to serve new markets;
- providing customers with premier technical services as they integrate our ingredients into their products and manufacturing processes;
- ensuring that our products are manufactured in accordance with our stringent regulatory, health and safety policies and objectives and applicable law;
- developing more efficient and lower cost manufacturing processes; and
- expanding existing, and developing new, relationships with customers to meet their product application needs.

Our research expenditures were \$3.7 million, \$4.5 million and \$4.6 million for the years ended December 31, 2016, 2015 and 2014, respectively.

## **Environmental and Regulatory Compliance**

Certain of our operations involve manufacturing and marketing ingredients for use in food, nutritional supplement and pharmaceutical excipient products, and therefore must comply with U.S. Food and Drug Administration, or FDA, or the U.S. Department of Agriculture, or USDA, regulatory controls and similar regulatory controls of foreign jurisdictions where we operate, as well as good manufacturing practices and the quality requirements of our customers. The regulation of, and legal requirements for, the manufacture and sale of our products is a changing environment, and those changes may require increased operating costs to develop and implement additional product safety measures. Although there is some harmonization among the regulatory requirements of various jurisdictions, each country’s specific regulatory requirements apply to products imported and sold in that country. Regulatory systems throughout the world vary in complexity and transparency, as well as the time required to navigate such system in order to enter the subject market. Our growth that involves expansion of existing products into new markets or new products into current or new markets is affected by our ability to obtain necessary regulatory approvals and achieve and maintain compliance with regulatory requirements. In addition, public perception in the United States, Europe and other markets of phosphate products in relation to their safety and other market and legal trends related to “natural”, “organic” and “clean labeling” in foods also may affect our sales and operations.

In addition, our operations that involve the use, handling, processing, storage, transportation and disposal of hazardous materials are subject to extensive and frequently changing environmental regulation by federal, state, and local authorities, including, but not limited to, the U.S. Environmental Protection Agency and the U.S. Federal Railroad Administration, or FRA, as well as regulatory authorities with jurisdiction over our operations in Canada, Mexico and China. Our operations also expose us to the risk of claims for environmental remediation and restoration or for exposure to hazardous materials. Our production facilities require operating permits that are subject to renewal or modification. Violations of health and safety and environmental laws, regulations, or permits may result in restrictions being imposed on operating activities, substantial fines, penalties, damages, the rescission of an operating permit, third-party claims for property damage or personal injury, or other costs, any of which could have a material adverse effect on our business, financial condition, results of operations, or cash flows. Due to changes in health and safety and environmental laws and regulations, the time frames when those laws and regulations might be applied, and developments in environmental control technology, we cannot predict with certainty the amount of capital expenditures to be incurred for environmental purposes.

Some environmental laws and regulations impose liability and responsibility on present and former owners, operators or users of facilities, and sites for contamination at such facilities and sites without regard to causation or knowledge of contamination. Many of our sites have an extended history of industrial use. Soil and groundwater contamination have been detected at some of our sites, and additional contamination might occur or be discovered at these sites or other sites in the future (including sites to

which we may have sent hazardous waste). We continue to investigate, monitor or cleanup contamination at most of these sites. The potential liability for all these sites will depend on several factors, including the extent of contamination, the method of remediation, future developments and increasingly stringent regulation, the outcome of discussions with regulatory agencies, the liability of third parties, potential natural resource damage and insurance coverage. Liabilities for environmental matters are recorded in the accounting period in which our responsibility is established and the cost can be reasonably estimated. Due to the uncertainties associated with environmental investigations, cleanups and other obligations, as well as the ongoing nature of the investigations, cleanups and other obligations at our sites, we are unable to predict precisely the nature, cost and timing of our future remedial obligations with respect to our sites and, as a result, our actual environmental costs and liabilities could significantly exceed our accruals.

Further information, including the current status of significant environmental matters and the financial impact incurred for the remediation of such environmental matters, is included in Note 16 (Commitments and Contingencies) of the Notes to Financial Statements in "Part II, Item 8. Consolidated Financial Statements and Supplementary Data" and in "Part I, Item 1A. Risk Factors - Legal and Regulatory Risks - We are subject to a wide variety of laws, regulations and government policies, including with respect to product quality and labeling and the environment, which may change in significant ways." appearing elsewhere in this Annual Report on Form 10-K.

### **Intellectual Property**

We rely on a combination of patent, copyright and trademark laws to protect certain key intellectual aspects of our business. In addition, our pool of proprietary information, consisting of manufacturing know-how, trade secrets and unregistered copyrights relating to the design and operation of our facilities and systems, is considered particularly important and valuable. Accordingly, we seek to protect proprietary information through all legal means practicable. However, monitoring the unauthorized use of our intellectual property is difficult, and the steps we have taken may not prevent all unauthorized use by others.

### **Insurance**

In the normal course of business, we are subject to numerous operating risks, including risks associated with environmental contamination, health and safety while manufacturing, developing and supplying products and potential damage to a customer.

We currently have in force insurance policies covering property, general liability, excess liability, workers' compensation, employer's liability, product liability, product recall, fiduciary and other coverages. We seek to maintain coverages consistent with market practices and required by those customers with whom we do business. Where appropriate for the protection of our property and interests, we also require others with whom we do business to provide certain coverages for our benefit. We believe that we are appropriately insured for the insurable risks associated with our business.

### **Employees**

As of December 31, 2016, we had 1,319 employees at our facilities worldwide, of whom 758 were unionized hourly wage employees. We currently employ both union and non-union employees at most of our facilities. We believe we have a good working relationship with our employees, which has resulted in high productivity and low turnover in key production positions. We have experienced no work stoppages or strikes at any of our unionized facilities since acquiring them in 2004. We are a party to a collective bargaining agreement with the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union, Local No. 7-765 through January 16, 2020 at the Chicago Heights facility; International Union of Operating Engineers, Local No. 369 through April 21, 2019 at the Nashville facility; the Health Care, Professional, Technical, Office, Warehouse and Mail Order Employees Union, affiliated with the International Brotherhood of Teamsters, Local 743 through June 17, 2017 at the Chicago (Waterway) facility; the United Steelworkers, Local No. 6304 through April 30, 2017 at the Port Maitland, Ontario facility; and the Sindicato de Trabajadores de la Industria Química, Petroquímica, Carboquímica, Gases, Similares y Conexos de la República Mexicana, at the Mexico facilities. The agreement at the Coatzacoalcos, Mexico facility is for an indefinite period, but wages are reviewed every year and the rest of the agreement is subject to negotiation every two years (next scheduled for June 2018).



## Executive Officers

The following table and biographical material present information about the persons serving as our executive officers:

Name	Age	Position
Kim Ann Mink	57	Chairman, Chief Executive Officer and President
Han Kieftenbeld	51	Senior Vice President and Chief Financial Officer
Charles Brodheim	53	Vice President, Corporate Controller and Information Technology
Sherry Duff	49	Senior Vice President, Chief Marketing and Technology Officer
Amy Hartzell	41	Vice President, Supply Chain and Purchasing
Joshua Horenstein	40	Vice President, Chief Legal Officer and Corporate Secretary
Jean Marie Mainente	53	Senior Vice President, Chief Human Resources Officer
Yasef Murat	62	Senior Vice President, Global Manufacturing

## Biographical Material

**Kim Ann Mink, Ph.D.** has been the Chief Executive Officer and President of Innophos since December 2015, a director of Innophos since February 2016 and Chairman since February 2017. Prior to joining Innophos, she served as Business President of Elastomers, Electrical and Telecommunications at The Dow Chemical Company, or Dow Chemical, from September 2012 to December 2015. Dr. Mink joined Dow Chemical in April 2009 as Global General Manager, Performance Materials and President and Chief Executive Officer of ANGUS Chemical Co. (then a fully owned subsidiary of Dow Chemical). Prior to joining Dow Chemical, Dr. Mink was Corporate Vice President and Global General Manager, Ion Exchange Resins at the Rohm and Haas Company (now a fully owned subsidiary of Dow Chemical), where she spent more than 20 years serving in numerous senior roles with increasing responsibilities. From September 2012 to December 2015, Dr. Mink served as a member of the Board of Advisors of Catalyst Inc. From November 2012 to December 2016, she served as a member of the National Board of Trustees of the ALS Association. In addition, in 2014, Dr. Mink was named to STEMconnector's 100 Diverse Corporate Leaders in STEM. Dr. Mink received her B.A. in Chemistry from Hamilton College and a Ph.D. in Analytical Chemistry from Duke University. She is a graduate of the Wharton School of Business Management Program.

**Han Kieftenbeld** has been the Senior Vice President and Chief Financial Officer of Innophos since April 2016. From June 2014 to July 2015, Mr. Kieftenbeld served as the Global Chief Financial Officer at AB Mauri, a worldwide leader in bakery ingredients. From December 2010 to June 2014, Mr. Kieftenbeld served as the Global Chief Procurement Officer of Ingredion Incorporated, a leading global ingredient solutions provider. Prior to that, Mr. Kieftenbeld served as Chief Financial Officer at Akzonobel N.V. from 2007 to 2010 and, before that, at ICI PLC from 1997 to 2007. Currently, Mr. Kieftenbeld serves as a non-executive advisor and board member at Themis Analytics, an international sales and marketing decision analytics solutions provider to the pharmaceutical industry. Mr. Kieftenbeld earned a master's degree from New York University Stern School of Business, London School of Economics and Political Science, as well as the HEC School of Management, Paris. He holds a B.S. in Business Economics and Accounting from Windesheim University in the Netherlands.

**Charles Brodheim** is the Vice President, Corporate Controller and Information Technology of Innophos. Mr. Brodheim joined Rhodia in 1988 and held various tax, accounting and business analyst positions within Rhodia. Mr. Brodheim was the North American Finance Director for Specialty Phosphates from 2000 to 2002. After 2002, Mr. Brodheim was a Finance Director for various Rhodia North American Enterprises, including its Eco-Services enterprise. Mr. Brodheim earned a B.B.A. degree in Finance/Accounting from Temple University and is a certified public accountant.

**Sherry Duff** is the Senior Vice President, Chief Marketing and Technology Officer of Innophos, a position that she has held since July 2016. Previously, from November 2011 to June 2015, Ms. Duff served as the President and Managing Director of Arista Laboratories, Inc., a U.S. subsidiary of Molins, PLC that provides tobacco testing services. From 1997 to October 2011, Ms. Duff held a series of positions of increasing responsibility at Arch Chemicals, Inc., global biocides company, including most recently as its Director, Strategic Planning, Business Development & Government Affairs. Ms. Duff received BS degree in Chemistry from the University of Connecticut and her MBA degree from Rensselaer Polytechnic Institute at Hartford.

**Amy Hartzell** is the Vice President, Supply Chain and Purchasing at Innophos, a position that she has held since April 2016. She worked at Dow Chemical Company from 2009 to March 2016, serving in positions of increasing responsibility, including most recently as its Global Director, Corporate Supply Chain Center of Excellence. Ms. Hartzell began her career at

Rohm and Haas Company in 1997, serving in positions of increasing responsibility until Rohm and Haas Company was acquired by Dow Chemical Company. Ms. Hartzell earned a BS from Lehigh University and an MBA from La Salle University.

**Joshua Horenstein** is the Vice President, Chief Legal Officer and Corporate Secretary of Innophos, a position he held since March 2016. Mr. Horenstein joined Innophos in 2010 as Corporate Counsel and M&A Attorney and has since held various legal positions of increasing responsibility. Before joining Innophos, Mr. Horenstein practiced law at several leading law firms, including Ballard Spahr, LLP, Pepper Hamilton, LLP and Flaster/Greenberg P.C. and was also Vice President and Chief Legal Officer at Rock Your Phone, Inc., a technology start-up company. Mr. Horenstein received his law degree from the University of Pennsylvania Law School and he holds bachelor degrees in Economics and Political Science from Penn State University.

**Jean Marie Mainente** is the Senior Vice President, Chief Human Resources Officer for Innophos. Ms. Mainente joined Innophos in July 2015. Previously, from 2010 to 2015, Ms. Mainente served as Senior Vice President at Hudson Gain, a leadership solutions firm, leading the talent development practice. In her role at Hudson Gain, she partnered with Innophos on various talent initiatives, including succession planning, executive coaching and team development. Prior to joining Hudson Gain, Ms. Mainente held a variety of human resources and marketing roles, including at Bayer Corporation, formerly Sterling Drug, from 1988 to 1998 and again from 2006 to 2010, Avaya Inc. from 2004 to 2005 and Bristol-Myers Squibb from 1998 to 2004. Ms. Mainente earned an M.B.A. in Marketing from Pace University and a B.S. in Management & Organizational Behavior and Industrial Relations from Rider University.

**Yasef Murat** is the Senior Vice President, Global Manufacturing of Innophos. Mr. Murat joined Innophos in 2009 and has held various positions of increasing responsibility. Prior to joining Innophos, Mr. Murat served as General Manager and Director of the board at each of Nilefos Chemie NV, a mineral company, and Misa Eco NV, a recycling company, from 2005 to 2009, General Manager for Rhodia Chemie NV from 2003 to 2005 and Head of Operations of Rhodia Chemie NV's specialty phosphates business from 2001 to 2003. Mr. Murat has degrees in Chemical Engineering and Electrochemistry from Institut de Chimie de Besancon (in France) and Institut National Polytechnique de Grenoble (in France), respectively, and he holds an MBA from the Vlerick School for Management (in Belgium).

#### **Available Information**

The Securities and Exchange Commission, or the SEC, maintains a website that contains reports, proxy and information statements, and other information regarding issuers, including Innophos, that file electronically with the SEC. The public can obtain any documents that the Company files with the SEC at <http://www.sec.gov>. Innophos files annual reports, quarterly reports, proxy statements and other documents with the SEC under the Securities Exchange Act of 1934, as amended, or the Exchange Act. The public may read and copy any materials that the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

Innophos also makes available free of charge through its website ([www.innophos.com](http://www.innophos.com)) its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and, if applicable, amendments to those reports filed or furnished pursuant to the Exchange Act as soon as reasonably practicable after Innophos electronically files such material with, or furnishes it to, the SEC. The information contained on Innophos' website is not included in, or incorporated by reference into, this Annual Report on Form 10-K.

## ITEM 1A. RISK FACTORS

*The following discussion of risk factors contains "forward-looking statements," as discussed in the Forward-Looking Statements section of this Annual Report on Form 10-K. Investing in Innophos involves a significant degree of risk. We are providing the following cautionary discussion of risk factors, uncertainties and assumptions that we believe are relevant to our business. These are factors that, individually or in the aggregate, we think could cause our actual results to differ materially from expected and historical results and our forward-looking statements. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider this section to be a complete discussion of all potential risks or uncertainties that may substantially impact our business. Moreover, we operate in a competitive and rapidly changing environment. New factors emerge from time to time and it is not possible to predict the impact of all of these factors on our business, financial condition or results of operations.*

### **Risks Related to Our Business Operations**

#### ***External Factors Impacting Profitability - Our profitability may be affected by factors beyond our control.***

Our operating income and ability to increase profitability depend to a large extent upon our ability to price finished products at a level that will cover manufacturing and raw material costs and provide an acceptable profit margin. Our ability to maintain appropriate price levels is determined by a number of factors largely beyond our control, such as the economic conditions of the geographic regions in which we conduct our operations, raw materials availability and pricing, competitive factors, adoption of new regulations (in the U.S. and any other jurisdiction in which we do business) and customer preferences, each of which is discussed further below.

#### ***Raw Materials Availability and Pricing - The success of our business depends on our ability to successfully source sufficient amounts of the raw materials used in our products at competitive prices, often from a limited number of suppliers, some of whom with we do not have a long-term contract in place.***

The success of our business depends on our ability to source sufficient amounts of the raw materials used in our products at competitive prices. Our principal raw materials consist of phosphate rock, sulfur and sulfuric acid, MGA, PPA and energy (principally natural gas and electricity). We are not currently integrated vertically back to our success of supply of these raw materials, and we do not engage in any significant futures or other derivative contracts to hedge against fluctuations of raw materials.

Our raw materials are purchased under supply contracts that vary from long-term multi-year supply arrangements to annual agreements. We also rely on spot suppliers. Because we do not have long-term agreements in place to cover all of our raw materials, we are subject to risks that we may not be able to secure the raw materials needed for our products on favorable terms, or at all. We cannot be sure that the annual or other periodic contracts we have in place for our raw materials can be renewed at all or on similar terms to the current terms. In addition, with respect to those suppliers with whom we do have long-term agreements, we cannot be certain that our suppliers will not seek to terminate, modify or disrupt performance under such agreements. For example, in 2016, PCS notified us that it is terminating our supply agreement for PPA effective July 2018. As a result of such termination, we are continuing to qualify and develop additional sources for future PPA supply needs after July 2018, which could increase our operating costs or curtail our ability to manufacture products and adversely impact the competitive positions of our products.

Pricing within our supply contracts is typically set according to predetermined formulae dependent on price indices or market prices with pricing for some shorter term contracts set by negotiation with reference to market conditions. The prices we pay under these contracts will generally lag the underlying market prices of the raw material, which exposes us to risks in the event the cost of the raw materials decreases quickly. Approximately 25% of our supply of these principal raw materials is bought under fixed annual pricing arrangements, which provides us price certainty but exposes us to risks of the cost of such materials decreasing. Pricing for our remaining supply of raw materials typically adjusts in line with changes in market prices or with approximately a three month lag to market price changes.

Various market conditions can affect the price and supply of our raw materials. The primary demand for both phosphate rock and sulfur, globally, is for fertilizer production. The costs of these materials are heavily influenced by demand conditions in the fertilizer market and freight costs, which historically have been volatile. Prices for both materials have experienced periodic significant increases and decreases over the past ten years. Increased raw material pricing may adversely affect our

margins if we are not able to offset costs with sales price increases. See “Competition - The success of our business depends on our ability to successfully compete in extremely competitive markets” below.

Although there are multiple available global suppliers to supply phosphate rock to our Coatzacoalcos, Mexico site, in 2017, we expect the majority of our phosphate rock requirements to come from a limited number of these suppliers. Although our Coatzacoalcos facility was upgraded to handle alternative grades of rock without adversely affecting operating efficiency, further investment may be required to realize the full benefits of improved process flexibility. Process efficiency issues may arise over longer time periods as the plant processes rock from various sources, necessitating further investment or changes in rock suppliers to maintain and improve our current plant processing capabilities or to meet evolving needs. We cannot be sure that efficiency issues will not arise, or if they do, that our existing or other suppliers would be able to supply sufficient additional quantities or grades to meet our full requirements, which may weaken our ability to maintain our existing levels of operations. Although the diversification of our phosphate rock supply base has reduced our dependence on any one supplier, tight demand conditions overall in the fertilizer market would mean that our purchases could be constrained should any major supplier experience a significant disruption in its ability to supply, for example, as a result of capacity constraints, political unrest, or adverse weather conditions in the areas where that supplier operates.

We are also subject to risks stemming from local social and political conditions in those jurisdictions where the phosphate rock that supports our operations is sourced. The phosphate rock that it utilized by PCS to supply MGA to our Geismar, Louisiana facility is subject to those social and political conditions in Western Sahara, where PCS sources the phosphate rock, which territory has had a long history of social and political upheaval. If PCS is unable to source phosphate rock or sufficient amounts of phosphate rock, our MGA supply would be disrupted and our ability to manufacture our products could be materially adversely affected.

Although natural gas prices have remained relatively steady in the past several years, wide fluctuations in natural gas prices, which have occurred historically, may result from relatively minor changes in supply and demand, market uncertainty, and other factors, both domestic and foreign, that are beyond our control. In addition, natural gas is often a substitute for petroleum-based energy supplies and natural gas prices are positively correlated with petroleum prices. Future increases in the price of petroleum (resulting from increased demand, political instability or other factors) may result in significant additional increases in the price of natural gas. We typically purchase natural gas at spot market prices for use at our facilities, which exposes us to that price volatility, except in those instances where, from time to time, we enter into longer term, fixed-price natural gas contracts.

Most of our raw materials are supplied to us by either one or a small number of suppliers. Some of those suppliers rely, in turn, on sole or limited sources of supply for raw materials included in their products. Failure of our suppliers to maintain sufficient capability to meet changes in demand or quality, or to overcome unanticipated interruptions in their own sources of supply due to their own supplier’s performance failures or force majeure conditions, such as disaster or political unrest, may prevent them from continuing to supply raw materials as we require them, or at all. Our inability to obtain sufficient quantities of sole or limited source raw materials or to develop alternative sources on a timely basis if required could result in increased costs, which may be material, in our operations or our inability to properly maintain our existing level of operations.

***Competition - The success of our business depends on our ability to successfully compete in extremely competitive markets.***

We face significant competition in each of our markets. In some markets, our products are subject to price pressure due to factors such as competition from low-cost producers, import competition and regulation, transaction risks associated with foreign currency exchange fluctuations, excess industry capacity and consolidation among our customers and competitors. These developments, and particularly future expansions by one or more competitors, have had and are expected to continue to have a negative effect on our pricing abilities. Our operations are subject to currency fluctuation transaction risks. We may from time to time be at a competitive disadvantage as a result of the strengthening of the U.S. Dollar, which can place us at a competitive disadvantage with respect to our foreign competitors selling competing products into the markets to which we sell our products. We believe that the strength of the U.S. Dollar in 2016 had a negative impact on our competitive position and our revenues, and we believe that a strong U.S. Dollar will continue to have a negative impact on our competitive position and revenues. In addition, in the specialty ingredients industry, price competition is also based upon a number of other considerations, including product differentiation and innovation, product quality, technical service, and supply reliability. Thus, new products or technologies developed by competitors may also have an adverse impact on our pricing capability. Our competitors continue to seek to develop improvements to the purified wet acid method to produce PPA, the method utilized by Innophos, which, if developed, may hurt our competitive position. In addition, new technologies are being developed to attempt to produce PPA at a cheaper cost than the thermal acid method or the purified wet acid method, including a kiln-based thermal method. Any such new or improved technology that is developed would be expected to reduce the barriers to entry and/or significantly increase competition in the markets in which we compete, all of which would be expected to harm our competitive position and our business. Although we have a number of product quality improvement and product enhancement initiatives underway, we cannot assure that our efforts in maintaining differentiation will be successful.



From time to time, including throughout 2016, we have experienced pricing pressure, particularly from significant customers. In addition, in 2016, we experienced pricing pressure resulting from manufacturing overcapacity outside of North America, including manufacturing overcapacity in China, which we expect to continue for the foreseeable future. We have also faced increased pricing pressure as a result of the Chinese government continuing to encourage export activity by rolling over its low export tariff on solid fertilizers and eliminating its export tariff on phosphoric acid, which pressure is expected to continue for the foreseeable future. In the past, we have taken steps to reduce costs, focus on higher margin products and resist possible price reductions by structuring our contracts and developing strong “value-oriented” non-price related customer service relationships. However, price reductions in the past, including in 2016, have adversely affected our sales and margins, including the mix between our high margin and low margin products. If we are not able to offset price pressure when it arises through improved operating efficiencies, reduced expenditures, improved product margin mix and other means, we may be subject to those same effects in the future.

We have experienced and are continuing to experience more intense pricing pressures in markets, and for applications, where competing producers, particularly those located in China, have similar product offerings, established supply relationships, and potential cost advantages. Historically, this pricing pressure has occurred most frequently in markets such as South America where we do not have local production capability and for less specialized products such as detergent grade STPP. Chinese phosphate producers generally utilize the “thermal” method, a process more heavily dependent on energy that may be cost advantaged compared to “wet” method producers (such as Innophos) during periods of low energy prices, although several producers have arisen in China using the wet process. Both North African and some Chinese producers are integrated back to phosphate rock, which also may provide cost advantages to them depending on the markets in which they choose to compete. The relative competitiveness of Belgium, Chinese, Russian and North African producers increased in 2016. We faced significant competition from importers of PPA products and derivatives into North America, including Prayon. If the relative competitiveness of competing producers continues to increase, or they are successful in extending their product lines to more specialized product applications, pricing pressure on Innophos could continue to increase significantly, which would negatively impact our sales and margins.

***Legal and Regulatory Risks - We are subject to a wide variety of laws, regulations and government policies, including with respect to product quality and labeling and the environment, which may change in significant ways***

Our business is subject to regulation under a wide variety of laws, rules and regulations in each jurisdiction in which we have operations or conduct business, including the United States, Canada, Mexico and China. There can be no assurance that laws, regulations and policies will not be changed in ways that will require us to modify our business models and objectives or affect our returns on investments by restricting existing activities and products, subjecting them to escalating costs or prohibiting them outright. Inability to comply with these regulations could adversely affect our status in these projects and adversely affect our results of operations, financial position and cash flows.

Our operations involve the use, handling, processing, storage, transportation and disposal of hazardous materials, and some of our products are ingredients in foods, nutritional supplements or pharmaceutical excipients that are used in finished products consumed or used by humans or animals. As a result, we are subject to extensive and frequently changing environmental and other regulatory requirements and periodic inspection by federal, state, and local authorities with jurisdiction over our operations and product markets, including, but not limited to the U.S. Environmental Protection Agency, or EPA, U.S. Food and Drug Administration, or FDA, the U.S. Department of Agriculture, U.S. Customs, the Occupational Safety & Health Administration, or OSHA, foreign counterparts to each of the foregoing agencies, and other U.S. and foreign regulatory authorities. Worldwide regulatory trends towards increasing regulation of food safety factors to reduce risks, adoption of increased food defense measures and prevention of economic adulteration of food particular through supply chain management may increase our operating costs.

Moreover, as we increase operations in foreign jurisdictions, such as China where a new facility was operational in 2013, and export existing products into new markets or new products into markets where they have not previously been sold, we are subject to a variety of regulatory requirements in jurisdictions that may have unique challenges, or slow processes.

Additional laws or regulations focused on phosphate-based products may be implemented in the future. Regulators in the United States and other jurisdictions may choose to no longer allow phosphates as a synthetic ingredient in products labeled with “organic” claims.

A number of states within the United States, and Canada (countrywide), have effectively banned the use of phosphate-based products in consumer automatic dishwashing detergents. The trade association that includes major manufacturers of consumer automatic dishwashing detergents has actively supported these efforts in the United States and Canada, with non-phosphate legislation becoming effective in Canada and many states in the United States in July 2010. In addition, the European Union enacted legislation to effectively ban phosphates in consumer detergents with a first phase beginning 2013, and in Australia an industry-led voluntary phosphate ban took effect in 2014. These trends and related changes in consumer preferences have already reduced our requirements for automatic dish markets and we have responded with a shift in our capabilities to serve other food



and industrial applications. Furthermore, although phosphates are still permitted for consumer detergent applications in many Latin American countries and other parts of the world, we cannot be sure that similar bans may not be implemented in some or all of these markets in the future or that additional customers will not reformulate their products to reduce STPP content in an effort to market a reduced phosphate content product line. We expect some detergent grade STPP reformulation in 2017, which will adversely affect our financial results.

Additional laws, regulations or distribution policies focused on reduced use of other phosphate-based products could occur in the future. For example, some jurisdictions have increased restrictions or banned the use of polyphosphoric acid in asphalt road construction while others have eased restrictions or are in the process of allowing its use. Over the past ten years, several states in the United States have implemented new or updated regulations relating to the use of polyphosphoric acid in asphalt road construction, many of which restrict such or require approvals (which may include trials) before such use is permitted. If restrictions are instituted in multiple jurisdictions or throughout the United States and Canada, a significant impact on our business could occur.

Changes in composition or permitted-use regulations in domestic or export countries may affect the regulatory status of our finished products and our ability to sell these products into some markets. Such changes may in turn require us to reformulate or establish alternative raw material sourcing, potentially incurring additional cost. If these measures are not successful, the available markets for our products may be limited.

We, our representatives, and the industries in which we operate are subject to continuing scrutiny by regulators and other governmental authorities, which may, in certain circumstances, lead to enforcement actions, fines and penalties or the assertion of private litigation claims and damages. Maintaining compliance with health and safety and environmental laws and regulations has resulted in ongoing costs for us. Currently, we are involved in several compliance and remediation efforts and agency inspections concerning health, safety and environmental matters. Although we believe that we have adopted appropriate risk management and compliance programs, legal and compliance risks will continue to exist and additional legal proceedings and other contingencies, the outcome of which cannot be predicted with certainty, may arise from time to time.

Our operations also expose us to the risk of claims for environmental remediation and restoration or for exposure to hazardous materials. Our production facilities require various operating permits that are subject to renewal or modification. Violations of environmental laws, regulations, or permits may result in restrictions being imposed on operating activities, substantial fines, penalties, damages, the rescission or denial of operating permits, third-party claims for property damage or personal injury, or other costs.

Some existing environmental laws and regulations impose liability and responsibility on present and former owners, operators or users of facilities and sites for contamination at those locations without regard to causation or knowledge of contamination. Many of our sites have an extended history of industrial use, which may expose us to liability. Soil and groundwater contamination have been detected at some of our sites, and additional contamination might occur or be discovered at these sites or other sites (including sites which we might acquire or to which we may have sent hazardous waste) in the future, which could expose us to liability. For example, future environmental spending is probable at our site in Nashville, Tennessee, as discussed further in Note 16 (Commitments and Contingencies) of the audited financial statements appearing elsewhere in this Annual Report on Form 10-K. We continue to investigate, monitor and/or clean-up contamination at most of these sites. In addition, we recently reached an agreement with federal and Louisiana authorities with respect to alleged non-compliance at our Geismar, Louisiana facility, as discussed further in Note 16 (Commitments and Contingencies) of the audited financial statements appearing elsewhere in this Annual Report on Form 10-K. This settlement agreement contained a fine and subjects us to ongoing compliance obligations, including with respect to our development and implementation of a government-approved deep well injection system at the plant to handle the co-product separated at the site. If we fail to fully develop, complete and operate this deep well injection system, we could be forced to develop alternative solutions for handling the subject co-product, which alternatives may be costly and time-consuming, and we could face additional fines and other penalties. Due to the uncertainties associated with environmental investigations, clean-ups and other obligations, as well as the ongoing nature of the investigations, clean-ups and other obligations at our sites, we cannot predict precisely the nature, cost, and timing of our future remedial obligations with respect to our sites.

***Consumer Preferences - Changes in consumer preferences and perceptions may lessen the demand for our products, which could reduce our sales and profitability and harm our business.***

Food products are often affected by changes in consumer tastes, national, regional and local economic conditions and demographic trends. For instance, changes in prevailing health or dietary preferences causing consumers to avoid food products containing phosphates in favor of foods that are perceived as being healthier could reduce our sales and profitability, and such reductions could be material. Increasing concern among consumers, public health professionals and government agencies about the potential health concerns associated with obesity and inactive lifestyles (reflected, for instance, in taxes designed to combat

obesity which have been imposed recently in North America) represent a significant challenge to some of our customers, including those engaged in the food and soft drink industries.

Public perception in the United States, Europe and other markets, which may be driven by public opinions and publications concerning phosphate products in relation to their safety, may affect our sales and operations. Regulators in the United States and other jurisdictions may choose to change recommended daily intake levels for total phosphate in the diet or added phosphates in food. In addition, U.S. class action trends related to “natural” and “clean labeling” in foods also may affect our sales and operations. Public interest organization spotlighting, through public awareness and publications, regarding the contribution of meat-based diets to phosphate life cycle concerns in the environment may also affect our sales in Europe and other jurisdictions. Additional demand restrictions may arise from producers reformulating to reduce or eliminate phosphate content, as has been announced over the past few years by major consumer packaged goods manufacturers and major food chains.

***International Operations - We are subject to a variety of risks with respect to our foreign operations.***

We have significant production operations in Mexico and Canada, and a smaller blending facility for food ingredients in China. We continually evaluate business opportunities that may expand our operations to other areas beyond our current operations. We believe that revenue from sales outside the United States will continue to account for a material portion of our total revenue for the foreseeable future. There are inherent risks in international operations, the most notable being currency fluctuations and devaluations, economic and business conditions that differ from U.S. cycles, divergent social and political conditions that may become unsettled or even disruptive, communication and translation delays and errors due to cultural and language barriers and less predictable outcomes from differing legal and judicial systems. Our risks in those regards are likely to be greatest as we continue to implement our business in China, where we are subject to risks associated with complying with China’s regulatory requirements, changes in local economic conditions, currency devaluations and potential disruption from socio-political activities in that country. Among the additional risks potentially affecting our Mexican operations are changes in local economic conditions, currency devaluations, potential disruption from socio-political violence in that country, and difficulty in contract enforcement due to differences in the Mexican legal and regulatory regimes compared to those of the United States. Risks to our Canadian operations include a differing federal and provincial regulatory environment from that in the United States, currency fluctuations and devaluations. In the event that we establish operations in additional regions, our exposures to risks from the noted causes and from other as yet unknown causes may increase.

In addition, we are required to comply with the laws of each jurisdiction in which we have operations or sell our products, including safety and quality laws, product and facility registration laws, marketing laws, environmental laws, antitrust laws and import and export control laws. The laws of these jurisdictions vary significantly, and we have limited experience in complying with the laws of certain such jurisdictions, including China. Violations of such laws may result in restrictions being imposed on our operating activities, substantial fines, civil or criminal penalties, damages, the rescission of operating permits, third-party claims for property damage or personal injury, or other costs.

Our overall success as a multinational business depends, in part, upon our ability to succeed in differing economic, social and political conditions. Among other things, we are faced with potential difficulties in building and starting up local facilities, staffing and managing local workforces, and designing and effecting solutions to manage commercial risks posed by local customers and distributors. We may not continue to succeed in developing and implementing policies and strategies that are effective in each location where we do business. These risks are not limited to only those countries where we actually operate facilities, but may extend to areas and regions that supply and service our facilities or are supplied and serviced by them.

As a U.S. corporation, we are subject to the regulations imposed by the Foreign Corrupt Practices Act, or FCPA, which generally prohibit U.S. companies, their subsidiaries and their intermediaries from making improper payments to foreign officials for the purpose of obtaining or keeping business. We are also subject to the comparable anti-corruption laws of other countries in which we operate. We sell many of our products in developing countries through sales agents and distributors whose personnel are not subject to our disciplinary procedures. Although we and our subsidiaries are committed to conducting business in a legal and ethical manner wherever we operate, and we communicate and seek to monitor compliance with our policies by all who do business with us, we cannot be sure that all our third party distributors or agents remain in full compliance with the FCPA or comparable foreign regulations at all times. Violations of the FCPA or similar anti-corruption laws by us or our distributors or agents may result in severe criminal or civil sanctions, could disrupt our business, and could adversely affect our reputation.

***Labor Relations - Our profitability could be negatively impacted if we fail to maintain satisfactory labor relations.***

Approximately 42% percent of our U.S. and 76% percent of our non-U.S. employees are members of unions. Strikes, lockouts or other work stoppages or slowdowns involving our unionized employees could have a material adverse effect on our business.

***Product Liability Exposure - We may be subject to costly product liability claims with respect to our products.***

Many of our products are functional or fortification additives used in the food and beverage, consumer product, nutritional supplement and pharmaceutical industries. The sale of these additives and our customers' products that include them involve the risk of product liability and personal injury claims, which may be brought by our customers or end-users of our customers' products. Although we endeavor to adhere to stringent quality standards in the course of their production, storage and transportation, our products could be subject to adverse effects from foreign matter such as moisture, dust, odors, insects, mold or other substances, or from excessive temperature variations. Our products may also be susceptible to non-conformance resulting from our raw materials or other products supplied to us by third parties that we resell. In addition, we could be subject to claims by end-users of our customers' products that incorporate our products that our customers have mislabeled or misrepresented the benefits of their products sold to such end-users. Historically, we have not been subject to material product liability claims, and no material claims are outstanding. However, because our products are used in manufacturing a wide variety of our customers' products, including those ingested by humans, and we have concentrated the recent growth of our business in those areas, we cannot be sure we will not be subject to material product liability or recall claims in the future. Any product liability claim brought against us, with or without merit, could result in: decreased demand for our products; regulatory investigations that could require costly recalls or product modifications; loss of revenues; substantial costs of litigation; liabilities that substantially exceed our product liability insurance, which we would then be required to pay ourselves; an increase in our product liability insurance rates; and damage to our reputation and the reputation of our products.

***Production Facility Operating Hazards - We may be subject to liability with respect to the operations of our production facilities.***

Our production facilities are subject to hazards associated with the manufacturing, handling, storage, and transportation of chemical substances and products, including failure of pipeline integrity, explosions, fires, inclement weather and natural disasters, terrorist attacks, mechanical failures, unscheduled downtime, transportation or utility interruptions, remedial complications, chemical spills, discharges or releases of toxic or hazardous substances, storage tank leaks and other environmental risks. Although we have implemented and installed various management systems and engineering controls and procedures at all our production facilities to enhance safety and minimize these risks and we insure our facilities to protect against a range of risks, these potential hazards continue to exist and could cause personal injury and loss of life, severe damage to or destruction of property and equipment, and environmental and natural resource damage, and may result in a suspension of operations (or extended shutdowns) and the imposition of civil or criminal penalties, whose nature, timing, severity and non-insured exposures are unknown.

***Intellectual Property Rights - If we are unable to protect our intellectual property rights, our position in the market may be materially and adversely affected.***

We rely on a combination of contractual provisions, confidentiality procedures and agreements, and patent, trademark, copyright, unfair competition, trade secrecy, and other intellectual property laws to protect our intellectual property and other proprietary rights on a worldwide basis. Nonetheless, we cannot be sure that any pending patent application or trademark application will result in an issued patent or registered trademark, that any issued or registered patents or trademarks will not be challenged, invalidated, circumvented or rendered unenforceable or that our confidentiality procedures will maintain the confidentiality of our confidential information. The use of our intellectual property by others could reduce any competitive advantage we have developed or otherwise harm our business. Moreover, we cannot be sure that our intellectual property rights can be asserted in all cases, particularly in an international context, or that we can defend ourselves successfully or cost-effectively against the assertion of rights by others.

***Contingency Planning - We may face operational challenges that could have a material adverse effect on our business.***

We operate a number of manufacturing facilities in the United States, Mexico, Canada and China, and we coordinate company activities, including our sales, customer service, information technology systems and administrative services and the like, through headquarters operated in those countries.

Our sites and those of others who provide services to them are subject to varying risks of disaster and follow on consequences, both manmade and natural, that could degrade or render inoperable one or more of our facilities for an extended period of time. Such disaster related risks and effects are not predictable with certainty and, although they can be mitigated, they cannot be completely prevented. Although we have reviewed and analyzed a broad range of risks applicable to our business, the ones that actually affect us may not be those we have concluded most likely to occur. Furthermore, although our reviews have led to more

systematic contingency planning, our plans are in varying stages of development and execution, such that they may not be adequate at the time of occurrence for the magnitude of any particular disaster event that befalls us.

We depend on our information technology systems for the efficient functioning of our business, including accounting, data storage, compliance, purchasing and inventory management. Although we attempt to mitigate interruptions, we may experience difficulties in implementing certain upgrades, which would impact our business operations, or experience difficulties in operating our business during the upgrade, either of which could disrupt our operations, including our ability to timely ship and track product orders, project inventory requirements, manage our supply chain and otherwise adequately service our customers. In the event that we experience significant disruptions as a result of the implementation of our information technology systems, we may not be able to repair our systems in an efficient and timely manner. Accordingly, such events may disrupt or reduce the efficiency of our entire operation.

Increased global cybersecurity vulnerabilities, threats and more sophisticated and targeted cyber-related attacks pose a risk to the security of Innophos' and our customers', partners', suppliers' and third-party service providers' respective products, systems and networks and the confidentiality, availability and integrity of our and our customers' data. Although we attempt to mitigate these risks by employing a number of measures, we remain potentially vulnerable to additional known or unknown threats. We may have access to sensitive, confidential or personal data or information that is subject to privacy and security laws, regulations and customer-imposed controls. Despite our efforts to protect sensitive, confidential or personal data or information, we may be vulnerable to material security breaches, theft, misplaced or lost data, programming errors, employee errors and/or malfeasance that could potentially lead to the compromising of sensitive, confidential or personal data or information, improper use of our systems, software solutions or networks, unauthorized access, use, disclosure, modification or destruction of information, defective products, production downtimes and operational disruptions. In addition, a cyber-related attack could result in other negative consequences, including damage to our reputation or competitiveness, remediation or increased protection costs, litigation or regulatory action.

***Acquisition Risks - Any acquisitions or divestitures we make could disrupt our business and not produce the expected benefits of such transaction.***

We will continue from time to time to consider certain acquisitions or divestitures. Acquisitions and divestitures involve numerous risks, including identifying attractive target acquisitions, undisclosed risks affecting the target, difficulties integrating acquired businesses, the assumption of unknown liabilities, potential adverse effects on existing business relationships with current customers and suppliers, the diversion of our management's attention from other business concerns, and decreased geographic diversification.

We cannot provide assurance that any acquisitions or divestitures will perform as planned or prove to be beneficial to our operations and cash flow, or that we will be able to successfully integrate any acquisitions that we undertake. Any such failure could seriously harm our financial condition, results of operations and cash flows.

#### **Certain Financial Risks**

***Impairment Charges - The recognition of impairment charges on goodwill or long-lived assets could adversely impact our future financial position and results of operations.***

We have approximately \$130 million of total intangible assets at December 31, 2016, consisting of \$84 million of goodwill and \$46 million of other intangible assets. Additionally, we have approximately \$205 million of long-lived assets at December 31, 2016.

We perform an annual impairment assessment for goodwill and our indefinite-lived intangible assets, and as necessary, for other long-lived assets. If the results of such assessments were to show that the fair value of these assets were less than the carrying values, we could be required to recognize a charge for impairment of goodwill and/or long-lived assets and the amount of the impairment charge could be material. Based on the results of the annual assessment, we concluded that as of December 31, 2016, the fair value of all of our reporting units was greater than their carrying value.

Even though it was determined that there was no additional long-lived asset impairment as of December 31, 2016, the future occurrence of a potential indicator of impairment, such as a significant adverse change in the business climate that would require a change in our assumptions or strategic decisions made in response to economic or competitive conditions, could require us to perform an assessment prior to the next required assessment date during the fourth quarter of 2017.

***Tax Rates - Changes in our tax rates or exposure to additional income tax liabilities could impact our profitability.***



We are subject to income taxes in the United States and in various other foreign jurisdictions. Our effective tax rates could be adversely affected by changes in the mix of earnings by jurisdiction, changes in tax laws or tax rates including potential tax reform in the US to broaden the tax base and reduce deductions or credits, changes in the valuation of deferred tax assets and liabilities, and material adjustments from tax audits.

The recoverability of deferred tax assets, which are predominantly in the U.S., are dependent upon our ability to generate future taxable income in these jurisdictions. In addition, the amount of income taxes we pay is subject to ongoing audits in various jurisdictions and a material assessment by a governing tax authority could affect our profitability.

***Interest Rates - Increased interest rates could increase our borrowing costs.***

From time to time we may issue securities or seek additional borrowings to finance acquisitions, capital expenditures, working capital and for other general corporate purposes. An increase in interest rates in the general economy could result in an increase in our borrowing costs for these financings, as well as under any existing debt that bears interest at an un-hedged floating rate.

***Contingencies Affecting Dividends - Our ability to pay dividends in the future may be compromised.***

After our common stock became publicly traded in 2006, our Board of Directors initiated a policy of paying regular quarterly cash dividends, subject to the availability of funds, legal and contractual restrictions and prudent needs of our business. We have maintained that policy and paid dividends continuously since that time, making payments that we believed were prudent and promoted stockholder value. However, we are a holding company that does not conduct any business operations of our own. As a result, we are normally dependent upon cash dividends, distributions and other transfers from our subsidiaries, most directly Innophos, Inc., our primary operating subsidiary, and its intermediate parent, to make dividend payments on our common stock. The amounts available to us to pay cash dividends are restricted by provisions of Delaware law and historically, and we expect for the future, also by limitations in our debt facilities. As allowed by existing debt instruments, we may incur additional indebtedness that may restrict to an even greater degree, or prohibit, the payment of dividends on stock. We cannot be sure the level of our operations or agreements governing our current or future indebtedness will permit us to adhere to our current dividend policy, increase dividends, or pay any dividends at all, or that continued payment of dividends will remain prudent for our business in the future judgment of our Board of Directors.

***Credit Facility Risks - Our credit facility restricts our current and future operations.***

In December 2016, we entered into a credit agreement with a group of lenders to establish a credit facility, which credit facility essentially replaced our existing credit facility at that time. This credit facility imposes operating and financial restrictions on us, including affirmative and negative covenants that prohibit or limit a variety of actions by Innophos generally without the lenders' approval. These include covenants that affect our ability, among other things, to: incur or guarantee indebtedness; create liens; enter into mergers, recapitalizations or assets purchases or sales; change names; make certain changes to our business; make restricted payments that include dividends, purchases and redemptions of equity; make advances, investments or loans; effect sales and leasebacks; enter into transactions with affiliates; allow negative pledges or limitations on the repayment abilities of subsidiaries; or amend subordinated debt. In addition to these restrictions and covenants, our credit facility requires us to comply with specified financial maintenance covenants. We cannot guarantee that we will be able to maintain compliance with these covenants. In addition, any of these restrictions or covenants could limit our ability to plan for or react to market conditions or meet certain capital needs and could otherwise restrict our corporate activities. For example, our results of operations may limit our borrowing base to a level below that which we seek to establish. Any such limitation could harm our business.

***Additional Funding - We may not have access to the funds required for future growth and expansion.***

We may need additional funds to grow and expand our operations. We expect to fund our capital expenditures from operating cash flow to the extent we are able to do so and from our credit facility. If our operating cash flow is insufficient to fund our capital expenditures, we may either reduce our capital expenditures or further utilize our credit facility. For further strategic growth through mergers or acquisitions, we may also seek to generate additional liquidity, including beyond our existing credit facility, through the sale of debt or equity securities in private or public markets, through the sale of non-productive assets or through additional borrowings under our existing credit facility and/or additional facilities. We cannot provide any assurance that our cash flows from operations and our existing credit facility will be sufficient to fund anticipated capital expenditures or that we will be able to obtain additional funds from financial markets or from the sale of assets at terms favorable to us or at all. If we are unable to generate sufficient cash flows or raise sufficient additional funds to cover our capital expenditures or other strategic growth opportunities, we may not be able to achieve our desired operating efficiencies and expansion plans, which may adversely impact our competitiveness and, therefore, our results of operations.



**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

Our headquarters are located in Cranbury, New Jersey, with manufacturing facilities strategically located throughout the United States, Canada, Mexico and China. We do not own and are not responsible for any closed U.S. or Canadian elemental phosphorus or phosphate production sites. All of our properties located in the United States, Canada, China and Brazil are utilized in our Specialty Phosphates US & Canada and GTSP & Other reporting segments. All of our properties located in Mexico are utilized in our Specialty Phosphates Mexico and GTSP & Other reporting segments.

Facility Type	Location	Owned or Leased
Corporate Headquarters / Research & Development	Cranbury, NJ	Leased
Manufacturing	Coatzacoalcos, Veracruz, Mexico	Owned
Manufacturing	Chicago Heights, IL	Owned
Manufacturing	Nashville, TN	Owned
Manufacturing	Port Maitland, Ontario, Canada	Owned
Manufacturing	Geismar, LA	Owned
Manufacturing	Ogden, UT	Leased
Manufacturing / Research & Development / Administrative	North Salt Lake, UT	Owned
Manufacturing	Salt Lake City, UT	Owned
Manufacturing	Green Pond, SC	Owned
Manufacturing	Chicago (Waterway), IL	Owned
Manufacturing	Mission Hills, Guanajuato, Mexico	Leased
Manufacturing	Taicang City, China	Leased
Warehouse	Chicago Heights, IL	Owned
Administrative	Mexico City, Mexico	Leased
Administrative	Mississauga, Ontario, Canada	Leased
Administrative	Sao Paulo, Brazil	Leased

**ITEM 3. LEGAL PROCEEDINGS**

The information set forth in Note 16 of the Notes to Consolidated Financial Statements, “Commitments and Contingencies,” in “Part II, Item 8. Consolidated Financial Statements and Supplementary Data” of this Annual Report on Form 10-K is incorporated herein by reference.

**ITEM 4. MINE SAFETY DISCLOSURES**

None.

## PART II

### ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

#### Certain Market Data

Our common stock has been listed and traded since November 2006 on the Nasdaq Global Select Market under the symbol "IPHS."

Stock price comparisons:

Quarter	2016			2015		
	High	Low	Dividends Paid Per Share	High	Low	Dividends Paid Per Share
First	\$ 31.79	\$ 23.12	\$ 0.48	\$ 62.62	\$ 53.92	\$ 0.48
Second	42.21	31.10	0.48	59.55	49.54	0.48
Third	44.28	37.26	0.48	53.84	39.53	0.48
Fourth	57.16	38.17	0.48	44.17	28.98	0.48

The Company declared a \$0.48 per share dividend in the first quarter of 2017. The number of holders of record of our common stock at February 21, 2017 was 7,808.

#### Dividends

Consistent with the determination our Board of Directors made in December 2006, we continue to declare and pay quarterly dividends. Prior to 2011, the quarterly dividend was \$0.17 per share of common stock which increased to \$0.25 per share of common stock in 2011. Subsequently, the quarterly dividend was increased to \$0.27 per share of common stock starting with the first quarter of 2012, \$0.35 per share in October 2012, \$0.40 per share in October 2013 and \$0.48 per share in August 2014. Subject to action by the Board of Directors, management's present policy is to recommend dividends be continued, reflecting its judgment at the present time that stockholders are better served if we distribute to them, as quarterly dividends payable at the discretion of the Board of Directors, a portion of the cash generated by our business in excess of our expected cash needs rather than retaining or using the cash for other purposes. Our expected cash needs include operating expenses and working capital requirements, interest and principal payments on our indebtedness, capital expenditures, costs associated with being a public company, taxes and other costs. If our financial needs change, management's recommendations concerning dividends may also change.

We are not required to pay dividends, and our stockholders will not be guaranteed, or have contractual or other rights, to receive dividends. Our Board of Directors may decide, in its discretion at any time, to decrease or increase the amount of dividends, otherwise modify or repeal the dividend policy or discontinue entirely the payment of dividends.

In addition to prudent business considerations, our ability to pay dividends is restricted by the laws of Delaware, our state of incorporation, and certain restrictions in the credit agreement governing our credit facility.

Because we are a holding company, substantially all assets shown on our consolidated balance sheet are held by our subsidiaries. Accordingly, our earnings and cash flow and our ability to pay dividends are largely dependent upon the earnings and cash flows of our subsidiaries and the distribution or other payment of such earnings to us in the form of dividends. Our ability to pay dividends on our common stock is limited by restrictions in our indebtedness affecting the ability to pay dividends. See Note 9 of Notes to Consolidated Financial Statements in "Part II, Item 8. Consolidated Financial Statements and Supplementary Data" and Part I, Item 1A. Risk Factors - Certain Financial Risks - Contingencies Affecting Dividends - Our ability to pay dividends in the future may be compromised." appearing elsewhere in this Annual Report on Form 10-K.

#### Issuer Purchases of Equity Securities

The Company did not have any share repurchases on the open market during 2016. From time to time, the Company reacquires shares from employees in connection with the vesting, exercise and forfeiture of awards under its equity compensation plans. In March 2016, the Company reacquired an aggregate of 2,475 shares at a price of \$30.91 per share in connection with the surrender of restricted shares by employees for tax purposes. In December 2016, the Company reacquired an aggregate of 1,964 shares at a price of \$52.26 per share in connection with the surrender of restricted shares by employees for tax purposes.

## ITEM 6. SELECTED FINANCIAL DATA

The following table presents selected historical consolidated statements of operations, balance sheet and other data for the periods presented and should only be read in conjunction with our audited consolidated financial statements and the related notes thereto, and “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” which are included elsewhere in this Annual Report on Form 10-K.

	(Dollars in thousands, except per share amounts, share amounts or where otherwise noted)				
	Year Ended December 31,				
	2016	2015	2014	2013	2012
<b>Statement of operations data:</b>					
Net sales	\$ 725,345	\$ 789,147	\$ 839,186	\$ 844,129	\$ 862,399
Cost of goods sold	574,953	645,818	651,722	685,830	684,979
Gross profit	150,392	143,329	187,464	158,299	177,420
Operating expenses:					
Selling, general and administrative	67,555	87,304	76,020	70,501	64,320
Research and development	3,739	4,502	4,649	3,928	3,107
Total operating expenses	71,294	91,806	80,669	74,429	67,427
Operating income	79,098	51,523	106,795	83,870	109,993
Interest expense, net	7,669	7,518	4,354	4,426	5,977
Foreign exchange losses (gains), net	1,111	3,882	5,085	3,197	(1,957)
Income before income taxes	70,318	40,123	97,356	76,247	105,973
Provision for income taxes	22,347	13,777	32,895	26,741	31,783
Net income	\$ 47,971	\$ 26,346	\$ 64,461	\$ 49,506	\$ 74,190
Allocation of net income to common shareholders	\$ 47,683	\$ 26,274	\$ 64,324	\$ 49,442	\$ 74,150
<b>Per share data:</b>					
<b>Income (loss) per share:</b>					
Basic	\$ 2.47	\$ 1.31	\$ 2.96	\$ 2.25	\$ 3.40
Diluted	\$ 2.44	\$ 1.29	\$ 2.91	\$ 2.21	\$ 3.30
<b>Cash dividends declared</b>	\$ 1.92	\$ 1.92	\$ 1.76	\$ 1.45	\$ 0.89
<b>Weighted average shares outstanding:</b>					
Basic	19,271,448	20,032,300	21,753,270	21,933,843	21,795,155
Diluted	19,581,476	20,323,385	22,121,903	22,345,980	22,475,881
(Dollars in thousands)					
Year Ended December 31,					
	2016	2015	2014	2013	2012
<b>Other data:</b>					
Cash flows provided from (used in):					
Operating activities	\$ 139,109	\$ 98,926	\$ 126,781	\$ 91,677	\$ 100,535
Investing activities	(36,599)	(31,699)	(29,398)	(37,840)	(104,766)
Financing activities	(67,072)	(86,018)	(94,042)	(47,519)	(5,066)
Capital expenditures	36,599	31,699	27,955	33,415	33,060
Ratio of earnings to fixed charges (1)	8.0x	5.1x	15.7x	11.1x	14.1x

(1) For purposes of calculating the ratio of earnings to fixed charges, earnings represent income before income taxes plus fixed charges. Fixed charges consist of interest expense and one-third of operating rental expenses which management believes is representative of the interest component of rent expense.

(Dollars in thousands)

	Year Ended December 31,				
	2016	2015	2014	2013	2012
<b>Balance sheet data:</b>					
Cash and cash equivalents	\$ 53,487	\$ 17,905	\$ 36,207	\$ 32,755	\$ 26,815
Accounts receivable	77,692	79,743	90,551	88,434	94,033
Inventories	128,295	172,667	184,621	181,467	163,606
Property, plant & equipment, net	205,459	199,494	198,988	201,985	195,723
Total assets	643,011	669,553	728,411	745,666	738,511
Total debt	185,000	213,002	136,005	163,009	176,000
Total stockholders' equity	\$ 347,226	\$ 333,260	\$ 463,007	\$ 463,419	\$ 444,323

Items included in the preceding tables which had a significant impact on results are summarized as follows:

2016 included restructuring costs of approximately \$1.5 million before tax (\$0.2 million in cost of goods sold and \$1.3 million in selling, general and administrative expense). 2015 included management transition expenses and restructuring costs of approximately \$20.4 million before tax (\$3.3 million in cost of goods sold and \$17.1 million in selling, general and administrative expense) and the Company's stock repurchase program which increased financing activities by \$125.0 million, which was partially offset by increased borrowings; 2013 included the acquisition of Chelated Minerals International, Inc. (now part of our nutritional ingredients business), increasing investing activities by approximately \$5.0 million and an after tax benefit of \$5.4 million (\$7.2 million before tax) for the settlement of the Mexican Comision Nacional del Agua, or CNA Fresh Water Claims. 2012 included the acquisitions of AMT Labs, Inc. and Triarco Industries, Inc. (now part of our nutritional ingredients business), increasing investing activities by approximately \$71.7 million and an after tax benefit of \$7.2 million (\$7.1 million before tax) for the settlement with Rhodia on their liability for the charges to be paid the CNA for the Fresh Water Claims.

## ITEM 7. 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 Annual Report on Form 10-K.*

### Background

Innophos is a leading international producer of specialty ingredient solutions that deliver versatile benefits for the food, health, nutrition and industrial markets. Innophos combines more than a century of experience in specialty phosphate manufacturing with a broad range of other specialty nutritional ingredients. Many of Innophos' products are application-specific compounds engineered to meet customer performance requirements and are often critical to the taste, texture and performance of foods, beverages, pharmaceuticals, oral care products and other applications. For example, Innophos products act as flavor enhancers in beverages, electrolytes in sports drinks, texture additives in cheeses, leavening agents in baked goods, pharmaceutical excipients and cleaning agents in toothpaste, and they also provide a wide range of nutritional fortification solutions for food, beverage and nutritional supplement manufacturers.

### 2016 Overview

Our financial performance in 2016 was highlighted by:

- Net sales of \$725.3 million compared to \$789.1 million for 2015, a decrease of \$63.8 million mostly attributable to:
  - Selling price decreases of \$23.9 million of which \$15.3 million was largely from GTSP due to weak fertilizer market conditions; for Specialty Phosphates, the \$8.6 million decline in price is mostly from competitive pressures due to the strength of the U.S. Dollar against the euro and Chinese-based competitors, due to lower export tariffs, with respect to PPA and products for the specialty horticulture markets; and
  - Volume decreases of \$39.9 million mostly recognized in the United States and Canada Specialty Phosphates segment due to reduced sales in lower margin, less differentiated applications and reduced demand across product

lines in core markets served. GTSP reported stronger volumes of \$10.9 million to offset the lower prices during 2016;

- Reduced input and operating costs by \$44.0 million during 2016 due to cost reduction actions to offset negative margin impact due to revenue decreases;
- Net income of \$48.0 million, an 82% increase versus 2015;
- Capital expenditures of \$36.6 million with approximately 65% spent on plant maintenance and 35% spent on strategic initiatives;
- Earnings per share of \$2.44 (diluted), up 89% versus 2015;
- Total year dividends of \$1.92 per share paid on the common stock in 2016, a payout ratio of 78%;
- Delivered 690 basis point reduction in working capital as a percent of sales through improvements in planning processes and a disciplined focus on slow-moving inventory;
- Operating cash flow of \$139.1 million, up 41% year-over-year, reducing net debt by 33% and leverage to 1.1x EBITDA;
- Entered into a new senior secured credit facility increasing the Company's borrowing capacity by 39% to \$450.0 million.
- Entered two-year tolling agreement for GTSP co-product business effective December 1, 2016 which is expected to significantly reduce earnings volatility in this product.

### **Recent Trends and Outlook**

Specialty Phosphates volumes declined by 7% for full year 2016 compared with 2015, in line with expectations, primarily driven by reduced sales in lower margin, less differentiated applications and weak end market demand due to continued pressures on packaged foods.

2017 is expected to be another year of transition with a focus on protecting earnings and delivering cash while continuing to build on the Company's commercial excellence, operational excellence and strategic growth initiatives.

Overall market conditions and competitive landscape for 2017 are expected to be similar to the prior year. Full year earnings are therefore expected to be broadly in line with 2016. Management continues to pursue cost actions and productivity initiatives given the challenging market conditions.

### **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):

	Year Ended December 31,					
	2016		2015		2014	
	Amount	%	Amount	%	Amount	%
Net sales	\$ 725.3	100.0	789.1	100.0	839.2	100.0
Cost of goods sold	574.9	79.3	645.8	81.8	651.7	77.7
Gross profit	150.4	20.7	143.3	18.2	187.5	22.3
Operating expenses:						
Selling, general and administrative	67.6	9.3	87.3	11.1	76.0	9.1
Research & development	3.7	0.5	4.5	0.6	4.7	0.6
Income from operations	79.1	10.9	51.5	6.5	106.8	12.7
Interest expense, net	7.7	1.1	7.5	1.0	4.4	0.5
Foreign exchange losses (gains), net	1.1	0.2	3.9	0.5	5.0	0.6
Provision for income taxes	22.3	3.1	13.8	1.7	32.9	3.9
Net income	\$ 48.0	6.6	\$ 26.3	3.3	64.5	7.7



**Year Ended December 31, 2016 compared to the Year Ended December 31, 2015**

*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 year ended December 31, 2016 were \$725.3 million, a decrease of \$63.8 million, or 8.1%, as compared to \$789.1 million for 2015. Specialty Phosphates sales were down 8.1%, or \$59.4 million, with volumes lower by 6.9%, or \$50.8 million, and selling prices lower by 1.2%, or \$8.6 million. The volume decrease was mostly recognized in the United States and Canada Specialty Phosphates segment due to reduced sales in lower margin, less differentiated applications, and reduced demand across product lines in core markets served. GTSP & Other sales were down 7.8%, or \$4.4 million, with prices lower by 27.1%, or \$15.3 million, but volumes higher by 19.3%, or \$10.9 million.

The Company calculates pure selling price dollar variances as the selling price for the current year period minus the selling price for the prior year period, and then multiplies the resulting selling price difference by the prior year 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 year ended December 31, 2016 the percentage changes in net sales by reportable segment compared with the prior year, including the effect of price and volume/mix changes upon revenue:

	<u>Price</u>	<u>Volume/Mix</u>	<u>Total</u>
Specialty Phosphates US & Canada	(0.7)%	(9.3)%	(10.0)%
Specialty Phosphates Mexico	(2.9)%	1.4 %	(1.5)%
Total Specialty Phosphates	(1.2)%	(6.9)%	(8.1)%
GTSP & Other	(27.1)%	19.3 %	(7.8)%
Total	<u>(3.0)%</u>	<u>(5.1)%</u>	<u>(8.1)%</u>

The following table illustrates for the year ended December 31, 2016 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:

	<u>Price</u>	<u>Volume/Mix</u>	<u>Total</u>
Specialty Ingredients	(0.2)%	(8.2)%	(8.4)%
Food & Technical Grade PPA	(4.6)%	(6.2)%	(10.8)%
STPP & Detergent Grade PPA	(1.4)%	1.4 %	— %

*Gross Profit*

Gross profit represents net sales less cost of goods sold. Gross profit for the year ended December 31, 2016 was \$150.4 million, an increase of \$7.1 million, or 5.0%, as compared to \$143.3 million for 2015. Gross profit percentage increased to 20.7% for the year ended December 31, 2016 versus 18.2% for 2015. Gross profit in 2016 was favorably affected by \$21.7 million lower raw material costs, largely phosphate rock and sulfur, \$9.4 million lower manufacturing costs due to savings from the 2015 restructuring program and focus on cost controls, \$6.2 million favorable exchange effects from our Mexican peso and Canadian dollar based costs, and \$1.1 million lower depreciation. These favorable effects were partially offset by \$23.9 million lower selling prices and \$16.1 million lower sales volume. Included in 2015 gross profit was \$3.4 million increase in inventory reserves, \$3.3 million restructuring and management transition costs, and \$2.0 million cost due to a supplier revision of their 2014 costs.

*Operating Expenses and Research and Development*

Operating expenses consist primarily of selling, general and administrative expenses and research and development expenses. Operating expenses for the year ended December 31, 2016 were \$71.3 million, a decrease of \$20.5 million, or 22.3%, as compared to \$91.8 million for 2015. The decrease was primarily due to \$8.9 million lower costs related to savings from the 2015 restructuring program, \$4.5 million lower restructuring costs, and \$1.1 million favorable exchange rate from Mexican peso based costs, partially offset by \$3.7 million higher employee related expenses for short-term incentive accruals and stock compensation expense, \$1.0 million of strategy consulting fees and first quarter 2016 CEO transition costs, and \$0.6 million costs from the refinancing of our credit facility. Included in 2015 was \$11.3 million management transition costs.

### *Operating Income*

Operating income for the year ended December 31, 2016 was \$79.1 million, an increase of \$27.6 million, or 53.6%, as compared to \$51.5 million for 2015. Operating income percentages increased to 10.9% for 2016 from 6.5% for 2015.

### *Interest Expense, net*

Net interest expense, including deferred financing amortization expense, for the year ended December 31, 2016 was \$7.7 million, an increase of \$0.2 million, or 2.7%, as compared to \$7.5 million for 2015. The increase was primarily due to higher average interest rates on borrowings, mostly offset by lower interest charges from U.S. federal and state amended tax returns from prior periods.

### *Foreign Exchange*

Foreign exchange for the year ended December 31, 2016 was a loss of \$1.1 million as compared to a loss of \$3.9 million for 2015. The U.S. Dollar is the functional currency of our Mexican and Canadian operations. The Company has greater foreign denominated asset balances (largely Mexican Peso and Canadian Dollar), such as VAT receivables and prepaid income taxes in foreign jurisdictions, than offsetting foreign denominated liability balances. As the U.S. Dollar strengthened throughout 2016 versus the Mexican Peso and the Canadian Dollar, the remeasurement of the net foreign asset denominated balances contributed to a net foreign exchange loss for 2016. 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 32% for the year ended December 31, 2016 compared to 34% for 2015. The more significant variances in the effective tax rate included a Mexican de-consolidation deferred tax liability adjustment in 2016 which decreased the tax rate by 4% year over year, partially offset by lower domestic production activities deduction on the U.S. federal return which increased the tax rate by 2% year over year.

### *Net Income*

Net income for the year ended December 31, 2016 was \$48.0 million, an increase of \$21.7 million, as compared to \$26.3 million for 2015, due to the factors described above.

## ***Year Ended December 31, 2015 compared to the Year Ended December 31, 2014***

### *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 year ended December 31, 2015 were \$789.1 million, a decrease of \$50.1 million, or 6.0%, as compared to \$839.2 million for 2014. Specialty Phosphates sales were down 3.8%, or \$29.1 million, with selling prices lower by 2.8%, or \$21.1 million, and volumes lower by 1.0%, or \$8.0 million. The price decrease was seen across all product lines with increased selling price pressures, largely from foreign competitors. Decreased Specialty Ingredients and STPP & Detergent Grade PPA volumes were partially offset by increased Food & Tech Grade PPA volumes that recovered from U.S. PPA supply issues experienced in the fourth quarter of 2014. GTSP & Other sales were down 27.1%, or \$21.0 million, with volumes lower by 26.5% , or \$20.6 million, due to weak fertilizer market demand, and prices lower by 0.6%, or \$0.4 million.

The Company calculates pure selling price dollar variances as the selling price for the current year period minus the selling price for the prior year period, and then multiplies the resulting selling price difference by the prior year 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 year ended December 31, 2015 the percentage changes in net sales by reportable segment compared with the prior year, including the effect of price and volume/mix changes upon revenue:

	<u>Price</u>	<u>Volume/Mix</u>	<u>Total</u>
Specialty Phosphates US & Canada	(2.9)%	(1.5)%	(4.4)%
Specialty Phosphates Mexico	(2.4)%	0.6 %	(1.8)%
Total Specialty Phosphates	(2.8)%	(1.0)%	(3.8)%
GTSP & Other	(0.6)%	(26.5)%	(27.1)%
Total	(2.6)%	(3.4)%	(6.0)%

The following table illustrates for the year ended December 31, 2015 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:

	<u>Price</u>	<u>Volume/Mix</u>	<u>Total</u>
Specialty Ingredients	(2.9)%	(3.0)%	(5.9)%
Food & Technical Grade PPA	(3.2)%	9.3 %	6.1 %
STPP & Detergent Grade PPA	(0.7)%	(6.3)%	(7.0)%

#### *Gross Profit*

Gross profit represents net sales less cost of goods sold. Gross profit for the year ended December 31, 2015 was \$143.3 million, a decrease of \$44.2 million, or 23.6%, as compared to \$187.5 million for 2014. Gross profit percentage decreased to 18.2% for the year ended December 31, 2015 versus 22.3% for 2014. Gross profit in 2015 was adversely affected by \$21.5 million lower selling prices, \$10.7 million increased cost of goods sold due to changes in fixed costs in inventory, \$7.2 million higher manufacturing costs, \$5.1 million higher raw material costs, mainly PPA and MGA, \$3.4 million increase in inventory reserves, \$3.3 million restructuring and management transition costs recorded in the period, \$2.7 million higher depreciation, \$2.0 million due to a supplier revision of their 2014 costs, \$0.9 million for a GTSP lower of cost or market reserve, and a combined net \$0.9 million increase in planned maintenance outage expense at our Coatzacoalcos, Mexico, Geismar, Louisiana, and Waterway, Illinois manufacturing facilities. These unfavorable effects were partially offset by \$9.0 million favorable exchange rate from Mexican peso and Canadian dollar based costs, and \$3.6 million favorable sales volume effects. Included in 2014 was \$0.9 million for the accrual of Geismar, Louisiana plant contingent liabilities.

#### *Operating Expenses and Research and Development*

Operating expenses consist primarily of selling, general and administrative and research and development expenses. Operating expenses for the year ended December 31, 2015 were \$91.8 million, an increase of \$11.1 million, or 13.8%, as compared to \$80.7 million for 2014. The increase was primarily due to \$11.3 million management transition costs and \$5.8 million restructuring costs, partially offset by \$4.6 million lower employee related expenses for short-term incentive and stock compensation, \$1.7 million favorable exchange rate from Mexican peso based costs, and \$0.9 million lower expenses in China.

#### *Operating Income*

Operating income for the year ended December 31, 2015 was \$51.5 million, a decrease of \$55.3 million, or 51.8%, as compared to \$106.8 million for 2014. Operating income percentages decreased to 6.5% for 2015 from 12.7% for 2014.

#### *Interest Expense, net*

Net interest expense, including deferred financing amortization expense, for the year ended December 31, 2015 was \$7.5 million, an increase of \$3.1 million, or 70.5% as compared to \$4.4 million for 2014. The increase was primarily due to higher average debt levels, largely driven by the share repurchase program, and a \$1.2 million interest charge in 2015 related to the anticipated filing of amended U.S. federal and state tax returns to claim foreign tax credits.

### *Foreign Exchange*

Foreign exchange for the year ended December 31, 2015 was a loss of \$3.9 million as compared to a loss of \$5.0 million for 2014. The U.S. Dollar is the functional currency of our Mexican and Canadian operations. The Company has greater foreign denominated asset balances (largely Mexican Peso and Canadian Dollar), such as VAT receivables and prepaid income taxes in foreign jurisdictions, than offsetting foreign denominated liability balances. As the U.S. Dollar strengthened throughout 2015 versus the Mexican Peso and the Canadian Dollar, the remeasurement of the net foreign asset denominated balances contributed to a net foreign exchange loss for 2015. 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 income tax rate was 34% for the year ended December 31, 2015 compared to 34% for 2014. The more significant variances in the effective tax rate include a change in the Mexican de-consolidation deferred tax liability adjustment which increased the tax rate by 3%, additional uncertain tax position reserves which increased the tax rate by 2%, benefits related to the repatriation of foreign earnings which decreased the tax rate by 2% and increased income, including non-taxable interest income, in lower tax rate jurisdictions which decreased the tax rate by 3%.

### *Net Income*

Net income for the year ended December 31, 2015 was \$26.3 million, a decrease of \$38.2 million as compared to \$64.5 million for 2014, due to the factors described above.

## Segment Reporting

The Company reports its core Specialty Phosphates business separately from GTSP & Other. Specialty Phosphates consists of three products lines: Specialty Ingredients; Food & Technical Grade PPA; and STPP & Detergent Grade PPA. Our nutritional ingredients business is 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 EBITDA. The following table sets forth the historical results of these indicators by segment for the years ended December 31, 2016, 2015 and 2014:

	2016	2015	2014
<b>Segment Net Sales</b>			
Specialty Phosphates US & Canada	\$ 511,304	\$ 568,332	\$ 594,446
Specialty Phosphates Mexico	162,095	164,489	167,423
Total Specialty Phosphates	<u>673,399</u>	<u>732,821</u>	<u>761,869</u>
GTSP & Other	51,946	56,326	77,317
Total	<u>\$ 725,345</u>	<u>\$ 789,147</u>	<u>\$ 839,186</u>
<b>Net Sales % Growth</b>			
Specialty Phosphates US & Canada	(10.0)%	(4.4)%	
Specialty Phosphates Mexico	(1.5)%	(1.8)%	
Total Specialty Phosphates	<u>(8.1)%</u>	<u>(3.8)%</u>	
GTSP & Other	(7.8)%	(27.1)%	
Total	<u>(8.1)%</u>	<u>(6.0)%</u>	
<b>Segment EBITDA</b>			
Specialty Phosphates US & Canada	\$ 68,457	\$ 73,031	\$ 104,617
Specialty Phosphates Mexico	49,408	30,723	35,905
Total Specialty Phosphates	<u>117,865</u>	<u>103,754</u>	<u>140,522</u>
GTSP & Other (a) (b)	(2,399)	(17,578)	(3,351)
Total	<u>\$ 115,466</u>	<u>\$ 86,176</u>	<u>\$ 137,171</u>
<b>Segment EBITDA % of net sales</b>			
Specialty Phosphates US & Canada	13.4 %	12.9 %	17.6 %
Specialty Phosphates Mexico	30.5 %	18.7 %	21.4 %
Total Specialty Phosphates	<u>17.5 %</u>	<u>14.2 %</u>	<u>18.4 %</u>
GTSP & Other (a) (b)	(4.6)%	(31.2)%	(4.3)%
Total	<u>15.9 %</u>	<u>10.9 %</u>	<u>16.3 %</u>
<b>Depreciation and amortization expense</b>			
Specialty Phosphates US & Canada	\$ 25,752	\$ 26,442	\$ 24,264
Specialty Phosphates Mexico	7,940	9,558	9,416
Total Specialty Phosphates	<u>\$ 33,692</u>	<u>36,000</u>	<u>33,680</u>
GTSP & Other	3,787	2,535	1,781
Total	<u>\$ 37,479</u>	<u>\$ 38,535</u>	<u>\$ 35,461</u>

- (a) The year ended December 31, 2015 includes a \$11.8 million charge to earnings for management transition expenses and \$8.6 million charge to earnings for restructuring reserves.
- (b) The year ended December 31, 2016 includes \$1.5 million charge to earnings for restructuring costs.

A reconciliation of net income to EBITDA follows:

	2016	2015	2014
Net income	\$ 47,971	\$ 26,346	\$ 64,461
Provision for income taxes	22,347	13,777	32,895
Interest expense, net	7,669	7,518	4,354
Depreciation and amortization	37,479	38,535	35,461
EBITDA	<u>\$ 115,466</u>	<u>\$ 86,176</u>	<u>\$ 137,171</u>



### ***Segment Net Sales:***

Specialty Phosphates US & Canada net sales decreased 10.0% for the year ended December 31, 2016 compared with the same period in 2015. Average selling prices decreased by 0.7% and volumes decreased 9.3% due to reduced sales of lower margin, less differentiated applications, and reduced demand across product lines in core markets served. Net sales decreased 4.4% for the year ended December 31, 2015 when compared with the same period in 2014. Average selling prices decreased by 2.9%, mainly due to increased competitive pressures from European and Chinese competitors following the strengthening of the U.S. dollar in late 2014. Overall volumes decreased 1.5%, with decreases in Specialty Ingredients partially offset by increased Food & Technical Grade PPA volumes which recovered from weak 2014 levels.

Specialty Phosphates Mexico net sales decreased 1.5% for the year ended December 31, 2016 compared with the same period in 2015. Average selling prices decreased 2.9%, primarily due to competitive pressures on PPA and specialty horticulture markets, while volumes increased 1.4%. Net sales decreased 1.8% for the year ended December 31, 2015 when compared with the same period in 2014. Selling prices decreased 2.4%, primarily due to increased Chinese competitive pricing pressures in part due to reductions in governmental export tariffs on solid fertilizers. Overall volumes increased 0.6%, with increases in Food & Technical Grade PPA volumes partially offset by decreases in Specialty Ingredients and STPP & Detergent Grade PPA volumes.

GTSP & Other net sales decreased 7.8% for the year ended December 31, 2016 compared with the same period in 2015. Average selling prices decreased 27.1% due to the weakest fertilizer market conditions in seven years, while volumes increased 19.3%. Net sales decreased 27.1% for the year ended December 31, 2015 when compared with the same period in 2014. Volumes decreased 26.5% due to very weak market demand, particularly in the fourth quarter 2015, and selling prices decreased 0.6%.

### ***Segment EBITDA Percentage of Net Sales:***

The 50 basis point increase in Specialty Phosphates US & Canada EBITDA margins for the year ended December 31, 2016 compared with 2015 is due to lower sales volume/mix which decreased margins by 220 basis points, lower average selling prices which decreased margins by 60 basis points, increased raw material costs, primarily PPA and MGA, which decreased margins 50 basis points, and costs related to the refinancing of our credit facility which decreased margins by 10 basis points. This decrease was partially offset by lower manufacturing and operating cost which increased margins by 260 basis points and favorable exchange rate and translation effects which increased margins by 30 basis points. Included in 2015 was higher inventory reserves which increased margins by 60 basis points in 2016 and cost for low production rates in late 2014 that caused higher cost to be recorded in 2015 which increased margins by 40 basis points in 2016. The 470 basis point decrease in Specialty Phosphates US & Canada EBITDA margins for the year ended December 31, 2015 compared with 2014 is due to lower average selling prices which decreased margins by 240 basis points, increased raw material costs, primarily PPA and MGA, which decreased margins 100 basis points, low production rates in late 2014 that caused higher cost to be recorded in 2015 which decreased margins by 100 basis points, higher inventory reserves which decreased margins by 60 basis points, higher manufacturing cost which decreased margins by 90 basis points, and increased cost due to timing on fixed cost in inventory which decreased margins by 50 basis points. This decrease was partially offset by lower operating expenses which increased margins by 100 basis points, higher sales volume/mix which increased margins by 40 basis points, favorable exchange rate effects which increased margins by 20 basis points, and lower turnaround costs which increased margins by 10 basis points.

The 1,180 basis point increase in Specialty Phosphates Mexico EBITDA margins for the year ended December 31, 2016 compared with the same period in 2015 is due to lower raw material costs which increased margins by 1,020 basis points, favorable exchange rate and translation effects which increased margins by 400 basis points, and lower manufacturing and operating cost which increased margins by 40 basis points. This increase was partially offset by lower average selling prices which decreased margins by 250 basis points and lower sales volume/mix which decreased margins by 30 basis points. The 270 basis point decrease in Specialty Phosphates Mexico EBITDA margins for the year ended December 31, 2015 compared with the same period in 2014 is due to higher manufacturing and operating cost which decreased margins by 400 basis points, lower average selling prices which decreased margins by 190 basis points, higher raw material costs, primarily sulfur, which decreased margins by 110 basis points, and higher turnaround costs which decreased margins by 80 basis points. This decrease was partially offset by favorable exchange rate and translation effects which increased margins by 480 basis points and higher sales volume/mix which increased margins by 30 basis points.

The 2,660 basis point increase in GTSP & Other EBITDA margins for the year ended December 31, 2016 compared with the same period in 2015 is due to lower restructuring/management transition costs which increased margins by 3,360 basis points, higher sales volume/mix which increased margins by 2,650 basis points, lower raw material costs which increased margins by 1,440 basis points, and favorable exchange rate and translation effects which increased margins by 360 basis points. This increase was partially offset by lower selling prices which decreased margins 4,890 basis points and higher manufacturing

costs which decreased margins 260 basis points. The 2,690 basis point decrease in GTSP & Other EBITDA margins for the year ended December 31, 2015 compared with the same period in 2014 is due to restructuring/management transition costs recorded in the period which decreased margins by 2,640 basis points, lower sales volume/mix which decreased margins by 600 basis points, increased cost due to changes in inventory which decreased margins by 290 basis points, a lower of cost or market reserve which decreased margins by 120 basis points, lower selling prices which decreased margins 60 basis points, and higher turnaround costs which decreased margins by 50 basis points. This decrease was partially offset by lower manufacturing and operating costs which increased margins 580 basis points and favorable exchange rate and translation effects which increased margins by 370 basis points. Included in 2014 was the accrual of Geismar, Louisiana plant contingent liabilities which increased margins by 120 basis points in 2015.

Innophos has presented the segment disclosure information under the reporting structure in place during 2016. During the first quarter of 2017, Innophos will change the way information will be regularly reviewed by our CODM to a market view, which will reflect the way we will manage and operate the business. Our measure of segment profitability will continue to be EBITDA. We will recast all prior periods in future filings to conform to the new presentation.

## Liquidity and Capital Resources

### Cash Flow Summary

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

(Dollars in millions)	Year Ended December 31,		
	2016	2015	2014
Operating Activities	\$ 139.1	\$ 98.9	\$ 126.8
Investing Activities	(36.6)	(31.7)	(29.4)
Financing Activities	(67.1)	(86.0)	(94.0)
Effect of foreign exchange rate changes	0.1	0.5	0.1

### Year Ended December 31, 2016 compared to the Year Ended December 31, 2015

Net cash provided by operating activities was \$139.1 million for the year ended December 31, 2016 as compared to \$98.9 million for 2015, an increase of \$40.2 million. The increase in operating activities cash resulted from favorable changes of \$21.7 million in net income as described earlier and \$41.3 million in non-cash adjustments to income, primarily changes in deferred income tax provision, partially offset by unfavorable changes of \$16.4 million in working capital and \$6.4 million in other long term assets and liabilities.

The unfavorable change in working capital is derived from it being a source of cash of \$41.2 million in 2016 compared to a source of \$57.6 million in 2015, a decrease in cash of \$16.4 million. The unfavorable change in working capital was due to unfavorable changes in other current liabilities of \$46.8 million, largely due to U.S. income tax payments of \$18.6 million for immediate recognition of revenue for income tax purposes which is not expected to recur and severance payments of \$8.5 million, other current assets of \$23.9 million due to lower VAT balances and vendor deposits in 2015 compared to 2014, and accounts receivable of \$8.7 million. These unfavorable effects were mostly offset by favorable changes in inventory of \$31.9 million due to lower raw material costs and adjusted inventory levels to align with lower customer demand, and accounts payable of \$31.1 million, which will be paid in the first quarter of 2017. Accounts receivable as a percent of quarterly sales, when adjusted for GTSP open accounts receivable of \$0.1 million, \$0.2 million, \$1.8 million, \$1.3 million, and \$0.3 million as of December 31 2016, September 30, 2016, June 30, 2016, March 31, 2016, and December 31, 2015, respectively, was consistent with the last four quarters' average.

Total inventories as of December 31, 2016 decreased \$44.0 million from December 31, 2015 levels, due to lower raw material costs and adjusted inventory levels to align with lower customer demand, resulting in days of inventory on hand decreasing to 81 days as of December 31, 2016. The following chart shows its historical performance:

	2016	2015	2014
Inventory Days on Hand	81	98	103

Net cash used for investing activities was \$36.6 million for the year ended December 31, 2016, compared to \$31.7 million for 2015, an increase in spending of \$4.9 million.

Approximately 65% of the 2016 capital spending was for plant maintenance projects and the remaining 35% was for strategic growth initiatives. The majority of the strategic growth investments were focused on improving the capacity and capability of our North Salt Lake, UT and Chicago (Waterway), IL facilities as well as the preliminary engineering and equipment investment for the the deep well injection system project at our Geismar, LA facility. The company expects to spend \$16 million on the project with most of the spending occurring in 2017.

Net cash from financing activities for the year ended December 31, 2016, was a use of \$67.1 million, compared to a use of \$86.0 million in 2015, an increase in cash of \$18.9 million. This increase in cash was largely due to \$125.0 million decreased stock repurchases and \$13.0 million decreased loan repayments, partially offset by \$118.0 million decreased loan borrowings. The loan borrowings in 2015 were largely used to fund the share repurchases in that year.

***Year Ended December 31, 2015 compared to the Year Ended December 31, 2014***

Net cash provided by operating activities was \$98.9 million for the year ended December 31, 2015 as compared to \$126.8 million for 2014, a decrease of \$27.9 million. The decrease in operating activities cash resulted from unfavorable changes of \$38.1 million in net income as described earlier and \$33.0 million in non-cash adjustments to income, primarily due to a change in deferred income tax provision for timing differences for immediate recognition of revenue for U.S. income tax purposes versus deferred revenue for U.S. GAAP purposes of \$27.7 million, partially offset by favorable changes of \$36.6 million in working capital, primarily due to increased current income taxes of \$22.3 million, and \$6.6 million in other long term assets and liabilities.

The favorable change in working capital is derived from it being a source of cash of \$57.6 million in 2015 compared to a source in 2014 of \$21.0 million, an increase in cash of \$36.6 million. The favorable change in working capital was due to favorable changes in other current liabilities of \$27.7 million, primarily driven by a change in current income taxes payable in the U.S. of \$27.7 million for the immediate recognition of income for U.S. income tax purposes, inventory of \$15.1 million, due to increases in inventory reserves and lower PPA on hand for year-end 2015, accounts receivable of \$12.9 million, and other current assets of \$11.5 million as a result of VAT collections and reduction in prepaid income taxes in Mexico, partially offset by an unfavorable change in accounts payable of \$30.6 million due to larger than usual vendor payables at year end 2014 which were paid in the first quarter of 2015. Accounts receivable as a percent of quarterly sales, when adjusted for GTSP open accounts receivable of \$0.3 million, \$0.9 million, \$0.9 million, \$0.8 million, and \$0.9 million as of December 31, 2015, September 30, 2015, June 30, 2015, March 31, 2015, and December 31, 2014, respectively, was consistent with the last four quarters' average.

Total inventories as of December 31, 2015 decreased \$12.0 million from December 31, 2014 levels resulting in days of inventory on hand decreasing to 98 days as of December 31, 2015. The following chart shows its historical performance:

	2015	2014	2013
Inventory Days on Hand	98	103	96

Net cash used for investing activities was \$31.7 million for the year ended December 31, 2015, compared to \$29.4 million for 2014, an increase in spending of \$2.3 million.

Approximately 75% of the 2015 capital spending was for plant maintenance projects and the remaining 25% was for strategic growth initiatives. The majority of the strategic growth investments were focused on improving the capacity and capability of our Coatzacoalcos, Mexico facility and automating packaging at our Port Maitland, Canada facility.

Net cash from financing activities for the year ended December 31, 2015, was a use of \$86.0 million, compared to a use of \$94.0 million in 2014, an increase in cash of \$8.0 million. This increase in cash was largely due to \$150.0 million increased loan borrowings, partially offset by \$46.0 million increased loan repayments and \$95.7 million increased stock repurchases. The loan borrowings were largely used to fund the share repurchases.

***Liquidity***

***Indebtedness***

Total debt was \$185.0 million as of December 31, 2016. Short term and long term debt net of cash was \$131.5 million as of December 31, 2016, a decrease of \$63.6 million, or 32.6% from the December 31, 2015 level.

In December 2016, Innophos entered into a new senior secured credit facility, or Credit Agreement, with a group of lenders, or the Lenders, increasing the Company's borrowing capacity. The Credit Agreement replaced the term loan of

\$100.0 million and revolving line of credit under the old facility with a \$450.0 million revolving line of credit, including a \$20.0 million letter of credit sub-facility and a \$20.0 million swingline loan facility, all maturing on December 22, 2021. Interest accruing on amounts borrowed under the revolving line is based on an applicable margin over LIBOR (London Interbank Offered Rate) or bank base rate, ranging from 100 to 225 basis points for LIBOR and 0 to 125 basis points for base rate loans, in each case with loan period and interest alternative as chosen by the Company, which margin is adjusted quarterly depending on a total leverage ratio (as computed under the Credit Agreement) for the period in question. Commitment fees on the unused revolving line range from 12.5 to 37.5 basis points, depending on total leverage ratio (as computed under the Credit Agreement) for the period in question. The current applicable margin for LIBOR based loans, base rate loans and the commitment fee are 175, 75 and 27.5 basis points, respectively.

The Credit Agreement also provides for possible additional revolving indebtedness under an incremental facility of up to \$150.0 million (for an aggregate of revolving capacity up to \$600.0 million) upon future request by the Company to existing Lenders (and depending on their consent) or from other willing financial institutions invited by the Company and reasonably acceptable to the administrative agent to join in the Credit Agreement. This revolving credit facility increase, if implemented, may provide for higher applicable margins to either the increased portion or possibly the entire revolving credit facility, with limitations, than those in effect for the original revolving commitments under the Credit Agreement. Refer to Note 9 of Notes to Consolidated Financial Statements in "Item 8. Consolidated Financial Statements and Supplementary Data".

In December 2012, Innophos entered into an interest rate swap, swapping the LIBOR exposure on \$100.0 million of floating rate debt, which is currently outstanding under our current Credit Agreement, to a fixed rate to maturity obligation of 0.9475% plus the applicable margin on the debt expiring on December 21, 2017. The fair value of this interest rate swap is an asset of approximately \$14 thousand as of December 31, 2016.

Although it had no outstanding debt for the applicable period except attributable to its senior bank credit facilities, Innophos and its subsidiaries and affiliates may from time to time seek to acquire or otherwise retire outstanding debt through public or 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. Refer to Note 9 of Notes to Consolidated Financial Statements in "Item 8. Consolidated Financial Statements and Supplementary Data".

### ***Capital Expenditures***

Capital expenditures were \$36.6 million for 2016. Approximately 65% of the 2016 capital spending was for plant maintenance projects and the remaining 35% was for strategic growth initiatives. The majority of the strategic growth investments were focused on improving the capacity and capability of our North Salt Lake, UT and Chicago (Waterway), IL facilities as well as the preliminary engineering and equipment investment for the the deep well injection system project at our Geismar, LA facility to handle the raffinate separated at the plant. The company expects to spend \$16 million on the project with most of the spending occurring in 2017. Overall, 2017 capital expenditures are forecast to be between \$45 million and \$50 million.

### ***Other Liquidity Matters***

As indicated elsewhere, the Company increased the quarterly dividend on its common stock to an annual rate of \$1.92 per share starting with the third quarter 2014 payment. That policy may change and is subject to numerous conditions and variables. See the section entitled "Dividends" in Item 5 of this Form 10-K and "Risk Factors - Certain Financial Risks - Contingencies Affecting Dividends - Our ability to pay dividends in the future may be compromised."

On December 31, 2016, the Company had cash and cash equivalents outside the United States of \$38.0 million, or 71% of the Company's balance. The foreign cash amounts are not restricted by law to be used in other countries. In connection with a review of the Company's overall cash position and anticipated cash needs, during the fourth quarter of 2015, we made a \$266 million distribution of certain foreign earnings in the form of an intercompany note. This distribution resulted in an immaterial net tax impact. Our current operating plan does not include any other repatriation of any additional cash and cash equivalents held outside the United States to fund the United States operations. However, in the event we do repatriate cash and cash equivalents held outside of the United States in addition to the \$266 million, we may be required to accrue and pay United States taxes to repatriate these funds.

The Company has incurred costs associated with involuntary termination benefits associated with its corporate-related initiatives, as well as the management transition. During 2015, the Company incurred restructuring and management transition costs of \$8.6 million and \$11.8 million, respectively. The amounts recorded within selling, general and administrative expenses in the statements of operations were \$17.1 million and cost of goods sold were \$3.3 million. During

2016, we incurred additional amounts in connection with continued restructuring of \$1.6 million (including accelerated stock compensation of \$0.3 million) within selling, general and administrative expenses and \$0.1 million within cost of goods sold. The Company expects to make \$4.7 million of payments associated with these actions within the next twelve months.

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

### ***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.

### **Contractual Obligations and Commercial Commitments**

The following table sets forth our long-term contractual cash obligations as of December 31, 2016 (dollars in thousands):

<b>Contractual Obligations</b>	<b>Years ending December 31,</b>						
	<b>Total</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>Thereafter</b>
Revolver borrowings (1)	\$ 185,000	\$ —	\$ —	\$ —	\$ —	\$ 185,000	\$ —
Future Service Pension Benefits	10,153	684	790	859	936	1,006	5,878
Other (2)	131,266	77,153	54,113	—	—	—	—
Operating Leases	38,789	6,344	5,732	5,117	4,154	3,969	13,473
<b>Total contractual cash obligations</b>	<b>\$ 365,208</b>	<b>\$ 84,181</b>	<b>\$ 60,635</b>	<b>\$ 5,976</b>	<b>\$ 5,090</b>	<b>\$ 189,975</b>	<b>\$ 19,351</b>

- (1) Amounts exclude interest payments. Interest on the \$185.0 million current balance of the revolver borrowings at current rates would be approximately \$4.7 million annually.
- (2) Represents minimum annual purchase commitments to buy raw materials from suppliers.



## Critical Accounting Estimates and Policies

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with United States generally accepted accounting principles. The preparation of our financial statements requires us to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures. On an ongoing basis, we evaluate our estimates, including those related to allowance for bad debts, distributor incentives and rebates, the recoverability of long-lived assets, including amortizable intangible assets, goodwill, depreciation and amortization periods, income taxes and commitments and contingencies. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe that the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

### *Claims and Legal Proceedings*

The categories of asserted or unasserted claims for which the Company has estimated a probable liability and for which amounts are estimable are critical accounting estimates. Please refer to Part I, Item 3. "Legal Proceedings" and the section entitled "Commitments and Contingencies" in Note 16 of Notes to Consolidated Financial Statements in "Part II, Item 8. Consolidated Financial Statements and Supplementary Data" for additional information about such estimates.

### *Deferred Taxes*

Deferred taxes are accounted for by recognizing deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the financial statements. Accordingly, deferred tax assets and liabilities are determined based on the differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

Deferred tax assets are assessed for recoverability and a valuation allowance is considered necessary if it is more likely than not that some portion or all of the net deferred tax assets will not be realized. We continue to analyze our current and future profitability and probability of the realization of our net deferred tax assets in future periods. Please refer to the section entitled "Income Taxes" (contained in Note 15) of Notes to Consolidated Financial Statements in "Part II, Item 8. Consolidated Financial Statements and Supplementary Data" for additional information regarding deferred taxes.

### *Goodwill*

Goodwill represents the excess of the acquisition cost over the fair value of net assets of the businesses acquired. Accounting Standards Codification (ASC) 350, "*Intangibles-Goodwill and Other*," requires periodic tests of the impairment of goodwill. ASC 350 requires a comparison, at least annually, of the net book value of the assets and liabilities associated with a reporting unit, including goodwill, with the fair value of the reporting unit, which corresponds to the discounted cash flows of the reporting unit, in the absence of an active market. When this comparison indicates that impairment must be recorded, the impairment recognized is the amount by which the carrying amount of the assets exceeds the fair value of these assets. The annual goodwill impairment review is conducted during the fourth quarter of each year. Fair values for goodwill testing are estimated using a discounted cash flow approach. Significant estimates in the discounted cash flow approach include the cash flow forecasts for each of our reporting units, the discount rate and the terminal value. The five year cash flow forecasts of the Company's reporting units is based upon management's estimate at the date of the assessment, which incorporates managements long-term view of selling prices, sales volumes for Innophos' products, key raw materials and energy costs, and our operating cost structure. The aggregated fair value of our reporting units was reconciled to our market capitalization at the date of the assessment, plus a suitable control premium. The terminal value was determined by applying business growth factors for each reporting unit which are in-line with longer term growth rates, to the latest year for which a forecast exists.

Our market capitalization during fourth quarter of 2016 exceeded the book value of our equity.

Our reporting units for goodwill purposes are Specialty Phosphates United States, Specialty Phosphates Canada, Specialty Phosphates Mexico, Innophos Nutrition and GTSP & Other. As of October 31, 2016, the Company performed step one of the annual goodwill impairment test for each reporting unit and concluded that the fair values of all the reporting units, excluding Innophos Nutrition, were in excess of their carrying values by more than 25%. We used discount rates which commensurate with the risks inherent to each reporting unit and in our cash flow forecasts. Discount rates used in our 2016 reporting unit valuations ranged from 10% to 11%.

Based on the current management estimates, the fair value of Innophos Nutrition is approximately 20% greater than the carrying value. An increase in the discount rate of 2% used in the goodwill impairment testing calculation would result in an estimated fair value below the carrying value for this reporting unit. If revenue levels decline or remain flat, and management does not take other compensating actions, there is an increased likelihood that the fair value may be below the carrying value for this reporting unit. The goodwill assigned to Innophos Nutrition is \$32.7 million.

The development of future cash flow projections requires management estimates related to forecasted sales and expected costs trends. To the extent that changes in business conditions occur or other management decisions are made that result in adjusted management projections, impairment losses may occur in future periods.

#### *Long-lived assets*

Under ASC 360, “*Property, Plant, and Equipment*,” long-lived assets including property, plant and equipment and amortized intangible assets are evaluated and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. The review of these long-lived assets is performed at the individual asset level, asset group level, or the product group level depending on the lowest level for which identifiable cash flows are largely independent. The Company’s asset groupings or product groupings vary based on the interrelationship of the long-lived assets and the identifiable cash flows. For example, in certain instances, multiple manufacturing units may work with one another to produce the lowest identifiable cash flows or in other instances a stand-alone unit may produce the lowest level of identifiable cash flows. There are other instances where a stand-alone unit may produce multiple products and the lowest level of identifiable cash flows is at the product group level. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to the undiscounted future cash flows expected to be generated by the asset, asset group or product group. When this comparison indicates that impairment must be recorded, the impairment recognized is the amount by which the carrying amount of the assets exceeds the fair value of the assets.

The determination of whether or not assets are impaired and the corresponding useful lives of these long-lived assets requires significant judgment. The development of future cash flow projections requires management estimates related to forecasted sales and expected costs trends. To the extent that changes in business conditions occur or other management decisions are made that result in adjusted management projections or alternative use of the assets, impairment losses or accelerated depreciation may occur in future periods.

#### *Stock-Based Compensation Expense*

Our compensation programs can 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 Innophos common stock at an exercise price per share set equal to the market price of Innophos common stock on the date of grant.
- Restricted stock grants, which entitle the holder to receive, at the end of each vesting term, a specified number of shares of Innophos common stock, and which also entitle the holder to receive dividends paid on such grants throughout the vesting period.
- Performance share awards which entitle the holder to receive, at the end of a performance cycle, a number of shares of Innophos 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.
- 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.

The fair value of the options granted during 2016, 2015 and 2014 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	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014
Expected volatility	33.8%	40.8%	50.1%
Dividend yield	6.6%	4.3%	3.2%
Risk-free interest rate	1.4%	1.7%	2.0%
Expected term in years	6.6	6.0	6.0
Weighted average grant date fair value of stock options	\$ 4.62	\$ 12.14	\$ 20.15

The expected volatility and the expected term are based on the Company's historical data. The dividend yield is the expected annual dividend payments divided by the average stock price 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.

#### *Pension and Post-Retirement Costs / Post-Employment Plan*

The Company maintains both defined contribution plans and noncontributory defined benefit pension plans that together cover all U.S. and Canadian employees.

In the United States, salaried and hourly employees are covered by a defined contribution plan with a 401(k) feature. The plan provides for employee contributions, company matching contributions, and an age-weighted annual company contribution to eligible employees. Union-represented hourly employees at our Nashville site are covered by a traditional defined benefit plan providing benefits based on years of service and final average pay whose benefit accruals were frozen as of August 1, 2007, after which the Nashville union employees began participating in the Company's existing noncontributory defined contribution benefit plan. All plans were established by Innophos in 2004.

In Canada, salaried employees are covered by defined contribution plans which provide for company contributions as a percent of pay, employee contributions, and company matching contributions. Union-represented hourly employees are covered by a defined benefit plan providing benefits based on a negotiated benefit level and years of service.

Our pension and postretirement benefit costs are developed from actuarial valuations. Inherent in these valuations are key assumptions, including the discount rate and the expected long-term rate on plan assets. These assumptions require significant judgment and material changes in our pension and postretirement benefit costs may occur in the future due to changes in these assumptions, changes in levels of benefits provided, and changes in asset levels. Such assumptions are based on benchmarks obtained from third party sources.

As a sensitivity measure, the effect of a 25 basis-point decrease in our discount rate assumption would increase our net periodic benefit cost for our pension and post-retirement plans by approximately \$38 thousand. A 1% decrease in our expected rate of return on plan assets would increase our pension plan expense by \$177 thousand.

#### *Recently Issued Accounting Standards*

New accounting standards effective in 2016 are described in the Recent Accounting Pronouncements section in Note 1 of Notes to Consolidated Financial Statements in "Part II, Item 8. Consolidated Financial Statements and Supplementary Data."

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

At December 31, 2016, we had a \$450.0 million revolving credit facility, of which \$185.0 million was outstanding, which approximates fair value (determined using level 2 inputs within the fair value hierarchy), under the credit facility established by our Credit Agreement. Total remaining availability was \$264.0 million, taking into account \$1.0 million in face amount of letters of credit issued under the sub-facility. In December of 2012, we entered into an interest rate swap, swapping the LIBOR exposure on \$100 million of floating rate debt, which is currently outstanding under our current Credit Agreement, to a fixed rate to maturity obligation of 0.9475% expiring in December 2017. The fair value of this interest rate swap is an asset of approximately \$14 thousand as of December 31, 2016.

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 \$85.0 million outstanding borrowings as floating rate debt (not included in the swap) under our credit facility, an immediate increase of one percentage point would cause an increase to interest expense of approximately \$0.9 million per year.

From time to time, we will enter into longer term natural gas and electricity supply contracts in an effort to eliminate some of the volatility in our energy costs. We did not enter into any economic hedges in the past three years.

We do not currently, but may from time to time, 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 remeasured at current exchange rates, non-monetary assets and liabilities are remeasured at historical exchange rates, and revenue and expenses are remeasured at average exchange rates and at historical exchange rates for the related revenue and expenses of non-monetary assets and liabilities. All transaction gains and losses are included in net income.

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

### **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. See "Part I, Item 1A. Risk Factors - Raw Materials Availability and Pricing - The success of our business depends on our ability to successfully source sufficient amounts of the raw materials used in our products at competitive prices, often from a limited number of suppliers, some of whom with we do not have a long-term contract in place." in this Annual Report on Form 10-K for a discussion of the risks associated with our sourcing raw materials.

**ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Innophos Holdings, Inc:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of comprehensive income, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Innophos Holdings, Inc. and its subsidiaries at December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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.

/s/PricewaterhouseCoopers LLP  
Florham Park, New Jersey  
February 28, 2017

**INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES**

**Consolidated Balance Sheets**

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

	December 31,	
	2016	2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 53,487	\$ 17,905
Accounts receivable, net	77,692	79,743
Inventories	128,295	172,667
Other current assets	23,894	23,514
Total current assets	283,368	293,829
Property, plant and equipment, net	205,459	199,494
Goodwill	84,373	84,373
Intangibles and other assets, net	69,811	91,857
Total assets	\$ 643,011	\$ 669,553
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ —	\$ 4,002
Accounts payable, trade and other	51,611	36,898
Other current liabilities	43,605	63,204
Total current liabilities	95,216	104,104
Long-term debt	185,000	209,000
Other long-term liabilities	15,569	23,189
Total liabilities	\$ 295,785	\$ 336,293
Commitments and contingencies (note 16)		
Common stock, par value \$.001 per share; authorized 100,000,000; issued 22,777,690 and 22,586,016; outstanding 19,455,011 and 19,290,025 shares	19	19
Paid-in capital	134,694	132,399
Common stock held in treasury, at cost (3,322,679 and 3,295,991 shares)	(175,051)	(174,685)
Retained earnings	389,048	378,321
Accumulated other comprehensive loss	(1,484)	(2,794)
Total stockholders' equity	347,226	333,260
Total liabilities and stockholders' equity	\$ 643,011	\$ 669,553

See notes to consolidated financial statements

**INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES**

**Consolidated Statements of Comprehensive Income**

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

	Year Ended December 31,		
	2016	2015	2014
Net sales	\$ 725,345	\$ 789,147	\$ 839,186
Cost of goods sold	574,953	645,818	651,722
Gross profit	<u>150,392</u>	<u>143,329</u>	<u>187,464</u>
Operating expenses:			
Selling, general and administrative	67,555	87,304	76,020
Research & development expenses	3,739	4,502	4,649
Total operating expenses	<u>71,294</u>	<u>91,806</u>	<u>80,669</u>
Operating income	79,098	51,523	106,795
Interest expense, net	7,669	7,518	4,354
Foreign exchange losses	1,111	3,882	5,085
Income before income taxes	<u>70,318</u>	<u>40,123</u>	<u>97,356</u>
Provision for income taxes	22,347	13,777	32,895
Net income	<u>\$ 47,971</u>	<u>\$ 26,346</u>	<u>\$ 64,461</u>
Net income attributable to common shareholders	<u>\$ 47,683</u>	<u>\$ 26,274</u>	<u>\$ 64,324</u>
Per share data (see Note 12):			
Income per share:			
Basic	\$ 2.47	\$ 1.31	\$ 2.96
Diluted	\$ 2.44	\$ 1.29	\$ 2.91
Weighted average shares outstanding:			
Basic	19,271,448	20,032,300	21,753,270
Diluted	19,581,476	20,323,385	22,121,903
Other comprehensive (loss) income, net of tax:			
Change in interest rate swaps, (net of tax \$24, \$192, and \$221)	\$ (39)	\$ (314)	\$ (360)
Change in pension and post-retirement plans, (net of tax (\$749), (\$194), and \$377)	1,349	333	(888)
Other comprehensive (loss) income, net of tax	<u>\$ 1,310</u>	<u>\$ 19</u>	<u>\$ (1,248)</u>
Comprehensive income	<u>\$ 49,281</u>	<u>\$ 26,365</u>	<u>\$ 63,213</u>

See notes to consolidated financial statements

**INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES**

**Statements of Stockholders' Equity  
(Dollars and shares in thousands)**

	<u>Number of Common Shares</u>	<u>Common Stock</u>	<u>Retained Earnings (Deficit)</u>	<u>Paid-in Capital</u>	<u>Accumulated Other Comprehensive Income/(Loss)</u>	<u>Total Shareholders' Equity</u>
Balance, December 31, 2013	21,893	\$ 22	\$ 364,515	\$ 100,447	\$ (1,565)	\$ 463,419
Net income			64,461			64,461
Other comprehensive loss, (net of tax \$598)					(1,248)	(1,248)
Proceeds from stock award exercises and issuances	119			160		160
Share-based compensation				3,280		3,280
Excess tax benefits from exercise of stock options				1,071		1,071
Common stock repurchases	(528)	(1)		(29,482)		(29,483)
Restricted stock forfeitures	(4)			(202)		(202)
Dividends declared			(38,451)			(38,451)
Balance, December 31, 2014	21,480	\$ 21	\$ 390,525	\$ 75,274	\$ (2,813)	\$ 463,007
Net income			26,346			26,346
Other comprehensive income, (net of tax (\$2))					19	19
Proceeds from stock award exercises and issuances	139			246		246
Share-based compensation				6,618		6,618
Excess tax benefits from exercise of stock options				975		975
Common stock repurchases	(2,319)	(2)		(124,998)		(125,000)
Restricted stock forfeitures	(10)			(401)		(401)
Dividends declared			(38,550)			(38,550)
Balance, December 31, 2015	19,290	\$ 19	\$ 378,321	\$ (42,286)	\$ (2,794)	\$ 333,260
Net income			47,971			47,971
Other comprehensive income, (net of tax (\$725))					1,310	1,310
Proceeds from stock award exercises and issuances	192			(1,428)		(1,428)
Share-based compensation				3,732		3,732
Excess tax benefits from exercise of stock options				(9)		(9)
Restricted stock forfeitures	(27)			(366)		(366)
Dividends declared			(37,244)			(37,244)
Balance, December 31, 2016	19,455	\$ 19	\$ 389,048	\$ (40,357)	\$ (1,484)	\$ 347,226

See notes to consolidated financial statements

**INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES**

**Consolidated Statements of Cash Flows**  
**(Dollars in thousands)**

	Year Ended December 31,		
	2016	2015	2014
Cash flows from operating activities			
Net income	\$ 47,971	\$ 26,346	\$ 64,461
Adjustments to reconcile net income to net cash provided from operating activities:			
Depreciation and amortization	37,479	38,535	35,461
Amortization of deferred financing charges	680	615	526
Deferred income tax provision (benefit)	9,534	(36,637)	2,846
Share-based compensation	2,822	6,618	3,280
Changes in assets and liabilities:			
Decrease (increase) in accounts receivable	2,058	10,784	(2,087)
Decrease (increase) in inventories	44,012	12,071	(3,054)
(Increase) decrease in other current assets	(634)	23,264	11,761
Increase (decrease) in accounts payable	14,703	(16,436)	14,195
(Decrease) increase in other current liabilities	(18,926)	27,932	213
Changes in other long-term assets and liabilities	(590)	5,834	(821)
Net cash provided from operating activities	<u>139,109</u>	<u>98,926</u>	<u>126,781</u>
Cash flows used for investing activities:			
Capital expenditures	(36,599)	(31,699)	(27,955)
Acquisition of intangible assets	—	—	(1,443)
Net cash used for investing activities	<u>(36,599)</u>	<u>(31,699)</u>	<u>(29,398)</u>
Cash flows from financing activities:			
Proceeds from exercise of stock options	17	246	160
Long-term debt borrowings	41,000	159,000	9,000
Long-term debt repayments	(69,002)	(82,003)	(36,004)
Deferred financing costs	(1,495)	(277)	(191)
Excess tax benefits from exercise of stock options	(9)	975	1,071
Common stock repurchases	(366)	(125,401)	(29,684)
Dividends paid	(37,217)	(38,558)	(38,394)
Net cash used for financing activities	<u>(67,072)</u>	<u>(86,018)</u>	<u>(94,042)</u>
Effect of foreign exchange rate changes on cash and cash equivalents	144	489	111
Net change in cash	35,582	(18,302)	3,452
Cash and cash equivalents at beginning of period	17,905	36,207	32,755
Cash and cash equivalents at end of period	<u>\$ 53,487</u>	<u>\$ 17,905</u>	<u>\$ 36,207</u>

See notes to consolidated financial statements



**INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**(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**

*Fiscal Year*

Our fiscal year end is December 31.

*Description of Business and Principles of Consolidation*

Innophos is a leading international producer of performance-critical and nutritional specialty ingredients with applications in food, beverage, dietary supplements, pharmaceutical, oral care and industrial end markets. Innophos combines more than a century of experience in specialty phosphate manufacturing with a growing capability in a broad range of other specialty ingredients to supply a product range produced to stringent regulatory manufacturing standards and the quality demanded by customers worldwide. Many of Innophos' products are application-specific compounds engineered to meet customer performance requirements and are often critical to the taste, texture, performance or nutritional content 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 and cleaning agents in toothpaste, and they also provide a wide range of nutritional fortification solutions for food, beverage and nutritional supplement manufacturers.

More recently, Innophos' focus has expanded to include the bioactive mineral and nutritional ingredients sector. Bioactive mineral ingredients are mineral based ingredients for food, beverage and dietary supplement end markets that are manufactured to be readily digestible. Historically, Innophos has enjoyed a strong position in "macronutrients," such as calcium, magnesium and potassium that are required in relatively large amounts for a balanced diet. Innophos is now continuing to build a strong position in "micronutrients", such as chromium, selenium, zinc and iron, small quantities of which are also essential to the human diet. Innophos continues to target growth in the botanical and enzyme based specialty nutritional ingredients sector. As with the bioactive mineral ingredients, botanical and enzyme based specialty nutritional ingredients are important to Innophos' customers for their nutritional value, and mineral, botanical and specialty phosphate ingredients are often formulated together. Innophos' more recent focus on the botanical and enzyme based specialty nutritional ingredients sector, together with Innophos' existing strength in specialty phosphates, has created a strong position for Innophos in the attractive and higher growth specialty nutritional ingredients market.

Innophos commenced operations as an independent company in August 2004 after purchasing its North American specialty phosphates business from affiliates of Rhodia, S.A., or Rhodia, which has been a part of Solvay S.A. since 2011. In November 2006, Innophos completed an initial public offering and listed its common stock for trading on the Nasdaq Global Select Market under the symbol "IPHS".

Innophos Holdings, Inc. is the parent of Innophos Investments Holdings, Inc., which owns 100% of Innophos, Inc; all are incorporated under the laws of the State of Delaware. All intercompany transactions are eliminated in consolidation.

Certain prior year balances have been restated to conform to current year presentation.

*Use of Estimates*

The preparation of financial statements in conformity with United States generally accepted accounting principles requires the use of judgments and estimates made by management. Actual results could differ from those estimates. Some of the more significant estimates pertaining to the Company include accruals for contingencies, distributor incentives and rebates, the valuation of inventories, the allowance for doubtful accounts, income tax valuation allowances, the recoverability of long-lived assets and goodwill impairment testing analysis and cash flows and assumptions used in the recognition and measurement of assets acquired in business combinations. Management routinely reviews its estimates and assumptions utilizing currently available information, changes in facts and circumstances, and historical experience.

*Cash Equivalents*

All highly liquid investments with original maturities of three months or less are considered to be cash equivalents.

*Accounts Receivable and Allowances for Doubtful Accounts*

## INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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

Trade accounts receivable are recorded at the invoiced amount and does not bear interest. The collectability of accounts receivable is evaluated based on a combination of factors. Allowances for doubtful accounts is evaluated based on the length of time the receivables are past due, historical experience and financial wherewithal of the customer. In circumstances when it is probable that a specific customer is unable to meet its financial obligations, an allowance is recorded to reduce the receivable to the amount that is reasonably expected to be collected.

#### *Inventories*

Inventories are valued at the lower of cost or market. Cost is determined on the basis of the first-in, first-out method. These costs include raw materials, direct labor, manufacturing overhead and depreciation. Spare parts are included in inventory and are initially recorded at cost.

Inventories, including spare parts, are evaluated for excess quantities, obsolescence or shelf-life expiration. This evaluation includes an analysis of historical sales levels by product and projections of future demand. To the extent management determines there are excess, obsolete or expired inventory quantities, valuation reserves are recorded against all or a portion of the value of the related products with the appropriate charge to cost of goods sold.

#### *Property, Plant and Equipment*

Property, plant and equipment are stated at cost less accumulated depreciation. Major renewals and improvements are capitalized. Maintenance, repairs and minor renewals are expensed as incurred. The cost and related accumulated depreciation of all property, plant and equipment retired or otherwise disposed of are eliminated from the accounts and any resulting gain or loss is reflected in net income. Interest is capitalized in connection with the construction of major renewals and improvements. Capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. Depreciation is calculated on the straight-line basis over the estimated useful lives of the related assets, typically ranging from ten to forty years for buildings and improvements, three to twenty years for machinery and equipment, and three to seven years for capitalized software. Leasehold improvements are amortized over the lease term or the estimated useful life of the improvement, whichever is less.

External direct costs in developing or obtaining internal use computer software and payroll, and payroll-related costs for employees dedicated solely to the project, to the extent of the time spent directly on the project and which they meet the requirements of ASC 350-40, are capitalized.

#### *Long-Lived Assets*

Under ASC 360, "Property, Plant, and Equipment," long-lived assets including property, plant and equipment and amortizable intangible assets are evaluated and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. The review of these long-lived assets is performed at the individual asset level, asset group level, or the product group level depending on the lowest level for which identifiable cash flows are largely independent. The Company's asset groupings or product groupings vary based on the interrelationship of the long-lived assets and the identifiable cash flows. For example, in certain instances, multiple manufacturing units may work with one another to produce the lowest identifiable cash flows or in other instances a stand-alone unit may produce the lowest level of identifiable cash flows. There are other instances where a stand-alone unit may produce multiple products and the lowest level of identifiable cash flows is at the product group level. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to the undiscounted future cash flows expected to be generated by the asset, asset group or product group. When this comparison indicates that impairment must be recorded, the impairment recognized is the amount by which the carrying amount of the assets exceeds the fair value of the assets.

The determination of whether or not assets are impaired and the corresponding useful lives of these long-lived assets requires significant judgment. The development of future cash flow projections requires management estimates related to forecasted sales and expected costs trends. To the extent that changes in business conditions occur or other management decisions are made that result in adjusted management projections or alternative use of the assets, impairment losses or accelerated depreciation may occur in future periods.

#### *Goodwill*

Goodwill represents the excess of the acquisition cost over the fair value of net assets of the businesses acquired. ASC 350, "Intangibles—Goodwill and Other," requires periodic tests of the impairment of goodwill. ASC 350 requires a comparison, at least annually, of the net book value of the assets and liabilities associated with a reporting unit, including

## INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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

goodwill, with the fair value of the reporting unit, which corresponds to the discounted cash flows of the reporting unit, in the absence of an active market. The development of future cash flow projections requires management estimates related to forecasted sales and expected costs trends. To the extent that changes in business conditions occur or other management decisions are made that result in adjusted management projections, impairment losses may occur in future periods. If the entity determines that it's more likely than not that the fair value of a reporting unit exceeds the carrying amount, then performing the traditional two-step impairment test is unnecessary. If a company determines otherwise, then it is required to perform the first step of the two-step impairment test. When this comparison indicates that impairment must be recorded, the impairment recognized is the amount by which the carrying amount of the assets exceeds the fair value of these assets. The annual goodwill impairment review is conducted during the fourth quarter of each year.

#### ***Other Intangible Assets***

Other intangible assets, which consist of developed technology, customer relationships, trade names, a non-compete agreement, patents, licenses and software, are amortized on a straight-line basis over their estimated useful lives which can be up to twenty years.

#### ***Revenue Recognition***

Revenue from sales of our products to our customers is 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. In the United States and Canada, the Company records estimated reductions to revenue for distributor incentives and customer incentives such as rebates, at the time of the initial sale. Distributor and customer incentives in Mexico are immaterial to the financial statements. The estimated reductions are based on the sales terms, historical experience and trend analysis. Accruals for distributor incentives are reflected as a direct reduction to accounts receivable and accruals for rebates are recorded as accrued expenses. This analysis requires a significant amount of judgment from management. Changes in the assumptions used to calculate these estimates or changes resulting from actual results are recorded against revenue in the period in which the change occurs.

#### ***Shipping and Handling Fees and Costs and Advertising Expenses***

Shipping and handling fees and costs invoiced to customers are included in Net sales. Shipping and handling fees and costs incurred by the Company are included in Cost of goods sold. Advertising expenses, which are not significant, are expensed as incurred.

#### ***Foreign Currency Translation***

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

#### ***Research and Development Expenses***

Research and development expenditures, including expenditures relating to the development of new products and processes and significant improvements and refinements to existing products, are expensed as incurred.

#### ***Employee Termination Benefits***

The Company does not have a written severance plan for its Mexican operations, nor does it offer similar termination benefits to affected employees in all Mexican restructuring initiatives. However, Mexican law requires payment of certain minimum termination benefits. Accordingly, in situations where minimum statutory termination benefits must be paid to the affected employees, the Company records employee severance costs associated with these activities in accordance with ASC 712, *Compensation – Nonretirement Post Employment Benefits*. The Company does have a written severance plan which is in accordance with ASC 712 for its U.S. and Canadian operations. The Company has an accrued obligation for post-employment benefits for U.S. and Canadian operations when the amounts are probable and reasonably estimated. In all other situations where the Company pays out termination benefits, including supplemental benefits paid in excess of statutory minimum amounts and benefits offered to affected employees based on management's discretion, the Company records these termination costs in accordance with ASC 420, *Exit or Disposal Cost Obligations*.

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

The timing of the recognition of charges for employee severance costs depends on whether the affected employees are required to render service beyond their legal notification period in order to receive the benefits. If affected employees are required to render service beyond their legal notification period, charges are recognized ratably over the future service period. Otherwise, charges are recognized when a specific plan has been confirmed by management and required employee communication requirements have been met.

***Legal Costs***

The Company expenses legal costs as incurred, including those legal costs which may be incurred in connection with a loss contingency.

***Income Taxes***

The Company's significant subsidiaries are the Company's United States subsidiaries which file a consolidated U.S. tax return, the Company's Mexican subsidiaries which filed consolidated Mexico tax returns from 2011 through 2015, but changed to filing separate tax returns in 2016, the Company's Canadian subsidiary which files a separate Canadian tax return and the Netherlands which files a fiscal unity return. The Company accounts for income taxes in accordance with ASC 740, Income Taxes. Under ASC 740, deferred tax assets and liabilities are determined based on the differences between the financial statement and tax bases using enacted tax rates applied to those differences.

Deferred tax assets are assessed for realizability and a valuation allowance is provided if a portion of the associated tax benefit is not expected to be realized.

If any material uncertain tax positions arise, the Company's policy is to accrue associated penalties in selling, general and administrative expenses and to accrue interest as part of net interest expense. Other than the assessments disclosed in Note 15, Income Taxes, as of December 31, 2016, no significant 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.

***Environmental Costs***

Environmental liabilities are recorded undiscounted when it is probable that these liabilities have been incurred and the amounts can be reasonably estimated. These liabilities are estimated based on an assessment of many factors, including the amount of remediation costs, the timing and extent of remediation actions required by the applicable governmental authorities, and the amount of the Company's liability after considering the liability and financial resources of other potentially responsible parties. Generally, the recording of these accruals coincides with the assertion of a claim or litigation, completion of a feasibility study or a commitment to a formal plan of action. Anticipated recoveries from third parties are recorded as a reduction of expense only when such amounts are realized. Any insurance receivables would be recorded gross of the estimated liability.

***Comprehensive Income (Loss)***

Comprehensive income (loss) is composed of net income (loss), adjusted for changes in comprehensive income items such as changes in defined benefit pension plan funded status.

***Share-based Compensation***

The Company recognizes compensation expense for its Long-Term Incentive Plans (LTIP). Under applicable accounting standards, the fair value of share-based compensation is determined at the grant date and the recognition of the related expense is recorded over the period in which the share-based compensation vests. Refer to Note 11 for additional information.

***Business Combinations***

An acquired business is included in the consolidated financial statements upon obtaining control of the acquired assets. Assets acquired and liabilities assumed are recognized at the date of acquisition at their respective fair values. Any excess of the purchase price over the estimated fair values of the net assets acquired is recognized as goodwill.

**INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
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***Recently Issued Accounting Standards***

Adopted

In June 2014, the Financial Accounting Standard Board (FASB) issued guidance which requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. The guidance is effective for the interim and annual periods beginning on or after December 15, 2015. The adoption of this standard did not have a material impact on our financial position, results of operations and related disclosures.

In August 2014, the FASB issued guidance which establishes management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern or to provide related footnote disclosures. The amendments require management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles in U.S. auditing standards. Specifically, ASU 2014-15 provides a definition of the term substantial doubt and requires an assessment for a period of one year after the date that the financial statements are issued or available to be issued. It also requires certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans and requires an express statement and other disclosures when substantial doubt is not alleviated. The guidance is effective for the interim and annual periods ending after December 15, 2016; early adoption is permitted. The adoption of the new accounting rules did not have a material effect on our financial position, results of operations and related disclosures.

In January 2015, the FASB issued new accounting rules which remove the concept of extraordinary items from U.S. GAAP. Under the existing guidance, an entity is required to separately disclose extraordinary items, net of tax, in the income statement after income from continuing operations if an event or transaction is of an unusual nature and occurs infrequently. This separate, net-of-tax presentation (and corresponding earnings per share impact) will no longer be allowed. The new rules were effective for us in the first quarter of 2016. The adoption of the new accounting rules did not have a material impact on our financial position, results of operations and related disclosures.

In February 2015, the FASB issued amendments to the criteria for determining which entities are considered variable interest entities (VIEs) and to the criteria for determining if a service provider possesses a variable interest in a VIE and ends the deferral granted to investment companies for application of the VIE consolidation model. This guidance is effective for annual and interim reporting periods of public entities beginning after December 15, 2015. The adoption of this standard did not have a material impact on our financial position, results of operations and related disclosures.

In April 2015, the FASB issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs, and in August 2015 issued ASU No. 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements. Under ASU 2015-03, debt issuance costs reported on the consolidated balance sheet would be reflected as a direct deduction from the related debt liability rather than as an asset. While ASU 2015-03 addresses costs related to term debt, ASU No. 2015-15 provides clarification regarding costs to secure revolving lines of credit, which are, at the outset, not associated with an outstanding borrowing. ASU No. 2015-15 provides commentary that the SEC staff would not object to an entity deferring and presenting costs associated with line-of-credit arrangements as an asset and subsequently amortizing them ratably over the term of the revolving debt arrangement. This guidance is effective for annual and interim reporting periods of public entities beginning after December 15, 2015, and early adoption is permitted. The adoption of the new accounting rules did not have a material impact on our financial position, results of operations and related disclosures.

In September 2015, the FASB issued guidance which eliminates the requirement to retrospectively adjust the financial statements for measurement-period adjustments that occur in periods after a business combination is consummated. Measurement period adjustments are calculated as if they were known at the acquisition date, but are recognized in the reporting period in which they are determined. Additional disclosures are required about the impact on current-period income statement line items of adjustments that would have been recognized in prior periods if prior-period information had been revised. The guidance is effective for annual periods beginning after December 15, 2015 and is to be applied prospectively to adjustments of provisional amounts that occur after the effective date. Early application is permitted. The adoption of the new accounting rules did not have a material impact on our financial position, results of operations and related disclosures.

Issued but not yet adopted

In May 2014, the FASB issued guidance on revenue from contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange



## INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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

for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. In July 2015, the FASB approved the deferral of the effective date of this guidance by one year (with an option to early adopt at the original effective date), making it effective for the interim and annual periods beginning on or after December 15, 2017. As a result, this guidance will be effective for the Company beginning in fiscal year 2018, with an option to early adopt in fiscal year 2017. The guidance permits the use of either a retrospective or modified retrospective transition method. We will adopt the standard using the modified retrospective transition method on January 1, 2018 and are currently evaluating the impact of the amended guidance on our consolidated financial position, results of operations and related disclosures. Our ongoing evaluation of the impact of the guidance includes the revenue recognition of certain free on board destination point sales across all of our businesses.

In July 2015, the FASB issued guidance which requires entities to measure most inventory "at the lower of cost and net realizable value ("NRV")," thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market. Under the new guidance, inventory is "measured at the lower of cost and net realizable value," which eliminates the need to determine replacement cost and evaluate whether it is above the ceiling (NRV) or below the floor (NRV less a normal profit margin). The guidance defines NRV as the "estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation." The guidance is effective for annual periods beginning after December 15, 2016, and interim periods therein. Early application is permitted. We do not anticipate the adoption of the new accounting rules will have a material impact on our financial position, results of operations and related disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) in order to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under previous GAAP. ASU 2016-02 requires that a lessee should recognize a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term on the balance sheet. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018 (including interim periods within those periods) using a modified retrospective approach and early adoption is permitted. We are currently in the process of evaluating the impact of adoption of the ASU on our financial position, results of operations and related disclosures.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which amends Accounting Standards Codification ("ASC") Topic 718, Compensation - Stock Compensation. ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years and early adoption is permitted. We are currently in the process of evaluating the impact of adoption of the ASU on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-15, Clarification on Classification of Certain Cash Receipts and Cash Payments on the Statement of Cash Flows. ASU 2016-15 clarifies the classification of certain cash receipts and cash payments in the statement of cash flows, including debt prepayment or extinguishment costs, settlement of contingent consideration arising from a business combination, insurance settlement proceeds, and distributions from certain equity method investees. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted. We are evaluating the impact of adopting this new accounting guidance on our consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory, which reduces the complexity in the accounting standards by allowing the recognition of current and deferred income taxes for an intra-entity asset transfer, other than inventory, when the transfer occurs. Historically, recognition of the income tax consequence was not recognized until the asset was sold to an outside party. This amendment should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. There are no new disclosure requirements. This ASU is effective for annual reporting periods beginning after December 15, 2017. Early adoption is permitted in the first interim period of 2017. The adoption of this guidance is not expected to have a significant effect on our financial position, results of operations and related disclosures.

In November 2016, the FASB issued ASU No. 2016-18, Restricted Cash, which clarifies guidance on the classification and presentation of restricted cash in the statement of cash flows. Under the ASU, changes in restricted cash and restricted cash equivalents would be included along with those of cash and cash equivalents in the statement of cash flows. As a result, entities

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

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

In January 2017, the FASB issued ASU No. 2017-04, *Simplifying the Test for Goodwill Impairment*. Under the new standard, goodwill impairment would be measured as the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying value of goodwill. This ASU eliminates existing guidance that requires an entity to determine goodwill impairment by calculating the implied fair value of goodwill by hypothetically assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted on testing dates after January 1, 2017. We are currently in the process of evaluating the impact of adoption of the ASU on our financial position, results of operations and related disclosures.

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**2. Restructuring and Management Transition Costs:**

During 2015 management evaluated several initiatives to improve the overall operating efficiency of the organization. As a result of this evaluation we launched an initiative to reduce our cost structure by implementing various staff reduction actions during the third quarter of 2015.

In addition, during the fourth quarter of 2015, the Company experienced a management transition of certain high-level positions, most notably the Chief Executive Officer and the Chief Financial Officer.

During the third and fourth quarters of 2015, we incurred restructuring and management transition costs of \$8.6 million and \$11.8 million, respectively. The amounts recorded within selling, general and administrative expenses in the statements of operations were \$17.1 million and cost of goods sold were \$3.3 million.

During 2016, we incurred additional amounts in connection with continued restructuring of \$1.6 million (including accelerated stock compensation of \$0.3 million) within selling, general and administrative expenses and \$0.1 million within cost of goods sold. The Company expects to make \$4.7 million of payments associated with these actions within the next twelve months.

The following table summarizes the activities related to severance and benefits for restructuring and management transition costs:

	2016	2015
Balance at beginning of year	\$ 13,389	\$ —
Total expense recorded	1,718	20,410
Accelerated share-based compensation expense (a)	(254)	(4,194)
Payments made	(8,497)	(2,827)
Balance at end of year	<u>\$ 6,356</u>	<u>\$ 13,389</u>

(a) Accelerated stock-based compensation expense adjustments due to management transition.

**3. Inventories:**

Inventories consist of the following:

	2016	2015
Raw materials	\$ 33,185	\$ 44,391
Finished products	81,369	115,305
Spare parts	13,741	12,971
	<u>\$ 128,295</u>	<u>\$ 172,667</u>

Inventory reserves for excess quantities, obsolescence or shelf-life expiration as of December 31, 2016 and December 31, 2015 were \$13,422 and \$16,946, respectively. In 2015, as a result of current deteriorating market conditions, including demand and price erosion, in 2015 the Company increased its obsolescence and net realizable value reserves by approximately \$3,033 for Specialty Phosphate products and \$1,280 for GTSP.

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**4. Other Current Assets:**

Other current assets consist of the following:

	2016	2015
Creditable taxes (value added taxes)	\$ 9,722	\$ 8,235
Vendor inventory deposits (prepaid)	3,750	7,977
Prepaid income taxes	4,659	2,668
Prepaid insurance	2,248	2,070
Other	3,515	2,564
	<u>\$ 23,894</u>	<u>\$ 23,514</u>

**5. Property, Plant and Equipment, net:**

Property, plant and equipment, at cost, consist of the following:

	2016			2015			
	Useful life (years)	Gross	Accumulated Depreciation	Net Book Value	Gross	Accumulated Depreciation	Net Book Value
Land	-	\$ 19,053	\$ —	\$ 19,053	\$ 19,213	\$ —	\$ 19,213
Land improvements -	3-15	11,303	9,495	1,808	10,920	9,119	1,801
Buildings and improvements -	2-9	9,486	9,419	67	9,486	9,354	132
	10	15,526	9,079	6,447	13,636	7,758	5,878
	14-16	12,105	8,915	3,190	12,094	8,112	3,982
	20	39,128	15,451	23,677	37,796	13,515	24,281
	25-34	21,687	6,741	14,946	22,177	6,096	16,081
Machinery & Equipment -	1-4	24,515	17,801	6,714	20,847	15,241	5,606
	5	46,545	34,824	11,721	42,734	30,297	12,437
	6	49,493	49,216	277	49,201	49,180	21
	7	52,785	44,781	8,004	52,822	40,695	12,127
	8	167,938	150,883	17,055	166,649	147,798	18,851
	9	26,413	26,140	273	26,523	26,181	342
	10	15,920	5,964	9,956	9,545	4,954	4,591
	11	11,852	11,847	5	11,946	11,941	5
	12-13	9,478	9,419	59	9,478	8,950	528
	15	106,587	36,571	70,016	89,753	30,836	58,917
	16-21	1,657	1,060	597	1,657	973	684
Construction-in-progress	-	11,594	—	11,594	14,017	—	14,017
		<u>\$ 653,065</u>	<u>\$ 447,606</u>	<u>\$ 205,459</u>	<u>\$ 620,494</u>	<u>\$ 421,000</u>	<u>\$ 199,494</u>

Depreciation expense, excluding depreciation expense in changes of inventory, was \$30,142, \$31,594 and \$31,156 in 2016, 2015 and 2014, respectively. Depreciation expense in changes of inventory was \$113, \$(292) and \$(2,866), in 2016, 2015 and 2014, respectively. The carrying value of capitalized software, included in machinery and equipment, was \$8,141, \$10,919 and \$12,302 for the years ended December 31, 2016, December 31, 2015 and December 31, 2014, respectively.

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**6. Goodwill:**

	Specialty Phosphates US	Nutrition	Specialty Phosphates Canada	Specialty Phosphates Mexico	GTSP & Other	Total
Balance, December 31, 2016, 2015 and 2014	\$ 7,237	\$ 32,667	\$ 2,530	\$ 38,584	\$ 3,355	\$ 84,373

**7. Intangibles and Other Assets, net:**

Intangibles and other assets consist of the following:

	Useful life (years)	2016	2015
Developed technology and application patents, net of accumulated amortization of \$27,778 for 2016 and \$24,840 for 2015	7-20	18,497	21,435
Customer relationships, net of accumulated amortization of \$18,569 for 2016 and \$15,812 for 2015	5-15	20,243	23,000
Trade names and license agreements, net of accumulated amortization of \$10,315 for 2016 and \$8,944 for 2015	5-20	7,346	8,717
Non-compete agreement, net of accumulated amortization of \$1,268 for 2016 and \$1,112 for 2015	3-10	65	221
Total intangibles		<b>\$ 46,151</b>	<b>\$ 53,373</b>
Deferred income taxes		\$ 18,432	\$ 28,842
Deferred financing costs, net of accumulated amortization of \$3,473 for 2016 and \$2,793 for 2015 (see note 9)		2,150	1,335
Other tax assets		997	6,014
Other assets		2,081	2,293
Total other assets		<b>\$ 23,660</b>	<b>\$ 38,484</b>
		<b>\$ 69,811</b>	<b>\$ 91,857</b>

Amortization expense for intangibles was \$7,222, \$7,233 and \$7,171 in 2016, 2015 and 2014, respectively. Anticipated amortization expense for the next five years related to intangibles is as follows:

	2017	2018	2019	2020	2021
Intangible amortization expense	\$ 7,008	\$ 6,865	\$ 6,325	\$ 5,707	\$ 5,069

The preceding expected amortization expense is an estimate. Actual amounts of amortization expense may differ from estimated amounts due to additional intangible asset acquisitions, impairment of intangible assets, accelerated amortization of intangible assets and other events.



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**8. Other Current Liabilities:**

Other current liabilities consist of the following:

	<u>2016</u>	<u>2015</u>
Payroll related	\$ 11,852	\$ 9,513
Taxes other than income taxes	2,624	5,779
Benefits and pensions	5,419	5,764
Freight and rebates	3,579	4,606
Income taxes	9,278	23,609
Restructuring reserve	4,737	9,335
Other	6,116	4,598
	<u><u>\$ 43,605</u></u>	<u><u>\$ 63,204</u></u>

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

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

	<u>2016</u>	<u>2015</u>
Term loan	\$ —	\$ 88,000
Revolver borrowings under the credit facility due 2022	185,000	125,000
Capital leases	—	2
Total borrowings	<u>\$ 185,000</u>	<u>\$ 213,002</u>
Less current portion	—	4,002
Long-term debt	<u><u>\$ 185,000</u></u>	<u><u>\$ 209,000</u></u>

In December 2016, Innophos Holdings, Inc. and certain of its directly and/or indirectly wholly-owned subsidiaries (referred to in this note as the "Company") entered into a new senior secured credit facility, or Credit Agreement, with a group of lenders, or the Lenders, increasing the Company's borrowing capacity. The Credit Agreement replaces the term loan of \$100.0 million and revolving line of credit under the prior facility with a \$450.0 million revolving line of credit, including a \$20.0 million letter of credit sub-facility and a \$20.0 million swingline loan facility, all maturing on December 22, 2022. Interest accruing on amounts borrowed under the revolving line is based on an applicable margin over LIBOR (London Interbank Offered Rate) or bank base rate, ranging from 100 to 225 basis points for LIBOR and 0 to 125 basis points for base rate loans, in each case with loan period and interest alternative as chosen by the Company, which margin is adjusted quarterly depending on a total leverage ratio (as computed under the Credit Agreement) for the period in question. Commitment fees on the unused revolving line range from 12.5 to 37.5 basis points, depending on total leverage ratio (as computed under the Credit Agreement) for the period in question. The current applicable margin for LIBOR based loans, base rate loans and the commitment fee are 175, 75 and 27.5 basis points, respectively.

The Credit Agreement also provides for possible additional revolving indebtedness under an incremental facility of up to \$150.0 million (for an aggregate of revolving capacity up to \$600.0 million) upon future request by the Company to existing Lenders (and depending on their consent) or from other willing financial institutions invited by the Company and reasonably acceptable to the administrative agent to join in the Credit Agreement. This revolving credit facility increase, if implemented, may provide for higher applicable margins to either the increased portion or possibly the entire revolving credit facility, with limitations, for interest rates than those in effect for the original revolving commitments under the Credit Agreement.

The obligations of the Company under the Credit Agreement are secured by first priority liens on substantially all the United States assets of the Company, as well as a pledge of 65% of the voting equity of entities holding the Company's foreign subsidiaries.

The Credit Agreement contains representations given to the Lenders about the nature and status of the Company's business that serve as conditions to future borrowings, and affirmative, as well as negative, covenants typical of credit facilities of this kind that prohibit or limit a variety of actions by the Company and its subsidiaries generally without the Lenders' approval. These include covenants that affect the ability of those entities, among other things, to (a) incur or guarantee indebtedness, (b) create liens, (c) enter into mergers, recapitalizations or assets purchases or sales, (d) change names, (e) make

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certain changes to their business, (f) make restricted payments that include dividends, purchases and redemptions of equity (g) make advances, investments or loans, (h) effect sales and leasebacks or (i) enter into transactions with affiliates, (j) allow negative pledges or limitations on the repayment abilities of subsidiaries or (k) amend subordinated debt. However, subject to continued compliance with the overall leverage restrictions described in more detail below, the Company retains flexibility under the Credit Agreement to develop its business and achieve strategic goals by, among other things, being permitted to take on additional debt, pay dividends (as long as the Total Leverage Ratio shall be .25 less than the then applicable level described below), re-acquire equity and make domestic acquisitions. Foreign acquisitions and investments are also permitted up to a fixed limit which is set initially at \$213.0 million and can increase with ongoing cash generation up to as high as \$425.0 million.

Among its affirmative covenants, the Credit Agreement requires the Company to maintain the following consolidated ratios (as defined and calculated according to the Credit Agreement) as of the end of each fiscal quarter:

(a) "Total Leverage Ratio" less than or equal to 3.50 to 1.00.

(b) "Interest Coverage Ratio" greater than or equal to 3.00 to 1.00.

As of December 31, 2016, the Accessible Borrowing Availability was \$264.0 million and the Total Leverage Ratio and Interest Coverage Ratio calculated in accordance with the agreement were 1.51 and 17.60, respectively.

As of December 31, 2016, the Company was in full compliance with all debt covenant requirements.

The Credit Agreement provides for "Events of Default" that, unless waived, can or will lead to acceleration of obligations upon the occurrence, continuation and/or notice, as applicable, of specified events typical of credit facilities of this kind. These include (a) failures to pay interest or principal on loans, (b) misrepresentations, (c) failures to observe covenants, (d) cross defaults of other indebtedness in excess of \$20.0 million, (e) uninsured and unsatisfied judgments in excess of \$20.0 million or certain orders or injunctions, (f) bankruptcy and insolvency events, (g) events leading to aggregate liability under the Employee Retirement Income Security Act of 1974 (ERISA) in excess of \$20.0 million, (h) changes of control, (i) invalidity of credit support /security agreements, and (i) certain disadvantageous changes in Credit Agreement debt compared to subordinated debt.

Fees and expenses incurred in 2016 with the Credit Agreement were approximately \$1.5 million. This amount was recorded as deferred financing costs and are being amortized over the term of the Credit Agreement using the effective interest method.

As of December 31, 2016, \$185.0 million was outstanding under the revolving line of credit, which approximates fair value (determined using level 2 inputs within the fair value hierarchy), with total availability at 264.0 million, taking into account \$1.0 million in face amount of letters of credit issued under the sub-facility. The current weighted average interest rate for all debt is 2.8%.

In December 2012, Innophos entered into an interest rate swap, swapping the LIBOR exposure on \$100.0 million floating rate debt, which is currently outstanding under the Credit Facility, to a fixed rate to maturity obligation of 0.9475% 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 \$14 thousand as of December 31, 2016.

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.

Innophos and its subsidiaries and affiliates may from time to time seek to acquire or otherwise retire outstanding debt through public or 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.

Total interest paid by the Company for all indebtedness for 2016, 2015 and 2014 was \$8.0 million, \$5.9 million and \$4.1 million.

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**Interest expense, net consists of the following:**

	Year Ended December 31,		
	2016	2015	2014
Interest expense	\$ 7,210	\$ 7,079	\$ 3,977
Deferred financing cost	680	615	526
Interest income	(53)	(65)	(40)
Less: amount capitalized for capital projects	(168)	(111)	(109)
Total interest expense, net	<u>\$ 7,669</u>	<u>\$ 7,518</u>	<u>\$ 4,354</u>

**10. Other Long-Term Liabilities:**

Other long-term liabilities consist of the following:

	2016	2015
Deferred income taxes	\$ 1,282	\$ 2,135
Pension and post retirement liabilities	7,689	9,612
Restructuring reserve	1,618	4,054
Uncertain tax positions	1,974	2,416
Environmental liabilities	1,100	1,100
Other liabilities	1,906	3,872
	<u>\$ 15,569</u>	<u>\$ 23,189</u>

**11. 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:

- 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. Compensation expense is amortized on a straight-line basis over the requisite vesting period, generally three years, and accelerated for those employees that are retirement eligible during the vesting period.
- 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. The stock options generally vest annually over three years with a ten year term from date of grant.
- Performance share awards which entitle the holder to receive, at the end of a performance cycle, 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. The performance shares generally vest at the end of a 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 dividends will accrue over the performance period and are paid on performance share awards when vested and distributed.
- 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, which immediately vest, equal to a fixed retainer value.

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

	Year Ended December 31,		
	2016	2015	2014
Stock options	\$ 994	\$ 2,521	\$ 1,346
Restricted stock	1,490	2,080	1,066
Performance shares	(257)	1,507	598
Stock grants	595	510	270
Total stock-based compensation expense (a)	<u>\$ 2,822</u>	<u>\$ 6,618</u>	<u>\$ 3,280</u>

(a) 2016 and 2015 include accelerated stock-based compensation expense adjustments of \$(254) and \$4,194, respectfully due to management transition.

A summary of restricted stock activity during the three years ended December 31, 2016, is presented below:

	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2014	33,064	\$ 53.22
Granted	26,995	55.49
Released	(5,894)	52.89
Forfeited / Surrendered	(3,829)	53.13
Outstanding at December 31, 2014	<u>50,336</u>	<u>\$ 54.49</u>
Outstanding at January 1, 2015	50,336	\$ 54.49
Granted	92,433	34.40
Released	(7,066)	53.84
Forfeited / Surrendered	(10,372)	53.27
Outstanding at December 31, 2015	<u>125,331</u>	<u>\$ 40.85</u>
Outstanding at January 1, 2016	125,331	\$ 40.85
Granted	88,836	31.47
Released	(7,796)	53.18
Forfeited / Surrendered	(29,920)	40.79
Outstanding at December 31, 2016	<u><u>176,451</u></u>	<u><u>\$ 35.27</u></u>

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A summary of stock option activity during the three years ended December 31, 2016, is presented below:

	Number of Options	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2014	668,728	\$ 25.34	
Granted	77,391	55.49	20.15
Forfeited / Expired / Surrendered	(33,387)	21.58	
Exercised	(87,412)	14.52	
Outstanding at December 31, 2014	<u>625,320</u>	<u>\$ 30.87</u>	
Exercisable at December 31, 2014	<u>498,719</u>	<u>\$ 24.91</u>	
Outstanding at January 1, 2015	<u>625,320</u>	<u>\$ 30.87</u>	
Granted	157,961	42.38	12.14
Forfeited / Expired / Surrendered	(37,364)	31.62	
Exercised	(53,995)	19.78	
Outstanding at December 31, 2015	<u>691,922</u>	<u>\$ 34.33</u>	
Exercisable at December 31, 2015	<u>543,905</u>	<u>\$ 31.87</u>	
Outstanding at January 1, 2016	<u>691,922</u>	<u>\$ 34.33</u>	
Granted	400,215	31.18	4.62
Forfeited / Expired / Surrendered	(260,913)	33.17	
Exercised	(91,029)	19.55	
Outstanding at December 31, 2016	<u>740,195</u>	<u>\$ 34.84</u>	
Exercisable at December 31, 2016	<u>368,159</u>	<u>\$ 37.06</u>	

The fair value of the options granted during 2016, 2015 and 2014 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	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014
Expected volatility	33.8%	40.8%	50.1%
Dividend yield	6.6%	4.3%	3.2%
Risk-free interest rate	1.4%	1.7%	2.0%
Expected term in years	6.6	6.0	6.0
Weighted average grant date fair value of stock options	\$ 4.62	\$ 12.14	\$ 20.15

The expected volatility and the expected term are based on the Company's historical data. The dividend yield is the expected annual dividend payments divided by the average stock price up to the date of grant. The risk-free interest rates are derived from the U.S. Treasury securities in effect on the date of grant whose maturity period equals the options expected term. The Company applies an expected forfeiture rate to stock-based compensation expense. The estimate of the forfeiture rate is based primarily upon historical experience of employee turnover. As actual forfeitures become known, stock-based compensation expense is adjusted accordingly.



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A summary of performance share activity is presented below:

	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2014	12,389	54.59
Granted (at targeted return on invested capital and contribution margin growth)	44,698	55.49
Forfeited	—	—
Vested	—	—
Adjustment to estimate of shares to be earned	(12,389)	54.59
Outstanding at December 31, 2014	44,698	\$ 55.49
Outstanding at January 1, 2015	44,698	\$ 55.49
Granted (at targeted return on invested capital and contribution margin growth)	62,225	42.31
Forfeited	—	—
Vested	(37,835)	53.05
Adjustment to estimate of shares to be earned	(36,671)	51.48
Outstanding at December 31, 2015	32,417	\$ 37.58
Outstanding at January 1, 2016	32,417	\$ 37.58
Granted (at targeted return on invested capital and contribution margin growth)	—	—
Forfeited	—	—
Vested	(12,401)	54.46
Adjustment to estimate of shares to be earned	(20,016)	27.12
Outstanding at December 31, 2016	—	\$ —

The total intrinsic value of options exercised and stock grants during 2016, 2015 and 2014 was \$5.9 million, \$4.9 million and \$5.2 million, respectively. The aggregate intrinsic value of stock options outstanding and exercisable at December 31, 2016 was \$12.9 million and \$5.6 million, respectively. The total remaining unrecognized compensation expense related to share-based payments is as follows:

Unrecognized Compensation Expense	Restricted Stock	Stock Options	Performance Based
Amount	\$ 4,323	\$ 2,216	\$ —
Weighted-average years to be recognized	1.9	1.4	1.1

The Board of Directors authorized a stock repurchase program, commencing January 1, 2015, pursuant to which the Registrant was authorized to acquire for cash in open market or private transactions from time to time up to \$125.0 million of its common stock over the ensuing 12 months. The timing of repurchases and the exact number of shares of common stock to be purchased depended upon market conditions and other factors. The repurchase program was funded through existing liquidity, including borrowings from the Senior Credit Facility, and cash from operations. Treasury stock was recognized at the cost to reacquire the shares. During 2015, the Company repurchased 2,318,720 shares of its common stock on the open market at an average price of \$53.91 per share or \$125.0 million.

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**12. 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:

	Year Ended December 31,		
	2016	2015	2014
Net income	47,971	26,346	64,461
Less: earnings attributable to unvested shares	(288)	(72)	(137)
Net income available to common shareholders	<u>\$ 47,683</u>	<u>\$ 26,274</u>	<u>\$ 64,324</u>
Weighted average number of common and potential common shares outstanding:			
Basic number of common shares outstanding	19,271,448	20,032,300	21,753,270
Dilutive effect of stock equivalents	310,028	291,085	368,633
Diluted number of weighted average common shares outstanding	<u>19,581,476</u>	<u>20,323,385</u>	<u>22,121,903</u>
Earnings per common share:			
Earnings per common share—Basic	\$ 2.47	\$ 1.31	\$ 2.96
Earnings per common share—Diluted	\$ 2.44	\$ 1.29	\$ 2.91

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 are 445,303, 444,334 and 313,794 for the years ended 2016, 2015 and 2014, respectively.

**INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES**  
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**13. Dividends**

The following is the dividend activity for 2016, 2015 and 2014:

	2016				
	Quarters ended				
	March 31	June 30	September 30	December 31	Total
Dividends declared – per share	\$ 0.48	\$ 0.48	\$ 0.48	\$ 0.48	\$ 1.92
Dividends declared – aggregate	9,256	9,308	9,327	9,326	37,217
Dividends paid – per share	0.48	0.48	0.48	0.48	1.92
Dividends paid – aggregate	9,256	9,308	9,327	9,326	37,217
	2015				
	Quarters ended				
	March 31	June 30	September 30	December 31	Total
Dividends declared – per share	\$ 0.48	\$ 0.48	\$ 0.48	\$ 0.48	\$ 1.92
Dividends declared – aggregate	10,198	9,863	9,261	9,236	38,558
Dividends paid – per share	0.48	0.48	0.48	0.48	1.92
Dividends paid – aggregate	10,198	9,863	9,261	9,236	38,558
	2014				
	Quarters ended				
	March 31	June 30	September 30	December 31	Total
Dividends declared – per share	\$ 0.40	\$ 0.40	\$ 0.48	\$ 0.48	\$ 1.76
Dividends declared – aggregate	8,766	8,780	10,477	10,371	38,394
Dividends paid – per share	0.40	0.40	0.48	0.48	1.76
Dividends paid – aggregate	8,766	8,780	10,477	10,371	38,394

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.

**14. Pension Plans and Postretirement Benefits:**

Innophos maintains both defined contribution plans and noncontributory defined benefit pension plans that together cover substantially all U.S. and Canadian employees.

In the United States, salaried and hourly employees are covered by a defined contribution plan with a 401(k) feature. The plan provides for employee contributions, company matching contributions, and an age-weighted annual company contribution to eligible employees. Union-represented hourly employees, at our Nashville site, are covered by a traditional defined benefit plan providing benefits based on years of service and final average pay. On April 26, 2007, the Company and the Union for the hourly employees at our Nashville facility agreed that it would freeze its defined benefit pension plan (the “Plan”) as of August 1, 2007. The accrual of additional benefits or increase in the current level of benefits under the Plan ceased as of August 1, 2007, after which the Nashville union employees now participate in the Company’s existing non-contributory defined contribution benefit plan. All plans were established by Innophos in 2004.

In Canada, salaried employees are covered by defined contribution plans which provide for company contributions as a percent of pay, employee contributions, and company matching contributions. Union-represented hourly employees are covered by a defined benefit plan providing benefits based on a negotiated benefit level and years of service. The defined contribution plans were established by the Company in 2004; the defined benefit plan for union-represented hourly employees is a continuation of the Rhodia Canada Inc.’s pension plan for its Port Maitland union employees, which was included in the acquisition of the Phosphates Business from Rhodia on August 13, 2004.

Innophos also has other postretirement benefit plans covering substantially all of its U.S. and Canadian employees. Certain employee groups covered under the plans do not receive benefits post-age 65. In the United States, the health care plans

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are contributory with participants' contributions adjusted annually, and limits on the Company's share of the costs; the life insurance plans are noncontributory. The effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003, or the Act, are not significant. In Canada, the plans are non-contributory.

Innophos uses a December 31 measurement date for all of its plans. For the purposes of the following schedules, beginning of the year is January 1.

The weighted average discount rate at the measurement dates for the Company's defined benefit pension plans and the post-retirement benefit plans is developed using a spot interest yield curve based upon a broad population of corporate bonds rated AA or higher, adjusted to match the duration of each plan's projected benefit payment stream.

The expected return is based on a specific asset mix, active management, rebalancing among diversified asset classes within the portfolio, and a consistent underlying inflation assumption to calculate the appropriate long-term expected investment return.

As a sensitivity measure, the effect of a 25 basis-point decrease in our discount rate assumption would increase our net periodic benefit cost for our pension and post-retirement plans by approximately \$38. A 1% decrease in our expected rate of return on plan assets would increase our pension plan expense by \$177.

The amounts in accumulated other comprehensive income (loss), or AOCI, for all plans that are expected to be amortized as components of net periodic benefit cost (benefit) during 2017 are as follows:

	<u>Pension</u>	<u>Other Benefits</u>	<u>Total</u>
Prior service cost	\$ 104	\$ —	\$ 104
Net actuarial loss (gain)	170	(199)	(29)
Transition obligation	—	23	23

The changes in benefit obligations and fair value of plan assets recognized in other comprehensive loss during 2016 and 2015 are as follows:

	<u>Pension Benefits</u>		<u>Other Benefits</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Change in accumulated other comprehensive income						
Amortization of net gain	\$ (208)	\$ (226)	\$ 100	\$ 48	\$ (108)	\$ (178)
Amortization of prior service cost / transition obligation	(106)	(110)	(23)	(24)	(129)	(134)
Net loss (gain)	(340)	72	(1,521)	(286)	(1,861)	(214)
Total change in accumulated other comprehensive income	<u>(654)</u>	<u>(264)</u>	<u>(1,444)</u>	<u>(262)</u>	<u>(2,098)</u>	<u>(526)</u>
Deferred taxes	203	92	546	101	749	193
Net amount recognized	<u>\$ (451)</u>	<u>\$ (172)</u>	<u>\$ (898)</u>	<u>\$ (161)</u>	<u>\$ (1,349)</u>	<u>\$ (333)</u>

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**U.S. Plans**

**Obligations and Funded Status—U.S. Plans At December 31**

	Pension Benefits		Other Benefits	
	2016	2015	2016	2015
Accumulated benefit obligation at end of year	\$ 2,473	\$ 2,670	\$ 2,974	\$ 4,285
Change in benefit obligation				
Benefit obligation at beginning of year	\$ 2,670	\$ 2,904	\$ 4,285	\$ 4,308
Service cost	—	—	172	292
Interest cost	114	114	165	163
Actuarial (gain) loss	(250)	(297)	(1,523)	(316)
Benefits paid	(61)	(51)	(125)	(162)
Benefit obligation at end of year	\$ 2,473	\$ 2,670	\$ 2,974	\$ 4,285
Change in plan assets				
Fair value of plan assets at beginning of year	\$ 2,124	\$ 2,098	\$ —	\$ —
Actual return on plan assets	200	(23)	—	—
Employer contributions	—	100	125	162
Benefits paid	(61)	(51)	(125)	(162)
Fair value of plan assets at end of year	\$ 2,263	\$ 2,124	\$ —	\$ —
Funded status of the plan	\$ (210)	\$ (546)	\$ (2,974)	\$ (4,285)
Amounts recognized in the consolidated balance sheets				
Noncurrent assets	\$ —	\$ —	\$ —	\$ —
Current liabilities	—	—	(120)	(220)
Noncurrent liabilities	(210)	(546)	(2,854)	(4,065)
Net amounts recognized	\$ (210)	\$ (546)	\$ (2,974)	\$ (4,285)
Amounts recognized in accumulated other comprehensive income				
Prior service (credit) cost	\$ —	\$ —	\$ —	\$ —
Net actuarial loss (gain)	114	418	(2,274)	(850)
Total amount recognized	\$ 114	\$ 418	\$ (2,274)	\$ (850)
Deferred taxes	(43)	(159)	864	323
Net amount recognized	71	259	(1,410)	(527)



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	Pension Benefits			Other Benefits		
	2016	2015	2014	2016	2015	2014
Components of net periodic benefit cost						
Service cost	\$ —	\$ —	\$ —	\$ 172	\$ 292	\$ 289
Interest cost	114	114	119	165	163	168
Expected return on plan assets	(145)	(140)	(122)	—	—	—
Amortization of:						
Prior service cost	—	—	—	—	—	—
Actuarial loss (gain)	—	68	—	(100)	(48)	(69)
Net periodic benefit cost	\$ (31)	\$ 42	\$ (3)	\$ 237	\$ 407	\$ 388
Weighted average assumptions for benefit obligation						
Discount rate	4.16%	4.50%	4.00%	4.22%	4.25%	4.00%
Expected long-term rate of return on plan assets	6.20%	6.51%	6.65%	NA	NA	NA
Rate of compensation increase	NA	NA	NA	3.75%	3.75%	3.00%
Weighted average assumptions for net periodic benefit cost						
Discount rate	4.50%	4.00%	5.00%	4.25%	4.00%	4.50%
Expected long-term rate of return on plan assets	6.51%	6.65%	6.30%	NA	NA	NA
Rate of compensation increase	NA	NA	NA	3.75%	3.00%	3.00%

Estimated Future Benefit Payments	Pension Benefits	Other Benefits
Fiscal 2017	\$ 75	\$ 120
Fiscal 2018	89	149
Fiscal 2018	100	178
Fiscal 2020	110	180
Fiscal 2021	119	184
Fiscal Years 2022-2026	720	890

Innophos expects to make no contributions to its U.S. defined benefit pension plan in 2017.

The estimated actuarial loss, prior service cost, and transition obligation (asset) for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost during the 2017 fiscal year are \$0, \$0 and \$0, respectively.

The estimated actuarial gain, prior service cost, and transition obligation (asset) for the postretirement plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost during the 2017 fiscal year are \$199, \$0 and \$0, respectively.

Assumed health care cost trend rates on the U.S. plans do not have a significant effect on the amounts reported for the health care plans as a result of limits on the Company's share of the cost.

**INNPHOS HOLDINGS, INC. AND SUBSIDIARIES**

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**Plan Assets**

The investment policy for the Company's U.S. defined benefit pension plan is designed to achieve long-term objectives of return, while mitigating against downside risk and considering expected cash flow. Investment managers appointed by the Plan are directed to achieve a satisfactory return through a diversified portfolio consistent with acceptable risks and prudent management. In accordance with the investment and risk philosophy of the Committee, a target asset mix of 90% equities and 10% fixed income instruments has been established. Investment weightings and results are tested regularly against appropriate benchmark portfolios.

Innophos, Inc.'s defined benefit pension plan invests in mutual funds and commercial paper and the weighted-average asset allocations at December 31, 2016 and 2015 by asset category are as follows:

<b>Asset Category</b>	<b>Plan Assets at December 31</b>	
	<b>2016</b>	<b>2015</b>
Equity securities	92.7%	90.6%
Fixed income securities	7.3	9.4
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

The fair values of Innophos, Inc.'s pension plan assets at December 31, 2016 by asset category are as follows:

	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Equity securities	\$ 2,097	\$ 2,097	\$ —	\$ —
Fixed income securities	166	166	—	—
	<b>\$ 2,263</b>	<b>\$ 2,263</b>	<b>\$ —</b>	<b>\$ —</b>

**Defined Contribution Plan—U.S.**

Innophos Inc.'s expense for the defined contribution plan was \$3.0 million, \$3.5 million and \$3.0 million for 2016, 2015 and 2014, respectively.

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**Canadian Plans**

**Obligations and Funded Status—Canadian Plans at December 31**

	Pension Benefits		Other Benefits	
	2016	2015	2016	2015
Accumulated benefit obligation at end of year	\$ 13,128	\$ 12,319	\$ 1,379	\$ 1,299
Change in benefit obligation				
Benefit obligation at beginning of year	\$ 12,319	\$ 13,786	\$ 1,299	\$ 1,480
Service cost	362	344	49	46
Interest cost	489	507	51	54
Past service cost	—	—	—	—
Actuarial (gain) loss	—	480	—	44
Benefits paid	(396)	(510)	(58)	(81)
Foreign currency exchange rate changes	354	(2,288)	38	(244)
Benefit obligation at end of year	\$ 13,128	\$ 12,319	\$ 1,379	\$ 1,299
Change in plan assets				
Fair value of plan assets at beginning of year	\$ 13,864	\$ 16,727	\$ —	\$ —
Actual return on plan assets	931	331	—	—
Employer contributions	—	—	58	81
Benefits paid	(396)	(510)	(58)	(81)
Foreign currency exchange rate changes	399	(2,684)	—	—
Fair value of plan assets at end of year	\$ 14,798	\$ 13,864	\$ —	\$ —
Funded status of the plan	\$ 1,670	\$ 1,545	\$ (1,379)	\$ (1,299)
Amounts recognized in the consolidated balance sheets				
Noncurrent assets	\$ 1,670	\$ 1,545	\$ —	\$ —
Current liabilities	—	—	(51)	(55)
Noncurrent liabilities	—	—	(1,328)	(1,244)
Net amounts recognized	\$ 1,670	\$ 1,545	\$ (1,379)	\$ (1,299)
Amounts recognized in accumulated other comprehensive income				
Net transition obligation	\$ —	\$ —	\$ 57	\$ 78
Prior service cost	104	202	—	—
Net actuarial loss	3,604	3,856	11	11
Total amount recognized	\$ 3,708	\$ 4,058	\$ 68	\$ 89
Deferred taxes	(927)	(1,015)	(17)	(22)
Net amount recognized	2,781	3,043	51	67

**INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES**  
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	Pension Benefits			Other Benefits		
	2016	2015	2014	2016	2015	2014
Components of net periodic benefit cost						
Service cost	\$ 362	\$ 344	\$ 315	\$ 49	\$ 46	\$ 68
Interest cost	489	507	570	51	54	85
Expected return on plan assets	(768)	(773)	(925)	—	—	—
Amortization of:						
Actuarial loss	207	158	99	—	—	14
Prior service cost	106	110	94	—	—	—
Net transition obligation	—	—	—	23	24	28
Net periodic benefit cost	\$ 396	\$ 346	\$ 153	\$ 123	\$ 124	\$ 195
Weighted average assumptions for balance sheet liability at end of year						
Discount rate	3.75%	3.75%	4.00%	3.75%	3.75%	4.00%
Rate of compensation increase	NA	NA	NA	NA	NA	NA
Weighted average assumptions for net periodic benefit cost at end of year						
Discount rate	3.75%	4.00%	4.75%	3.75%	4.00%	4.75%
Expected long-term rate of return	5.50%	5.50%	6.00%	NA	NA	NA
Rate of compensation increase	NA	NA	NA	NA	NA	NA
Accrued health care cost trend rates at end of year						
Health care cost trend rate assumed for next year (initial rate)				9%	9%	8%
Rate to which the cost trend rate is assumed to decline (ultimate rate)				5%	5%	5%
Year that the rate reaches the ultimate rate				2033	2033	2033

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	Other Benefits	
	2016	2015
Effect of a change in the assumed rate of increase in health benefit costs		
Effect of a 1% increase on:		
Total of service cost and interest cost	\$ 15	\$ 13
Postretirement benefit obligation	\$ 175	\$ 157
Effect of a 1% decrease on:		
Total of service cost and interest cost	\$ (12)	\$ (11)
Postretirement benefit obligation	\$ (143)	\$ (128)

The estimated net actuarial loss, prior service cost, and transition obligation (asset) for all defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost during the 2017 fiscal year are \$170, \$104 and \$0, respectively.

The estimated actuarial loss, prior service cost, and transition obligation (asset) for the postretirement plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost during the 2017 fiscal year are \$0, \$0 and \$23, respectively.

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**Plan Assets**

Innophos Canada Inc.'s pension plan invests in mutual funds and the weighted-average asset allocations at December 31, 2016 and 2015 by asset category are as follows:

<b>Asset Category</b>	<b>2016</b>	<b>2015</b>
Equity securities	50.7%	53.8%
Fixed income securities	46.5	46.2
Other	2.8	—
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

The fair values of Innophos Canada, Inc.'s pension plan assets at December 31, 2016 by asset category are as follows:

	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Equity securities	\$ 7,506	\$ 7,506	\$ —	\$ —
Fixed income securities	6,882	—	6,882	—
Other	410	410	—	—
	<b>\$ 14,798</b>	<b>\$ 7,916</b>	<b>\$ 6,882</b>	<b>\$ —</b>

The Pension Committee has promulgated a Statement of Investment Policies and Procedures based on the “prudent person portfolio approach” to ensure investment and administration of the assets of the Plan within the parameters set out in the Ontario *Pension Benefits Act* and the Regulations hereunder. Investment managers appointed by the Plan are directed to achieve a satisfactory return through a diversified portfolio consistent with acceptable risks and prudent management. In accordance with the investment and risk philosophy of the Committee, a target asset mix of 50% equities and 50% fixed income instruments has been established. Investment weightings and results are tested regularly against appropriate benchmark portfolios.

**Cash Flows**

**Contributions**

Innophos Canada, Inc. contributed \$0.1 million to its pension plan in 2016.

**Estimated Future Benefit Payments**

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

<b>Estimated Future Benefit Payments</b>	<b>Pension Benefits</b>	<b>Other Benefits</b>
Fiscal 2017	\$ 438	\$ 51
Fiscal 2018	487	65
Fiscal 2019	519	62
Fiscal 2020	574	72
Fiscal 2021	612	91
Fiscal Years 2022-2026	3,766	502

Innophos does not plan to make contributions to its Canadian pension plan in 2017.

**Defined Contribution Plans—Canada**

Innophos Canada Inc.'s expense for the defined contribution plans was approximately \$0.1 million for 2016, 2015 and 2014, respectively.

**INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES**

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**Mexico**

In accordance with Mexican labor law, a Mexican employee is entitled to certain post-employment payments after reaching fifteen years of service. In addition, Mexican employees also participate in a statutory profit sharing program based on 10% of adjusted taxable income.

**15. Income Taxes:**

A reconciliation of the U.S. statutory rate and income taxes follows:

	Year Ended December 31,					
	2016		2015		2014	
	Income before income taxes	Income tax expense	Income before income taxes	Income tax expense/(benefit)	Income (loss) before income taxes	Income tax expense/(benefit)
US	\$ 24,727	\$ 10,989	\$ 11,574	\$ 3,474	\$ 67,288	\$ 23,275
Canada/Mexico/Europe/Asia	45,591	11,358	28,549	10,303	30,068	9,620
Total	<u>\$ 70,318</u>	<u>\$ 22,347</u>	<u>\$ 40,123</u>	<u>\$ 13,777</u>	<u>\$ 97,356</u>	<u>\$ 32,895</u>
Current income taxes		\$ 12,813		\$ 50,414		\$ 30,049
Deferred income taxes		9,534		(36,637)		2,846
Total		<u>\$ 22,347</u>		<u>\$ 13,777</u>		<u>\$ 32,895</u>

	Year Ended December 31,		
	2016	2015	2014
Income tax expense at the U.S. statutory rate	\$ 24,611	\$ 14,044	\$ 34,074
State income taxes	862	1,207	3,819
Domestic manufacturing deduction	(562)	(903)	(2,072)
Non-taxable interest income	(5,582)	(3,903)	(2,473)
Mexico entities tax de-consolidation adjustment	(472)	1,470	379
Foreign tax credits carryforward	—	(1,406)	—
Capital loss on note redemption	—	(1,062)	—
Repatriation of foreign earnings	496	(645)	—
Uncertain tax positions	736	306	(745)
Foreign tax rate differential	(1,549)	(1,163)	(932)
Change in valuation allowance	(168)	3,482	562
Other non-deductible permanent items (including translation)	3,975	2,350	283
Provision for income taxes	<u>\$ 22,347</u>	<u>\$ 13,777</u>	<u>\$ 32,895</u>

Net deferred tax balances were reflected on the consolidated balance sheets as follows:

	Year Ended December 31,	
	2016	2015
Net noncurrent deferred tax assets	\$ 18,432	\$ 28,842
Net noncurrent deferred tax liabilities	(1,282)	(2,135)
Net deferred tax assets	<u>\$ 17,150</u>	<u>\$ 26,707</u>



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The components of the Company's deferred tax assets/ (liabilities) were as follows:

	Year Ended December 31,	
	2016	2015
<b>Deferred tax assets:</b>		
Inventories	\$ 5,089	\$ 6,386
Accrued liabilities	10,800	17,742
Prepaid inventory	13,987	28,630
Tax credits	2,535	2,845
Tax losses	16,187	4,140
Total deferred tax assets	<u>48,598</u>	<u>59,743</u>
<b>Deferred tax liabilities:</b>		
Gain on bond retirement	(530)	(809)
Intangibles	(7,033)	(10,670)
Fixed assets	(15,423)	(12,927)
Total deferred tax liabilities	<u>(22,986)</u>	<u>(24,406)</u>
Total valuation allowances	<u>(8,462)</u>	<u>(8,630)</u>
Net deferred tax assets (liabilities)	<u>\$ 17,150</u>	<u>\$ 26,707</u>

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits is as follows:

	Year Ended December 31,		
	2016	2015	2014
Gross unrecognized tax benefits at January 1	\$ 3,121	\$ 2,798	\$ 2,635
Additions for tax positions of prior years	973	470	1,401
Reductions for tax positions of prior years	—	(147)	(832)
Reductions due to settlements	(1,415)	—	(406)
Reductions due to lapse of applicable statute of limitations	—	—	—
Gross unrecognized tax benefits at December 31	<u>2,679</u>	<u>3,121</u>	<u>2,798</u>
Net uncertain tax benefits, that if recognized would impact the effective tax rate, at December 31	<u>\$ 1,741</u>	<u>\$ 1,311</u>	<u>\$ 1,042</u>

The U.S. operations have federal tax loss carry forwards of \$9.3 million and \$0.0 million and state tax loss carry forwards of \$1.1 million and \$0.0 million as of December 31, 2016 and 2015, respectively. These tax loss carry forwards will expire in the years 2026 through 2036. The Company realized tax benefits of \$0.0 million and \$1.0 million from stock options exercised in 2016 and 2015, respectively.

The Company maintains full valuation allowances of \$8.5 million and \$8.6 million at December 31, 2016 and 2015, respectively, on its foreign tax credits carryforward, capital loss on note redemptions and foreign net operating loss carryforwards as it is more likely than not that these tax benefits will not be realized. The decrease in valuation allowances during 2016 is primarily a result of the anticipated utilization in 2016 of Mexican net operating loss carryovers generated in prior years and United States foreign tax credit carryovers utilized on the 2015 federal tax return. Certain of these foreign tax attributes, approximately \$3.6 million, do not expire, while the remaining tax attributes will expire in the years 2017 through 2035.

As of December 31, 2016, taxes have not been provided on approximately \$52.6 million of accumulated foreign unremitted earnings that are expected to remain invested indefinitely. Due to complexities in the tax laws and the assumptions that would have to be made, it is not practicable to estimate the amounts of income taxes that would have to be provided.

## INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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

In connection with a review of the Company's overall cash position and anticipated cash needs, we made a \$266.0 million distribution of foreign earnings mainly from the Mexico and Canadian subsidiaries during the fourth quarter of 2015. This distribution resulted in an immaterial net tax impact.

The Company's Mexican subsidiaries will be de-consolidating for Mexican income tax reporting purposes effective for the 2016 tax year. As such, the Company recognized a deferred tax liability of \$1.5 million in 2015 attributable to the de-consolidation which is payable over the next five years.

Business is conducted in various countries throughout the world and is subject to tax in numerous jurisdictions. A significant number of tax returns are filed and subject to examination by various federal, state and local tax authorities. Tax examinations are often complex, as tax authorities may disagree with the treatment of items reported requiring several years to resolve. As such, the Company maintains liabilities for possible assessments by tax authorities resulting from known tax exposures for uncertain income tax positions. The Company's policy is to accrue associated penalties in selling, general and administrative expenses and to accrue interest in net interest expense. Currently, the Company is under examination, or has been contacted for examination on income tax returns for the years 2009 through 2013. Certain state income tax assessments are under protest and the Company believes its financial position is sustainable. The Company estimates the liability for unrecognized tax benefits may decrease by approximately \$0.7 million during the next twelve months as a result of possible settlements of income tax authority examinations. The Company has recorded an immaterial amount for interest and penalties in the statement of operations. Interest and penalties related to uncertain tax positions of \$0.7 million and \$0.9 million are accrued in other long-term liabilities as of December 31, 2016 and December 31, 2015, respectively. Other than the items mentioned above, as of December 31, 2016, no significant 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 (net of refunds) were \$27.9 million, \$17.0 million and \$30.3 million for 2016, 2015 and 2014, respectively.

#### 16. Commitments and Contingencies:

##### *Leases*

Under agreements expiring through 2020, the Company leases railcars and other equipment under various operating leases. Rental expense for 2016, 2015 and 2014 was \$6,930, \$6,858 and \$6,670, respectively. Minimum annual rentals for all operating leases are:

<u>Year Ending</u>	<u>Lease Payments</u>
2017	\$ 6,344
2018	5,732
2019	5,117
2020	4,154
2021	3,969
Thereafter	13,473

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

***Purchase Commitments and Supplier Concentration***

The Company has multiple raw material supply contracts which prices are established annually based on a formula. The minimum annual purchase obligation for several of these raw material supply contracts, at current prices, approximates \$77.2 million for 2017.

Our business activities depend on long-term or renewable contracts to supply materials or products. In particular, we rely to a significant degree on single-source supply contracts and some of these contractual relationships may be with a relatively limited number of suppliers. Although most of our supplier relationships are typically the result of multiple contractual arrangements of varying terms, in any given year, one or more of these contracts may come up for renewal. As such, on June 23, 2016, the Company received written notice from PCS Purified Phosphates, or PCSPP, an affiliate of Potash Corporation of Saskatchewan, or PCS, that PCSPP does not wish to extend the term of the Amended and Restated Purified Wet Phosphoric Acid Supply Agreement, dated March 23, 2000, beyond July 29, 2018, the end of the current renewal term. The Company currently purchases purified phosphoric acid supply from PCSPP under the agreement and it will continue to qualify and develop additional sources for future supply needs after July 29, 2018. In addition, from time to time, we enter into toll manufacturing agreements or other arrangements to produce minimum quantities of product for a certain duration. If we experience delays in delivering contracted production, we may be subject to contractual liabilities to the buyers to whom we have promised the products.

***Environmental***

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

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

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 therein, 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-\$1.3 million. The remedial action plan for that site has yet to be finalized, and as such, the Company has recorded a liability, which represents the Company's best estimate, of \$1.1 million as of December 31, 2016.

***Litigation***

***2008 RCRA Civil Enforcement - Geismar, Louisiana plant***

On January 12, 2017, the Company entered into a settlement with the United States Environmental Protection Agency, or EPA, and the Louisiana Department of Environmental Quality, or LDEQ, with respect to certain manufacturing processes at the Company's Geismar, Louisiana plant, including the Company's handling of (i) filter material from an enclosed intermediate filtration step to further process MGA that the Company receives as raw material via pipeline from the adjacent site operated by PCS and (ii) the Company's raffinate co-product that is separated in connection with its PPA production at the plant. The EPA and LDEQ, collectively with the United States Department of Justice, or DOJ, are collectively referred to as the Government Parties. This settlement resulted from years of negotiations between the Company and the Government Parties following several inspections of the plant by the Government Parties in which they raised certain violations of the federal Resource, Conservation and Recovery Act. Prior to this settlement, in the course of discussions with the Government Parties, the EPA and the DOJ required that the Company undertake, as an interim measure, the construction of a new filter unit to replace the enclosed system and allow the removal and separate handling of the filter material. The Company built that unit, which has been operating since 2012. As part of the settlement, Innophos is implementing a deep well injection system, a solution approved by the EPA and LDEQ to handle the raffinate separated at the plant. Such system is expected to be completed by early 2018. The Company previously returned the raffinate to PCS under a long-term contract it has with PCS and can continue to do

**INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

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

so until there is a resolution of the deep well system. In connection with this settlement, the Company will pay a \$1.4 million civil penalty, which is accrued in other current liabilities.

*Other Legal Matters*

In July 2013, Innophos, Inc. was assessed approximately \$1.2 million of sales and use taxes by the State of Louisiana and Ascension Parish. This tax assessment covers certain raw materials used in the production of Phosphoric Acid. The Company is contesting both tax assessments. This assessment covers periods 2004 to 2010 for the Parish and 2007 to 2010 for the State. The Company and the respective governmental jurisdictions have reached a settlement in the amount of \$0.1 million during the first quarter of 2017.

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.

**17. Changes in Accumulated Other Comprehensive Income (Loss) by Component:**

	Pension and Other Postretirement Adjustments	Changes in Fair Value of Effective Cash Flow Hedges	Total
Balance at December 31, 2014	\$ (3,175)	\$ 362	\$ (2,813)
Other comprehensive income (loss) before reclassifications	333	(314)	19
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	—
Net current period other comprehensive income (loss)	333	(314)	19
Balance at December 31, 2015	(2,842)	48	(2,794)
Other comprehensive income (loss) before reclassifications	1,349	(39)	1,310
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	—
Net current period other comprehensive income (loss)	1,349	(39)	1,310
Balance at December 31, 2016	\$ (1,493)	\$ 9	\$ (1,484)

**18. Financial Instruments and Concentration of Credit Risks:**

The Company believes that its 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. The ten largest customers accounted for 35%, 33% and 29%, respectively, of net sales for 2016, 2015 and 2014. No customer accounted for more than 10% of our sales in the last three years.

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

**19. Valuation Allowances:**

Valuation allowances as of December 31, 2016, 2015 and 2014, and the changes in the valuation allowances for the year ended December 31, 2016, 2015 and 2014 are as follows:

	Balance, January 1, 2016	Charged/ (credited) to costs and expenses	Deductions (Bad debts)	(Credited) to Goodwill	Balance, December 31, 2016
Deferred taxes valuation allowances	\$ 8,630	\$ (168)	\$ —	\$ —	\$ 8,462
	Balance, January 1, 2015	Charged/ (credited) to costs and expenses	Deductions (Bad debts)	(Credited) to Goodwill	Balance, December 31, 2015
Deferred taxes valuation allowances	\$ 5,148	\$ 3,482	\$ —	\$ —	\$ 8,630
	Balance, January 1, 2014	Charged/ (credited) to costs and expenses	Deductions (Bad debts)	(Credited) to Goodwill	Balance, December 31, 2014
Deferred taxes valuation allowances	\$ 4,586	\$ 562	\$ —	\$ —	\$ 5,148

**20. Segment Reporting:**

The Company discloses certain financial and supplementary information about its reportable segments, revenue by products and revenues by geographic area. Operating segments are defined as components of an enterprise about which separate discrete financial information is evaluated regularly by the chief operating decision maker, in order to decide how to allocate resources and assess performance. Prior to 2016, the primary performance indicators for the chief operating decision maker were sales and operating income. As of January 1, 2016, the primary performance indicators for the chief operating decision maker as of 2016 are sales and EBITDA and all prior periods have been recasted to reflect the change from operating income to EBITDA. All references to sales in this Form 10-K, 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). Our nutritional ingredients business is included in the Specialty Phosphates US & Canada segment and in the Specialty Ingredients product line. Specialty Phosphates consists of three 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.

**INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

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

<b>For the year ended December 31, 2016</b>	<b>Specialty Phosphates US &amp; Canada</b>	<b>Specialty Phosphates Mexico</b>	<b>GTSP &amp; Other</b>	<b>Eliminations</b>	<b>Total</b>
Sales	\$ 511,304	\$ 162,095	\$ 51,946	\$ —	\$ 725,345
Intersegment sales	10,054	49,944	132	(60,130)	—
Total sales	521,358	212,039	52,078	(60,130)	725,345
EBITDA (a)	\$ 68,457	\$ 49,408	\$ (2,399)	—	\$ 115,466
Depreciation and amortization expense	\$ 25,752	\$ 7,940	\$ 3,787	\$ —	\$ 37,479
<b>Other data</b>					
Capital expenditures	\$ 21,594	\$ 14,334	\$ 671	\$ —	\$ 36,599
Long-lived assets	119,761	83,962	1,736	—	205,459
Total assets	620,495	232,672	1,777	—	854,944
<b>Reconciliation of total assets to reported assets</b>					
Total assets	\$ 620,495	\$ 232,672	\$ 1,777	\$ —	\$ 854,944
Eliminations	(204,464)	(7,469)	—	—	(211,933)
Reported assets (c)	\$ 416,031	\$ 225,203	\$ 1,777	\$ —	\$ 643,011
	<b>Specialty Phosphates US &amp; Canada</b>	<b>Specialty Phosphates Mexico</b>	<b>GTSP &amp; Other</b>	<b>Eliminations</b>	<b>Total</b>
<b>For the year ended December 31, 2015</b>					
Sales	\$ 568,332	\$ 164,489	\$ 56,326	\$ —	\$ 789,147
Intersegment sales	11,236	57,396	—	(68,632)	—
Total sales	579,568	221,885	56,326	(68,632)	789,147
EBITDA (b)	\$ 73,031	\$ 30,723	\$ (17,578)	—	\$ 86,176
Depreciation and amortization expense	\$ 26,442	\$ 9,558	\$ 2,535	\$ —	\$ 38,535
<b>Other data</b>					
Capital expenditures	\$ 15,957	\$ 15,309	\$ 433	\$ —	\$ 31,699
Long-lived assets	117,362	80,621	1,511	—	199,494
Total assets	645,897	240,514	1,770	—	888,181
<b>Reconciliation of total assets to reported assets</b>					
Total assets	\$ 645,897	\$ 240,514	\$ 1,770	\$ —	\$ 888,181
Eliminations	(211,171)	(7,457)	—	—	(218,628)
Reported assets (c)	\$ 434,726	\$ 233,057	\$ 1,770	\$ —	\$ 669,553



**INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

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

For the year ended December 31, 2014	Specialty Phosphates US & Canada	Specialty Phosphates Mexico	GTSP & Other	Eliminations	Total
Sales	\$ 594,446	\$ 167,423	\$ 77,317	\$ —	\$ 839,186
Intersegment sales	4,391	54,797	117	(59,305)	—
Total sales	<u>598,837</u>	<u>222,220</u>	<u>77,434</u>	<u>(59,305)</u>	<u>839,186</u>
EBITDA	<u>\$ 104,617</u>	<u>\$ 35,905</u>	<u>\$ (3,351)</u>	<u>—</u>	<u>\$ 137,171</u>
Depreciation and amortization expense	\$ 24,264	\$ 9,416	\$ 1,781	\$ —	\$ 35,461
<b>Other data</b>					
Capital expenditures	\$ 15,432	\$ 12,201	\$ 322	\$ —	\$ 27,955
Long-lived assets	120,226	77,403	1,359	—	198,988
Total assets	711,480	276,588	2,285	—	990,353
<b>Reconciliation of total assets to reported assets</b>					
Total assets	\$ 711,480	\$ 276,588	\$ 2,285	\$ —	\$ 990,353
Eliminations	(244,499)	(17,443)	—	—	(261,942)
Reported assets (c)	<u>\$ 466,981</u>	<u>\$ 259,145</u>	<u>\$ 2,285</u>	<u>\$ —</u>	<u>\$ 728,411</u>

- (a) The year ended December 31, 2016 includes \$1.5 million charge to earnings for restructuring reserves in GTSP & Other.
- (b) The year ended December 31, 2015 includes an \$11.8 million charge to earnings for management transition expenses and an \$8.6 million charge to earnings for restructuring reserves in GTSP & Other.
- (c) GTSP & Other reflects only direct assets. All Mexico indirect assets are included in Specialty Phosphates Mexico.

A reconciliation of net income to EBITDA follows:

	2016	2015	2014
Net income	\$ 47,971	\$ 26,346	\$ 64,461
Provision for income taxes	22,347	13,777	32,895
Interest expense, net	7,669	7,518	4,354
Depreciation and amortization	37,479	38,535	35,461
EBITDA	<u>\$ 115,466</u>	<u>\$ 86,176</u>	<u>\$ 137,171</u>

	Year Ended December 31,		
	2016	2015	2014
<b>Product Revenues</b>			
Specialty Ingredients	\$ 472,839	\$ 516,034	\$ 548,583
Food & Technical Grade PPA	133,135	149,329	140,712
STPP & Detergent Grade PPA	67,425	67,458	72,574
GTSP & Other	51,946	56,326	77,317
Total	<u>\$ 725,345</u>	<u>\$ 789,147</u>	<u>\$ 839,186</u>
<b>Geographic Revenues</b>			
US	\$ 418,411	\$ 469,263	\$ 496,613
Mexico	123,885	119,080	119,514
Canada	32,391	33,456	36,719
Other foreign countries	150,658	167,348	186,340
Total	<u>\$ 725,345</u>	<u>\$ 789,147</u>	<u>\$ 839,186</u>

Revenues for the geographic information are attributed to geographic areas based on the destination of the sale.

Intersegment sales are recorded based on established transfer price.

Long-lived assets include property, plant and equipment.

**INNOPHOS HOLDINGS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

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

Innophos has presented the segment disclosure information under the reporting structure in place during 2016. During the first quarter of 2017, Innophos will change the way information will be regularly reviewed by our CODM to a market view, which will reflect the way we will manage and operate the business. Our measure of segment profitability will continue to be EBITDA. We will recast all prior periods in future filings to conform to the new presentation.

**21. Quarterly information (unaudited):**

	<b>2016</b>				
	<b>Quarters ended</b>				
	<b>March 31</b>	<b>June 30</b>	<b>September 30</b>	<b>December 31</b>	<b>Total</b>
Net sales	\$ 189,630	\$ 181,888	\$ 186,037	\$ 167,790	\$ 725,345
Gross profit (a)	40,716	36,150	40,540	32,986	150,392
Net income (b)	12,842	12,104	13,643	9,382	47,971
Per share data:					
Income per share:					
Basic	\$ 0.67	\$ 0.62	\$ 0.70	\$ 0.48	
Diluted	\$ 0.66	\$ 0.61	\$ 0.69	\$ 0.47	
	<b>2015</b>				
	<b>Quarters ended</b>				
	<b>March 31</b>	<b>June 30</b>	<b>September 30</b>	<b>December 31</b>	<b>Total</b>
Net sales	\$ 201,609	\$ 217,294	\$ 199,612	\$ 170,632	\$ 789,147
Gross profit (a)	40,526	40,995	37,121	24,687	143,329
Net income (b)	11,943	13,603	5,433	(4,633)	26,346
Per share data:					
Income per share:					
Basic	\$ 0.56	\$ 0.66	\$ 0.28	\$ (0.24)	
Diluted	\$ 0.55	\$ 0.65	\$ 0.28	\$ (0.24)	

(a) The three months ended September 30, 2016 include a \$0.2 million charge to earnings for restructuring costs, recorded in GTSP & Other. The three months ended September 30, 2015 includes an \$2.8 million charge for restructuring reserves, recorded in GTSP & Other. The three months ended December 31, 2015 includes a \$0.5 million charge for management transition expenses, recorded in GTSP & Other.

(b) The three months ended September 30, 2016 include a \$1.5 million charge to earnings for restructuring costs, recorded in GTSP & Other. The three months ended September 30, 2015 includes a \$8.6 million charge for restructuring reserves. The three months ended December 31, 2015 includes a \$11.8 million charge for management transition expenses, recorded in GTSP & Other.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. 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 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. The Principal Executive Officer and Principal Financial Officer, with the participation of management, concluded that the Company's disclosure controls and procedures are effective at the reasonable assurance level as of December 31, 2016.

**MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control framework and processes are designed to provide reasonable assurance to management and the Board of Directors regarding the reliability of financial reporting and the preparation of the Company's consolidated financial statements in accordance with United States generally accepted accounting principles.

As of December 31, 2016, management conducted an assessment of the Company's internal control over financial reporting based on the framework established by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control — Integrated Framework (2013)*. Based on the assessment, management concluded that, as of December 31, 2016, the Company's internal control over financial reporting is 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.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, has audited the Company's financial statements included in this Annual Report on Form 10-K and issued its report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2016, which is included in "Part II, Item 8. Consolidated Financial Statements and Supplementary Data".

**Changes in Internal Control Over Financial Reporting**

There have been no changes in the Company's internal control over financial reporting during or with respect to the fourth quarter of 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

None.

### PART III

#### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information relating to our executive officers appears in "Part 1, Item 1. Business" appearing elsewhere in this Annual Report on Form 10-K. Additional information required by this Item is incorporated herein by reference to the 2017 Proxy Statement.

#### ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference to the 2017 Proxy Statement.

#### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

##### Equity Compensation Plans

The following information is provided for our most recently completed fiscal year for certain plans providing compensation in the form of equity securities.

##### Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b) **	(c)
Equity compensation plans approved by security holders	916,646	\$ 34.92	904,221 *
Equity compensation plans not approved by security holders	—	\$ —	—
Total	<u>916,646</u>	<u>\$ 34.92</u>	<u>904,221</u>

\* Includes in the total 222,247 shares of common stock available for future grant and issuance under our 2006 Long Term Equity Incentive Plan. The remaining shares shown in column (c) are attributable to our 2009 Long Term Incentive Plan.

\*\* In column (b), the weighted average exercise price is only applicable to stock options.

Additional information required by this Item is incorporated herein by reference to the 2017 Proxy Statement.

#### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated herein by reference to the 2017 Proxy Statement.

#### ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item is incorporated herein by reference to the 2017 Proxy Statement.

## **PART IV**

### **ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

(a)(1) Financial Statements. The financial statements filed as part of this Annual Report on Form 10-K are listed on the Index to Financial Statements in “Part II, Item 8. Consolidated Financial Statements and Supplementary Data.”

(a)(2) Financial Statement Schedules. Schedules are omitted because they are not required or because the information is provided elsewhere in the financial statements noted in (a)(1) above.

(a)(3) Exhibits required by Item 601 of Regulation S-K. The information required by this Section (a)(3) of Item 15 is set forth on the Exhibit Index that follows the signatures page of this Annual Report on Form 10-K.

### **ITEM 16. FORM 10-K SUMMARY**

Optional disclosure, not included in this Annual Report on Form 10-K.





## EXHIBIT INDEX

Exhibit No.	Description
3.1	Second Amended and Restated Certificate of Incorporation of Innophos Holdings, Inc. incorporated by reference to Exhibit 3.1 of Amendment No. 4 to Registration Statement 333-135851 on Form S-1 of Innophos Holdings, Inc. filed October 30, 2006
3.2	Amended and Restated By-Laws of Innophos Holdings, Inc. as of February 5, 2016, incorporated by reference to Exhibit 3.1 of Form 8-K of Innophos Holdings, Inc. filed February 9, 2016
4.1	Form of Common Stock certificate, incorporated by reference to Exhibit 4.1 of Amendment No. 4 to Registration Statement 333-135851 on Form S-1 of Innophos Holdings, Inc. filed October 30, 2006
10.1	Supply Agreement (Sulphuric Acid) dated as of August 13, 2004 between Rhodia, Inc. (now part of Solvay S.A.) and Innophos, Inc. (filed in redacted form per confidential treatment order), incorporated by reference to Exhibit 10.3 of Annual Report on Form 10-K of Innophos Holdings, Inc. filed on March 14, 2008
10.2	Amended and Restated Purified Wet Phosphoric Acid Supply Agreement dated as of March 23, 2000 by and between Rhodia, Inc. (assigned to Innophos) and PCS Purified Phosphates, incorporated by reference to Exhibit 10.15 to Amendment No. 4 of Registration Statement 333-129951 on Form S-4 of Innophos, Inc. (filed in redacted form per confidential treatment order) filed February 14, 2006
10.3	Amended and Restated Acid Purchase Agreement dated as of March 23, 2000 among Rhodia, Inc. (assigned to Innophos), PCS Sales (USA), Inc. and PCS Nitrogen Fertilizer L.P., incorporated by reference to Exhibit 10.16 to Amendment No. 4 of Registration Statement 333-129951 on Form S-4 of Innophos, Inc. (filed in redacted form per confidential treatment order) filed February 14, 2006
10.4	Purchase and Sale Agreement of Anhydrous Ammonia dated as of February 15, 2008, by and between Pemex Petroquimica, and Innophos Fosfatados De Mexico, S. de R.L. de C.V. (filed in redacted form per confidential treatment order), incorporated by reference to Exhibit 10.8 of Annual Report on Form 10-K/A of Innophos Holdings, Inc. filed on May 8, 2009
10.5	Assignment, Assumption, and Consent, concerning the Purchase and Sale Agreement of Anhydrous Ammonia, to be effective May 1, 2009, incorporated by reference to Exhibit 10.2 of Annual Report on Form 10-K of Innophos Holdings, Inc. filed on February 28, 2011
10.6	Letter Update, dated February 22, 2011, concerning the Purchase and Sale Agreement of Anhydrous Ammonia, incorporated by reference to Exhibit 10.6 of the Annual Report on Form 10-K of Innophos Holdings, Inc. filed on February 26, 2016
10.7	Sulfur Supply Contract dated as of January 1, 2011 by and Between Pemex Gas Y Petroquimica Basica and Innophos Fosfatados de Mexico, S. de R.L. de C.V. (filed in redacted form per confidential treatment order), incorporated by reference to Exhibit 10.7 of Annual Report on Form 10-K of Innophos Holdings, Inc. for the year ended December 31, 2011
10.8	Partial Assignment of Rights and Obligations Agreement dated November 1, 2012, by and between Administracion Portuaria Integral de Coatzacoalcos, S.A. de C.V. and Innophos Fosfatados de Mexico, S. de R.L. de C.V. (in redacted form per confidential treatment order), incorporated by reference to Exhibit 99.1 to Form 8-K of Innophos Holdings, Inc. filed November 9, 2012
10.9*	Addendum to Partial Assignment of Rights and Obligations agreement, dated May 31, 2016
10.10+	Innophos Holdings, Inc. Amended and Restated 2005 Executive Stock Option Plan, incorporated by reference to Exhibit 10.28 to Amendment No. 4 of Registration Statement 333-135851 on Form S-1 of Innophos Holdings, Inc. filed October 30, 2006
10.11+	Form of 2006 Long-Term Equity Incentive Plan, incorporated by reference to Exhibit 10.37 to Amendment No. 4 of Registration Statement 333-135851 on Form S-1 of Innophos, Inc. filed October 30, 2006
10.12+	Form of 2009 Long-Term Incentive Plan (2009 LTIP), incorporated by reference to Exhibit 99.1 of Form 8-K of Innophos Holdings, Inc. filed June 4, 2009
10.13+*	Form of Award Agreement under the 2009 LTIP
10.14+	Form of Innophos, Inc. Retirement Savings Restoration Plan effective as of January 1, 2006, incorporated by reference to Exhibit 10.29 of Annual Report on Form 10-K of Innophos Holdings, Inc. filed March 22, 2007
10.15+	Innophos, Inc. 2015 Executive, Management and Sales Incentive Plan effective January 1, 2015, incorporated by reference to Exhibit 99.1 of Form 8-K of Innophos Holdings, Inc. filed May 27, 2015
10.16+	Form of Indemnification Agreement, by and among Innophos Holdings, Inc. and certain Directors and Executive Officers, incorporated by reference to Exhibit 99.2 of Form 8-K of Innophos Holdings, Inc. filed January 31, 2007
10.17+	Form of Executive Employment Agreement by and between Innophos Holdings, Inc. and certain executive officers, incorporated by reference to Exhibit 99.13 of Form 8-K of Innophos Holdings, Inc. filed May 1, 2008

- Executive Employment Agreement, dated November 10, 2015, by and between Innophos Holdings, Inc. and Kim Ann Mink, incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K of Innophos Holdings, Inc. filed on November 16, 2015
- 10.18+ Executive Employment Agreement, dated April 1, 2016, by and between Innophos Holdings, Inc. and Han Kieftenbeld, incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed by Innophos Holdings, Inc. on April 6, 2016
- 10.19+ Executive Employment Agreement, dated as of July 28, 2015, by and between Innophos Holdings, Inc. and Jean-Marie Mainente
- 10.20+\* Credit Agreement, dated December 22, 2016, between the Company and a group of Lenders, including Wells Fargo Bank, National Association, as administrative agent, incorporated by reference to exhibit 10.1 of the Current Report on Form 8-K filed by Innophos Holdings, Inc. on December 22, 2016
- 10.21
- 12.1\* Statement re: Calculation of Ratio of Earnings to Fixed Charges
- 21.1\* Subsidiaries of Registrant
- 23.1\* Consent of PricewaterhouseCoopers LLP
- 31.1\* Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2\* Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1\*\* Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2\*\* Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101.INS\* XBRL Instance Document
- 101.SCH\* XBRL Taxonomy Extension Schema Document
- 101.CAL\* XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF\* XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB\* XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE\* XBRL Taxonomy Extension Presentation Linkbase Document

Pursuant to rules of the Securities and Exchange Commission, agreements and instruments evidencing the rights of holders of debt whose total amount does not exceed 10% of the total assets of the registrant and its subsidiaries on a consolidated basis are not being filed as exhibits to this report. The registrant has agreed to furnish a copy of such agreements and instruments to the Commission upon its request.

\* Filed herewith.

\*\* Furnished herewith.

+ Management contract or compensatory plan or arrangement.

# Officers & Directors

## Innophos Executive Officers

### **Kim Ann Mink, Ph.D.**

Chairman, President and  
Chief Executive Officer

### **Han Kieftenbeld**

Senior Vice President and  
Chief Financial Officer

### **Charles Brodheim**

Vice President, Corporate Controller  
and Information Technology

### **Sherry Duff**

Senior Vice President, Chief  
Marketing and Technology Officer

### **Amy Hartzell**

Vice President, Supply Chain  
and Purchasing

### **Joshua Horenstein**

Vice President, Chief Legal Officer  
and Corporate Secretary

### **Jean Marie Mainente**

Senior Vice President,  
Chief Human Resources Officer

### **Yasef Murat**

Senior Vice President,  
Global Manufacturing

## Board of Directors

### **Kim Ann Mink, Ph.D.**

Chairman of the Board

### **Gary Cappeline**

Lead Independent Director;  
Chair, Strategic Advisory Committee

### **Linda Myrick**

Director; Chair, Nominating &  
Corporate Governance Committee

### **Karen Osar**

Director

### **John Steitz**

Director; Chair,  
Compensation Committee

### **Peter Thomas**

Director

### **James Zallie**

Director

### **Robert Zatta**

Director; Chair, Audit Committee

## Corporate Information

### **TRANSFER AGENT AND REGISTRAR**

Wells Fargo

### **INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

PricewaterhouseCoopers LLP

### **CORPORATE LOCATIONS**

USA (Corporate Headquarters)  
Innophos Holdings, Inc.  
259 Prospect Plains Rd, Bldg A  
Cranbury, NJ 08512-3706 USA  
609-495-2495

### Mexico

Innophos Mexicana S. de R.L. de C.V.  
Bosques de los Ciruelos 186  
Piso 11  
Colonia Bosques de las Lomas  
Delegacion Miguel Hidalgo  
11700 Mexico, D.F.  
+ (52) 55 5322 4808

[www.innophos.com](http://www.innophos.com)

### **INNOPHOS MANUFACTURING FACILITIES**

Port Maitland, Ontario, Canada  
Chicago Heights, Illinois  
Chicago (Waterway), Illinois  
Ogden, Utah  
North Salt Lake, Utah  
Nashville, Tennessee  
Green Pond, South Carolina  
Geismar, Louisiana  
San Jose de Iturbide (Mission Hills),  
Guanajuato, Mexico  
Coatzacoalcos, Veracruz, Mexico  
Taicang, China

### **INVESTOR RELATIONS CONTACTS**

[investor.relations@innophos.com](mailto:investor.relations@innophos.com)  
609-366-1299  
or Ryan Flaim  
Sharon Merrill Associates  
617-542-5300  
[IPHS@investorrelations.com](mailto:IPHS@investorrelations.com)

**Innophos Holdings, Inc.**

259 Prospect Plains Rd, Bldg A  
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