

BALCHEM CORP
Form 10-Q
August 05, 2015

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For The Quarterly Period Ended June 30, 2015
or

Transition Report Pursuant to Section 13 or
15(d) of
the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number 1-13648

BALCHEM CORPORATION

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of incorporation or organization)

13-2578432

(I.R.S. Employer Identification Number)

52 Sunrise Park Road, New Hampton, New York 10958
(Address of principal executive offices) (Zip Code)

845-326-5600
Registrant's
telephone
number,
including area
code:

Indicate by a 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 filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

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

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

As of July 31, 2015 the registrant had 31,470,457 shares of its Common Stock, \$.06 2/3 par value, outstanding.

Part I. Financial Information
Item 1. Financial Statements

BALCHEM CORPORATION
Condensed Consolidated Balance Sheets
(Dollars in thousands, except per share data)

| | June 30, 2015 (unaudited) | December 31, 2014 |
|--|---------------------------------|-------------------------|
| <u>Assets</u> | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 72,243 | \$ 50,287 |
| Accounts receivable, net of allowance for doubtful accounts of \$186 and \$288 at June 30, 2015 and December 31, 2014 | 63,498 | 71,982 |
| Inventories | 47,882 | 49,623 |
| Prepaid expenses | 3,246 | 4,545 |
| Prepaid income taxes | 1,899 | - |
| Deferred income taxes | 1,413 | 1,390 |
| Other current assets | 3,296 | 3,475 |
| Total current assets | 193,477 | 181,302 |
| Property, plant and equipment, net | 139,749 | 131,588 |
| Goodwill | 383,906 | 383,906 |
| Intangible assets with finite lives, net | 147,752 | 160,394 |
| Other assets | 4,096 | 4,341 |
| Total assets | \$ 868,980 | \$ 861,531 |
| <u>Liabilities and Stockholders' Equity</u> | | |
| Current liabilities: | | |
| Trade accounts payable | \$ 19,091 | \$ 24,352 |
| Accrued expenses | 14,863 | 15,614 |
| Accrued compensation and other benefits | 5,066 | 9,137 |
| Dividends payable | - | 9,251 |
| Income taxes payable | - | 2,168 |
| Current portion of long-term debt | 35,000 | 35,000 |
| Total current liabilities | 74,020 | 95,522 |
| Long-term debt | 280,000 | 297,500 |
| Deferred income taxes | 70,669 | 70,661 |
| Other long-term obligations | 6,073 | 5,950 |
| Total liabilities | 430,762 | 469,633 |
| Commitments and contingencies (note 14) | | |
| Stockholders' equity: | | |
| Preferred stock, \$25 par value. Authorized 2,000,000 shares; none issued and outstanding | - | - |
| Common stock, \$.0667 par value. Authorized 60,000,000 shares; 31,449,857 shares issued and outstanding at June 30, 2015 and 30,845,586 shares issued and outstanding at December 31, 2014 | 2,096 | 2,058 |

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| | | |
|--|------------|------------|
| Additional paid-in capital | 115,619 | 97,289 |
| Retained earnings | 325,290 | 295,202 |
| Accumulated other comprehensive loss | (4,787) | (2,651) |
| Total stockholders' equity | 438,218 | 391,898 |
| Total liabilities and stockholders' equity | \$ 868,980 | \$ 861,531 |

See accompanying notes to condensed consolidated financial statements.

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BALCHEM CORPORATION
Condensed Consolidated Statements of Earnings
(Dollars in thousands, except per share data)
(unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|------------|------------------------------|------------|
| | 2015 | 2014 | 2015 | 2014 |
| Net sales | \$ 134,773 | \$ 132,230 | \$ 279,635 | \$ 218,225 |
| Cost of sales | 92,906 | 99,895 | 194,638 | 162,675 |
| Gross margin | 41,867 | 32,335 | 84,997 | 55,550 |
| Operating expenses: | | | | |
| Selling expenses | 11,367 | 8,552 | 23,153 | 12,741 |
| Research and development expenses | 1,492 | 1,119 | 2,940 | 1,892 |
| General and administrative expenses | 5,234 | 6,155 | 10,092 | 11,053 |
| | 18,093 | 15,826 | 36,185 | 25,686 |
| Earnings from operations | 23,774 | 16,509 | 48,812 | 29,864 |
| Other expenses (income): | | | | |
| Interest income | (3) | (13) | (5) | (59) |
| Interest expense | 1,594 | 1,315 | 3,475 | 1,316 |
| Other, net | 16 | (84) | 90 | (56) |
| Earnings before income tax expense | 22,167 | 15,291 | 45,252 | 28,663 |
| Income tax expense | 7,251 | 5,559 | 15,164 | 10,037 |
| Net earnings | \$ 14,916 | \$ 9,732 | \$ 30,088 | \$ 18,626 |
| Net earnings per common share - basic | \$ 0.48 | \$ 0.32 | \$ 0.97 | \$ 0.62 |
| Net earnings per common share - diluted | \$ 0.47 | \$ 0.31 | \$ 0.95 | \$ 0.60 |

See accompanying notes to condensed consolidated financial statements.

BALCHEM CORPORATION
 Condensed Consolidated Statements of Comprehensive Income
 (Dollars in thousands)
 (unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|-----------------------------------|---------|------------------------------|----------|
| | 2015 | 2014 | 2015 | 2014 |
| Net earnings | \$14,916 | \$9,732 | \$30,088 | \$18,626 |
| Other comprehensive income (loss), net of tax: | | | | |
| Net foreign currency translation adjustment | 550 | (176) | (2,130) | (194) |
| Net change in postretirement benefit plan, net of taxes of \$2 and \$1 for the three months ended June 30, 2015 and 2014, and \$3 and \$2 for the six months ended June 30, 2015 and 2014. | (3) | (2) | (6) | (4) |
| Other comprehensive income (loss) | 547 | (178) | (2,136) | (198) |
| Comprehensive income | \$15,463 | \$9,554 | \$27,952 | \$18,428 |

See accompanying notes to condensed consolidated financial statements.

BALCHEM CORPORATION
Condensed Consolidated Statements of Cash Flows
(Dollars in thousands)
(unaudited)

| | Six Months Ended | |
|---|------------------|-----------|
| | June 30, | |
| | 2015 | 2014 |
| Cash flows from operating activities: | | |
| Net earnings | \$30,088 | \$18,626 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation and amortization | 19,891 | 9,864 |
| Stock compensation expense | 2,684 | 2,348 |
| Deferred income taxes | 55 | 75 |
| Provision for doubtful accounts | (106) | 68 |
| Foreign currency transaction loss | 60 | 7 |
| Loss on disposal of assets | 106 | - |
| Changes in assets and liabilities | | |
| Accounts receivable | 7,962 | (9,397) |
| Inventories | 1,378 | (256) |
| Prepaid expenses and other current assets | 1,396 | 215 |
| Accounts payable and accrued expenses | (9,786) | 3,262 |
| Income taxes | (4,046) | 2,552 |
| Customer deposits and other deferred revenue | - | (35) |
| Other | 184 | 274 |
| Net cash provided by operating activities | 49,866 | 27,603 |
| Cash flows from investing activities: | | |
| Capital expenditures | (15,299) | (3,504) |
| Cash paid for acquisition, net of cash acquired | - | (491,057) |
| Intangible assets acquired | (617) | (41) |
| Net cash used in investing activities | (15,916) | (494,602) |
| Cash flows from financing activities: | | |
| Proceeds from long-term debt | - | 350,000 |
| Principal payments on long-term debt | (17,500) | - |
| Proceeds from revolving loan | - | 50,000 |
| Principal payment on acquired debt | - | (75,550) |
| Cash paid for financing costs | - | (2,543) |
| Repayments of short-term obligations | - | (89) |
| Proceeds from stock options exercised | 9,920 | 2,881 |
| Excess tax benefits from stock compensation | 5,785 | 1,472 |
| Dividends paid | (9,251) | (7,856) |
| Purchase of treasury stock | (21) | (267) |
| Net cash (used in) provided by financing activities | (11,067) | 318,048 |
| Effect of exchange rate changes on cash | (927) | (82) |

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| | | |
|--|----------|-----------|
| Increase (decrease) in cash and cash equivalents | 21,956 | (149,033) |
| Cash and cash equivalents beginning of period | 50,287 | 208,747 |
| Cash and cash equivalents end of period | \$72,243 | \$59,714 |

Supplemental Cash Flow Information - see Note 11

See accompanying notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(All dollar amounts in thousands, except share and per share data)

NOTE 1 – CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements presented herein have been prepared by the Company in accordance with the accounting policies described in its December 31, 2014 consolidated financial statements, and should be read in conjunction with the consolidated financial statements and notes, which appear in the Annual Report on Form 10-K for the year ended December 31, 2014. References in this report to the “Company” mean either Balchem Corporation or Balchem Corporation and its subsidiaries, including BCP Ingredients, Inc., Aberco, Inc., Balchem BV, Balchem Italia Srl, Performance Chemicals & Ingredients Company, SensoryEffects Powder Systems, Inc., SensoryEffects Cereal Systems, Inc., SensoryEffects Flavor Company, SensoryEffects International Sales, Inc., and SEPS Reading LLC, on a consolidated basis, as the context requires.

In the opinion of management, the unaudited condensed consolidated financial statements furnished in this Form 10-Q include all adjustments necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented. All such adjustments are of a normal recurring nature. The condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP” or “GAAP”) governing interim financial statements and the instructions to Form 10-Q and Article 10 of Regulation S-X under the Securities Exchange Act of 1934 and therefore do not include some information and notes necessary to conform to annual reporting requirements. Certain prior year amounts have been reclassified to conform to current year presentation. The results of operations for the three and six months ended June 30, 2015 are not necessarily indicative of the operating results expected for the full year or any interim period.

Retrospective Revision of Certain Prior Period Information

During the first quarter of fiscal year 2015, information that our chief operating decision maker regularly reviews for purposes of allocating resources and assessing performance changed, and as a result, the Company changed its communication to external investors. Therefore, beginning in fiscal year 2015, we are reporting our financial performance based on our new segments described in Note 10 – Segment Information. We have retrospectively revised certain prior period amounts to conform to the way we internally manage and monitor segment performance during the current fiscal year. This change impacted Note 6 – Intangible Assets and Note 10 – Segment Information, with no impact on consolidated net income or cash flows.

During the first quarter of fiscal year 2015, the Company completed its review of the acquired tax balances associated with the SensoryEffects acquisition. As a result, the following December 31, 2014 balances were retrospectively revised as follows: goodwill and deferred income taxes were increased by \$260. The revision is measured as of the acquisition date and considers adjustments that would have been recognized had the deferred taxes been recorded as of the acquisition date. There was no impact on consolidated net income or cash flows. See Note 2.

NOTE 2—ACQUISITION OF PERFORMANCE CHEMICALS & INGREDIENTS COMPANY

On May 7, 2014, the Company acquired 100 percent (the “Acquisition”) of the outstanding common shares of Performance Chemicals & Ingredients Company (d/b/a SensoryEffects), a privately held supplier of customized food and ingredient systems, headquartered in St. Louis, Missouri. The Company made payments of approximately \$569 million on the acquisition date, amounting to approximately \$494 million to the former shareholders, including adjustments for working capital acquired, and approximately \$75 million to SensoryEffects’ lenders to pay off all SensoryEffects bank debt. SensoryEffects is a leader in powder, solid and liquid flavor systems, creamer and specialty emulsified powders, cereal-based products and other functional ingredient food and beverage delivery systems. The Acquisition of SensoryEffects accelerates the Company’s growth into the health and wellness markets. SensoryEffects was merged with the Company’s Food, Pharma & Nutrition segment, strengthening its market leadership position, and the segment was renamed SensoryEffects.

The goodwill of \$355,391 arising from the Acquisition consists largely of expected synergies, including the combined entities experience and technical problem solving capabilities, and acquired workforce. The goodwill is assigned to the SensoryEffects segment and approximately \$20,466 is tax deductible for income tax purposes.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed.

| | |
|--|-----------|
| Cash and cash equivalents | \$2,635 |
| Accounts receivable | 25,674 |
| Inventories | 32,000 |
| Property, plant and equipment | 75,850 |
| Customer relationships | 130,300 |
| Trade names | 31,100 |
| Developed technology | 3,200 |
| Other assets | 3,955 |
| Indemnification asset | 1,650 |
| Trade accounts payable | (10,427) |
| Accrued expenses | (6,326) |
| Bank debt | (75,550) |
| Deferred income taxes | (75,760) |
| Goodwill | 355,391 |
| Amount paid to shareholders | 493,692 |
| SensoryEffects bank debt paid on purchase date | 75,550 |
| Total amount paid on acquisition date | \$569,242 |

Customer relationships are amortized over a 10-year period utilizing an accelerated method based on the estimated average customer attrition rate. Trade names and developed technology are amortized over 10 years and 5 years, respectively, utilizing the straight-line method as the consumption pattern of the related economic benefits cannot be reliably determined.

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The Company is indemnified for tax liabilities prior to the Acquisition date. The indemnification asset balance increased by \$54 from January 1, 2015 to June 30, 2015 to \$1,976.

The following unaudited pro forma information has been prepared as if the Acquisition had occurred on January 1, 2013.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|-----------------|------------------------------|-----------------|
| | Net Net Sales | Net Earnings | Net Net Sales | Net Earnings |
| 2015 SensoryEffects actual results included in the Company's consolidated income statement | \$54,018 | \$ 2,787 | \$108,558 | \$ 5,693 |
| 2015 Supplemental pro forma combined financial information | \$134,773 | \$ 14,916 | \$279,635 | \$ 30,088 |
| Basic earnings per share | | \$ 0.48 | | \$ 0.97 |
| Diluted earnings per share | | \$ 0.47 | | \$ 0.95 |
| 2014 SensoryEffects actual results included in the Company's consolidated income statement from May 7, 2014 through June 30, 2014 | \$36,395 | \$ (457) | \$36,395 | \$ (457) |
| 2014 Supplemental pro forma combined financial information | \$157,635 | \$ 14,726 | \$302,242 | \$ 26,483 |
| Basic earnings per share | | \$ 0.49 | | \$ 0.88 |
| Diluted earnings per share | | \$ 0.47 | | \$ 0.85 |

2014 supplemental pro forma earnings for the three months ended June 30, 2014 exclude \$14,944 of acquisition-related costs incurred and \$4,735 of non-recurring expenses related to the fair value adjustment to acquisition-date inventory. 2014 supplemental pro forma earnings for the six months ended June 30, 2014 exclude \$16,212 of acquisition-related costs incurred and \$4,735 of non-recurring expenses related to the fair value adjustment to acquisition-date inventory. The pro forma information presented does not purport to be indicative of the results that actually would have been attained if the SensoryEffects acquisition had occurred at the beginning of the periods presented and is not intended to be a projection of future results.

NOTE 3 – STOCKHOLDERS’ EQUITY

STOCK-BASED COMPENSATION

The Company records stock-based compensation in accordance with the provisions of ASC 718, “Compensation-Stock Compensation.” The Company’s results for the three and six months ended June 30, 2015 and 2014 reflected the following stock-based compensation cost, and such compensation cost had the following effects on net earnings:

| | Increase/(Decrease) for the Three Months Ended June 30, | |
|--------------------|--|--------|
| | 2015 | 2014 |
| Cost of sales | \$ 214 | \$ 163 |
| Operating expenses | 1,298 | 1,196 |
| Net earnings | (982) | (847) |

| | Increase/(Decrease) for the Six Months Ended June 30, | |
|--------------------|--|----------|
| | 2015 | 2014 |
| Cost of sales | \$426 | \$311 |
| Operating expenses | 2,260 | 2,036 |
| Net earnings | (1,743) | (1,499) |

As required by ASC 718, the Company has made an estimate of expected forfeitures based on its historical experience and is recognizing compensation cost only for those stock-based compensation awards expected to vest.

The Company’s stock incentive plans allow for the granting of stock awards and options to purchase common stock. Both incentive stock options and nonqualified stock options can be awarded under the plans. No option will be exercisable for longer than ten years after the date of grant. The Company has approved and reserved a number of shares to be issued upon exercise of the outstanding options that is adequate to cover all exercises. As of June 30, 2015, the plans had 3,772,007 shares available for future awards. Compensation expense for stock options and stock awards is recognized on a straight-line basis over the vesting period, generally three years for stock options, four years for employee restricted stock awards, three years for employee performance share awards, and four years for non-employee director restricted stock awards. Certain awards provide for accelerated vesting if there is a change in control (as defined in the plans) or other qualifying events.

Option activity for the six months ended June 30, 2015 and 2014 is summarized below:

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| | Shares | Weighted Average Exercise Price | Aggregate Intrinsic Value | Weighted Average Remaining Contractual Term |
|--|--------|--|---------------------------------|---|
| For the six months ended June 30, 2015 | (000s) | | | |
| Outstanding as of December 31, 2014 | 1,470 | \$ 27.35 | \$ 57,742 | |
| Granted | 207 | 58.34 | | |
| Exercised | (519) | 19.12 | | |
| Forfeited | (12) | 50.46 | | |
| Outstanding as of June 30, 2015 | 1,146 | \$ 36.45 | \$ 22,660 | 6.6 |
| Exercisable as of June 30, 2015 | 718 | \$ 26.77 | \$ 20,785 | 5.2 |

| | Shares | Weighted Average Exercise Price | Aggregate Intrinsic Value | Weighted Average Remaining Contractual Term |
|--|--------|--|---------------------------------|---|
| For the six months ended June 30, 2014 | (000s) | | | |
| Outstanding as of December 31, 2013 | 1,893 | \$ 20.94 | \$ 71,465 | |
| Granted | 268 | 53.80 | | |
| Exercised | (249) | 11.56 | | |
| Forfeited | (126) | 56.03 | | |
| Outstanding as of June 30, 2014 | 1,786 | \$ 24.71 | \$ 51,517 | 5.3 |
| Exercisable as of June 30, 2014 | 1,425 | \$ 20.40 | \$ 47,250 | 4.4 |

ASC 718 requires companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions: dividend yields of 0.6% and 0.5%; expected volatilities of 33% and 34%; risk-free interest rates of 1.7% and 1.8%; and expected lives of 5.5 and 5.6 years, in each case for the six months ended June 30, 2015 and 2014, respectively.

The Company used a projected expected life for each award granted based on historical experience of employees' exercise behavior. Expected volatility is based on the Company's historical volatility levels. Dividend yields are based on the Company's historical dividend yields. Risk-free interest rates are based on the implied yields currently available on U.S. Treasury zero coupon issues with a remaining term equal to the expected life.

Other information pertaining to option activity during the three and six months ended June 30, 2015 and 2014 was as follows:

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| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|-----------------------------|---------|---------------------------|----------|
| | 2015 | 2014 | 2015 | 2014 |
| Weighted-average fair value of options granted | \$17.07 | \$19.68 | \$18.35 | \$17.53 |
| Total intrinsic value of stock options exercised (\$000s) | \$12,244 | \$5,526 | \$20,284 | \$10,944 |

Non-vested restricted stock activity for the six months ended June 30, 2015 and 2014 is summarized below:

| Six months ended June 30, 2015 | Shares (000s) | Weighted Average Grant Date Fair Value |
|--|---------------|--|
| Non-vested balance as of December 31, 2014 | 134 | \$ 38.13 |
| Granted | 76 | 55.77 |
| Vested | (11) | 16.69 |
| Forfeited | - | - |
| Non-vested balance as of June 30, 2015 | 199 | \$ 46.11 |

| Six months ended June 30, 2014 | Shares (000s) | Weighted Average Grant Date Fair Value |
|--|---------------|--|
| Non-vested balance as of December 31, 2013 | 172 | \$ 33.69 |
| Granted | 25 | 51.03 |
| Vested | (24) | 37.61 |
| Forfeited | (6) | 45.32 |
| Non-vested balance as of June 30, 2014 | 167 | \$ 35.27 |

Non-vested performance share activity for the six months ended June 30, 2015 and 2014 is summarized below:

| Six months ended June 30, 2015 | Shares (000s) | Weighted Average Grant Date Fair Value |
|--|---------------|--|
| Non-vested balance as of December 31, 2014 | - | \$ - |
| Granted | 29 | 58.77 |
| Vested | - | - |
| Forfeited | 9 | 58.77 |
| Non-vested balance as of June 30, 2015 | 20 | \$ 58.77 |

| Six months ended June 30, 2014 | Shares (000s) | Weighted Average Grant Date Fair Value |
|--|---------------|--|
| Non-vested balance as of December 31, 2013 | - | \$ - |
| Granted | - | - |

| | | |
|--|---|------|
| Vested | - | - |
| Forfeited | - | - |
| Non-vested balance as of June 30, 2014 | - | \$ - |

The performance share (“PS”) awards provide the recipients the right to receive a certain number of shares of the Company’s common stock in the future, subject to an (1) EBITDA performance hurdle, where vesting is dependent upon the Company achieving a certain EBITDA percentage growth over the performance period, and (2) relative total shareholder return (TSR) where vesting is dependent upon the Company’s TSR performance over the performance period relative to a comparator group consisting of the Russell 2000 index constituents established at January 1, 2015. Expense is measured based on the fair value at the date of grant utilizing a Black-Scholes methodology to produce a Monte-Carlo simulation model which allows for the incorporation of the performance hurdles that must be met before the PS vests. The assumptions used in the fair value determination were: risk free interest rate: 1.00%; dividend yield: 0.5%; volatility: 34% and initial TSR -6.9%. Expense is based on the estimated number of shares expected to vest, assuming the requisite service period is rendered and the probable outcome of the performance condition is achieved. The estimate is revised if subsequent information indicates that the actual number of shares likely to vest differs from previous estimates. Expense is ultimately adjusted based on the actual achievement of service and performance targets. The PS will cliff vest 100% at the end of the third year following the grant in accordance with the performance metrics set forth.

As of June 30, 2015 and 2014, there was \$12,146 and \$7,158, respectively, of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the plans. As of June 30, 2015, the unrecognized compensation cost is expected to be recognized over a weighted-average period of approximately 2 years. The Company estimates that share-based compensation expense for the year ended December 31, 2015 will be approximately \$5,700.

REPURCHASE OF COMMON STOCK

The Company has an approved stock repurchase program. The total authorization under this program is 3,763,038 shares. Since the inception of the program in June 1999, a total of 2,105,601 shares have been purchased, none of which remained in treasury at June 30, 2015. During the six months ended June 30, 2015, a total of 370 shares have been purchased at an average cost of \$56.85 per share. The Company intends to acquire shares from time to time at prevailing market prices if and to the extent it deems it advisable to do so based on its assessment of corporate cash flow, market conditions and other factors.

NOTE 4 – INVENTORIES

Inventories at June 30, 2015 and December 31, 2014 consisted of the following:

| | June 30, 2015 | December 31, 2014 |
|-------------------|------------------|----------------------|
| Raw materials | \$17,510 | \$ 19,822 |
| Work in progress | 2,289 | 1,989 |
| Finished goods | 28,083 | 27,812 |
| Total inventories | \$47,882 | \$ 49,623 |

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at June 30, 2015 and December 31, 2014 are summarized as follows:

| | June 30, 2015 | December 31, 2014 |
|------------------------------------|------------------|----------------------|
| Land | \$3,022 | \$3,130 |
| Building | 30,819 | 31,030 |
| Equipment | 148,987 | 150,170 |
| Construction in progress | 23,125 | 10,969 |
| | 205,953 | 195,299 |
| Less: accumulated depreciation | 66,204 | 63,711 |
| Property, plant and equipment, net | \$139,749 | \$131,588 |

NOTE 6 – INTANGIBLE ASSETS

The Company had goodwill in the amount of \$383,906 as of June 30, 2015 and December 31, 2014 subject to the provisions of ASC 350, “Intangibles-Goodwill and Other.”

As discussed in Note 10 – Segment Information, during the first quarter of fiscal year 2015, information that our chief operating decision maker regularly reviews for purposes of allocating resources and assessing performance changed, and as a result, the Company changed its communication to external investors. We allocated goodwill to our new reporting units using a relative fair value approach.

| | June 30, 2015 | December 31, 2014 |
|-----------------------------|------------------|-------------------------|
| SensoryEffects | \$363,784 | \$383,784 |
| Animal Nutrition and Health | 11,734 | 11,734 |
| Specialty Products | 7,160 | 7,160 |
| Industrial Products | 1,228 | 1,228 |
| Total | \$383,906 | \$383,906 |

Identifiable intangible assets with finite lives at June 30, 2015 and December 31, 2014 are summarized as follows:

| | Amortization Period (in years) | Gross Carrying Amount at 6/30/15 | Accumulated Amortization at 6/30/15 | Gross Carrying Amount at 12/31/14 | Accumulated Amortization at 12/31/14 |
|--------------------------------|--------------------------------------|--|---|---|--|
| Customer relationships & lists | 10 | \$167,442 | \$ 52,408 | \$167,442 | \$ 41,238 |
| Trademarks & trade names | 17 | 32,014 | 4,123 | 32,014 | 2,540 |
| Developed technology | 5 | 3,200 | 737 | 3,200 | 420 |
| Regulatory registration costs | 5-10 | 2,232 | 757 | 1,704 | 667 |
| Patents & trade secrets | 15-17 | 1,719 | 978 | 1,665 | 933 |
| Other | 5-10 | 760 | 612 | 754 | 587 |
| | | \$207,367 | \$ 59,615 | \$206,779 | \$ 46,385 |

Amortization of identifiable intangible assets was approximately \$13,200 for the six months ended June 30, 2015. Assuming no change in the gross carrying value of identifiable intangible assets, the estimated amortization expense for the remainder of 2015 is \$13,270, approximately \$24,350 for 2016, \$20,400 for 2017, \$18,140 for 2018, \$16,320 for 2019 and \$14,590 for 2020. At June 30, 2015, there were no identifiable intangible assets with indefinite useful lives as defined by ASC 350. Identifiable intangible assets are reflected in “Intangible assets with finite lives, net” in the Company’s condensed consolidated balance sheets. There were no changes to the useful lives of intangible assets subject to amortization during the six months ended June 30, 2015.

NOTE 7 – LONG-TERM DEBT

On May 7, 2014, the Company and a bank syndicate entered into a loan agreement providing for a senior secured term loan of \$350,000 and revolving loan of \$100,000 (collectively referred to as the “loans”). The term loan and \$50,000 of the revolving loan were used to fund the Performance Chemicals & Ingredients Company acquisition (see Note 2) and for general corporate purposes. At June 30, 2015, the Company had a total of \$315,000 of debt outstanding. The term loan is payable in quarterly installments of \$8,750 commencing on September 30, 2014, with the outstanding principal due on the maturity date. The Company may draw on the revolving loan at its discretion and the revolving loan does not have installments and all outstanding amounts are due on the maturity date. The loans may be voluntarily prepaid in whole or in part without premium or penalty and have a maturity date of May 7, 2019. The loans are subject to an interest rate equal to LIBOR or a fluctuating rate as defined by the loan agreement, at the Company’s discretion; plus an applicable rate. The applicable rate is based upon the Company’s consolidated leverage ratio, as defined in the loan agreement, and the interest rate was 1.69% at June 30, 2015. The Company has \$100,000 of undrawn revolving loan at June 30, 2015 that is subject to a commitment fee; which is based on the Company’s consolidated leverage ratio as defined in the loan agreement. The loan agreement contains quarterly covenants requiring the consolidated leverage ratio to be less than a certain maximum ratio and the consolidated fixed charge coverage ratio to exceed a certain minimum ratio. At June 30, 2015, the Company was in compliance with these covenants. Indebtedness under the Company’s loan agreements are secured by assets of the company.

The following table summarizes the future minimum debt payments:

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|-----------------------------------|----------|----------|----------|----------|-----------|
| Current portion of long-term debt | \$17,500 | \$17,500 | - | - | - |
| Long-term debt | - | 17,500 | \$35,000 | \$35,000 | \$192,500 |
| Total | \$17,500 | \$35,000 | \$35,000 | \$35,000 | \$192,500 |

Costs associated with the issuance of debt instruments are capitalized and amortized over the terms of the respective financing arrangements using the effective interest method. If debt is retired early, the related unamortized costs are expensed in the period the debt is retired. Capitalized costs net of accumulated amortization total \$1,830 at June 30, 2015 and are included in other assets on the accompanying balance sheet. Amortization expense pertaining to these costs totaled \$153 and \$103 for the three months ended June 30, 2015 and 2014 and \$310 and \$103 for the six months ended June 30, 2015 and 2014, and is

included in interest expense in the accompanying condensed consolidated statements of earnings.

NOTE 8 – NET EARNINGS PER SHARE

The following presents a reconciliation of the net earnings and shares used in calculating basic and diluted net earnings per share:

| | Net Earnings (Numerator) | Number of Shares (Denominator) | Per Share Amount |
|--|--------------------------------|--------------------------------------|------------------------|
| Three months ended June 30, 2015 | | | |
| Basic EPS – Net earnings and weighted average common shares outstanding | \$ 14,916 | 31,111,155 | \$.48 |
| Effect of dilutive securities – stock options and restricted stock | | 521,119 | |
| Diluted EPS – Net earnings and weighted average common shares outstanding and effect of stock options and restricted stock | \$ 14,916 | 31,632,274 | \$.47 |
| Three months ended June 30, 2014 | | | |
| Basic EPS – Net earnings and weighted average common shares outstanding | \$ 9,732 | 30,280,366 | \$.32 |
| Effect of dilutive securities – stock options and restricted stock | | 869,413 | |
| Diluted EPS – Net earnings and weighted average common shares outstanding and effect of stock options and restricted stock | \$ 9,732 | 31,149,779 | \$.31 |
| Six months ended June 30, 2015 | | | |
| Basic EPS – Net earnings and weighted average common shares outstanding | \$ 30,088 | 30,976,681 | \$.97 |
| Effect of dilutive securities – stock options and restricted stock | | 547,925 | |
| Diluted EPS – Net earnings and weighted average common shares outstanding and effect of stock options and restricted stock | \$ 30,088 | 31,524,606 | \$.95 |

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| Six months ended June 30, 2014 | Net Earnings (Numerator) | Number of Shares (Denominator) | Per Share Amount |
|--|-----------------------------|-----------------------------------|---------------------|
| Basic EPS – Net earnings and weighted average common shares outstanding | \$ 18,626 | 30,213,536 | \$.62 |
| Effect of dilutive securities – stock options and restricted stock | | 898,153 | |
| Diluted EPS – Net earnings and weighted average common shares outstanding and effect of stock options and restricted stock | \$ 18,626 | 31,111,689 | \$.60 |

The Company had stock options covering 259,872 and 154,476 shares at June 30, 2015 and 2014, respectively, that could potentially dilute basic earnings per share in future periods that were not included in diluted earnings per share because their effect on the period presented was anti-dilutive.

The Company has some share-based payment awards that have forfeitable dividend rights. These awards are restricted shares and performance shares and they participate on a one-for-one basis with holders of common stock. These awards have an immaterial impact as participating securities with regard to the calculation using the two-class method for determining earnings per share.

NOTE 9 – INCOME TAXES

The Company accounts for uncertainty in income taxes in accordance with ASC 740-10, “Accounting for Uncertainty in Income Taxes.” ASC 740-10 clarifies whether or not to recognize assets or liabilities for tax positions taken that may be challenged by a tax authority. All of the unrecognized tax benefits, if recognized in future periods, would impact the Company’s effective tax rate. The Company files income tax returns in the U.S. and in various states and foreign countries. As of June 30, 2015, in the major jurisdictions where the Company operates, it is generally no longer subject to income tax examinations by tax authorities for years before 2010. During the six months ended June 30, 2015 and 2014, the increase in the amount of unrecognized tax benefits was primarily related to the aforementioned Acquisition (See Note 2) of Performance Chemicals & Ingredients Company (d/b/a SensoryEffects). The Acquisition resulted in an assumed liability for unrecognized tax benefits based on an estimated fair value of \$1,976. The Company is indemnified for this liability, and as such, has recognized a corresponding indemnification asset of \$1,976. As of June 30, 2015 and December 31, 2014, the Company had approximately \$5,470 and \$5,200, respectively, of unrecognized tax benefits, which are included in other long-term obligations on the Company’s consolidated balance sheets. The Company includes interest expense or income as well as potential penalties on unrecognized tax positions as a component of income tax expense in the consolidated statements of earnings. The total amount of accrued interest and penalties related to uncertain tax positions at June 30, 2015 and December 31, 2014 was approximately \$1,890 and \$1,643, respectively, and is included in other long-term obligations.

NOTE 10 – SEGMENT INFORMATION

During the first quarter of fiscal year 2015, information that our chief operating decision maker regularly reviews for purposes of allocating resources and assessing performance changed, and as a result, the Company changed its communication to external investors. Therefore, beginning in fiscal year 2015, we are reporting our financial performance based on our new segments; Specialty Products, SensoryEffects, Animal Nutrition & Health, and Industrial Products. We have retrospectively revised certain prior period amounts to conform to the way we internally manage and monitor segment performance during the current fiscal year. Our reportable segments are described below.

SensoryEffects

Our SensoryEffects segment supplies ingredients in the food and beverage industry; providing customized solutions in powder, solid and liquid flavor delivery systems, spray dried emulsified powder systems, and cereal systems. Our products include creamer systems, dairy replacers, powdered fats, nutritional beverage bases, beverages, juice & dairy bases, chocolate systems, ice cream bases & variegates, ready-to-eat cereals, grain based snacks, and cereal based ingredients. Additionally, we provide microencapsulation solutions to a variety of applications in food, pharmaceutical and nutritional ingredients to enhance performance of nutritional fortification, processing, mixing, and packaging applications and shelf-life. Major product applications are baked goods, refrigerated and frozen dough systems, processed meats, seasoning blends, confections, and nutritional supplements. We also produce and market human grade choline nutrient products through this segment for wellness applications. Choline is recognized to play a key role in the development and structural integrity of brain cell membranes in infants, processing dietary fat, reproductive development and neural functions, such as memory and muscle function.

Animal Nutrition & Health

Our Animal Nutrition & Health (“ANH”) segment provides nutritional products derived from our microencapsulation and chelation technologies in addition to basic choline chloride. For ruminant animals, our microencapsulated products boost health and milk production, delivering nutrient supplements that are biologically available, providing required nutritional levels. Our proprietary chelation technology provides enhanced nutrient absorption for various species of production and companion animals and is marketed for use in animal feed throughout the world. ANH also manufactures and supplies choline chloride, an essential nutrient for monogastric animal health, predominantly to the poultry, pet and swine industries. Choline, which is manufactured and sold in both dry and aqueous forms, plays a vital role in the metabolism of fat. Choline deficiency can result in reduced growth and perosis in poultry; fatty liver, kidney necrosis and general poor health condition in swine.

Sales of specialty products for the animal nutrition and health industry are highly dependent on dairy industry economics as well as the ability of the Company to leverage the results of university and field research on the animal health benefits of the Company’s products. Management believes that success in the commodity-oriented basic choline chloride marketplace is highly dependent on the Company’s ability to maintain its strong reputation for excellent product quality and customer service. The Company continues to increase

production efficiencies in order to maintain its competitive-cost position to effectively compete in a competitive global marketplace.

Specialty Products

Our Specialty Products segment operates commercially as ARC Specialty Products.

Ethylene oxide, at the 100% level, is sold as a sterilant gas, primarily for use in the health care industry. It is used to sterilize a wide range of medical devices because of its versatility and effectiveness in treating hard or soft surfaces, composites, metals, tubing and different types of plastics without negatively impacting the performance of the device being sterilized. Our 100% ethylene oxide product is distributed in uniquely designed, recyclable, double-walled, stainless steel drums to assure compliance with safety, quality and environmental standards as outlined by the EPA and the DOT. Our inventory of these specially built drums, along with our two filling facilities, represents a significant capital investment. Contract sterilizers and medical device manufacturers are principal customers for this product. We also sell single use canisters with 100% ethylene oxide for use in sterilizing re-usable devices typically processed in autoclave units in hospitals. As a fumigant, ethylene oxide blends are highly effective in killing bacteria, fungi, and insects in spices and other seasoning materials.

Propylene oxide is marketed and sold as a fumigant to aid in the control of insects and microbiological spoilage; and to reduce bacterial and mold contamination in certain shell and processed nut meats, processed spices, cacao beans, cocoa powder, raisins, figs and prunes. We distribute our propylene oxide product primarily in recyclable, single-walled, carbon steel cylinders according to standards outlined by the EPA and the DOT. Our inventory of these cylinders also represents a significant capital investment. Propylene oxide is also sold to customers seeking smaller (as opposed to bulk) quantities and whose requirements include utilization in various chemical synthesis applications, such as increasing paint durability and manufacturing specialty starches and textile coatings.

Industrial Products

Certain derivatives of choline chloride are manufactured and sold into industrial applications predominately as a component for hydraulic fracturing of shale natural gas wells. Our products offer an attractive, effective and more environmentally responsible alternative than other clay stabilizers. Industrial grade Choline Bicarbonate is completely chloride free and our Choline Chloride reduces the amount of chlorides released into the environment up to 75% when compared to potassium chloride. The Industrial Products segment also includes the manufacture and sale of methylamines. Methylamines are a primary building block for the manufacture of choline products and are produced at our Italian operation and sold for a wide range of industrial applications in Europe.

Business Segment Assets:

| | June 30, 2015 | December 31, 2014 |
|---------------------------|------------------|----------------------|
| SensoryEffects | \$642,691 | \$656,130 |
| Animal Nutrition & Health | 99,743 | 90,650 |
| Specialty Products | 25,853 | 24,913 |
| Industrial Products | 20,217 | 32,330 |
| Other Unallocated | 80,476 | 57,508 |
| Total | \$868,980 | \$861,531 |

Depreciation/Amortization:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---------------------------|-----------------------------------|---------|---------------------------------|---------|
| | 2015 | 2014 | 2015 | 2014 |
| SensoryEffects | \$7,533 | \$4,798 | \$15,172 | \$5,097 |
| Animal Nutrition & Health | 1,582 | 1,852 | 3,128 | 3,373 |
| Specialty Products | 300 | 353 | 641 | 713 |
| Industrial Products | 297 | 128 | 640 | 579 |
| Total | \$9,712 | \$7,131 | \$19,581 | \$9,762 |

Capital Expenditures:

| | Six Months Ended June 30, | |
|---------------------------|---------------------------------|---------|
| | 2015 | 2014 |
| SensoryEffects | \$5,702 | \$886 |
| Animal Nutrition & Health | 8,290 | 1,803 |
| Specialty Products | 489 | 441 |
| Industrial Products | 818 | 374 |
| Total | \$15,299 | \$3,504 |

Business Segment Net Sales:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---------------------------|--------------------------------|-----------|------------------------------|-----------|
| | 2015 | 2014 | 2015 | 2014 |
| SensoryEffects | \$67,230 | \$49,199 | \$134,987 | \$61,349 |
| Animal Nutrition & Health | 41,642 | 43,221 | 84,348 | 84,074 |
| Specialty Products | 13,805 | 13,642 | 27,384 | 26,434 |
| Industrial Products | 12,096 | 26,168 | 32,916 | 46,368 |
| Total | \$134,773 | \$132,230 | \$279,635 | \$218,225 |

Business Segment Earnings Before Income Taxes:

| | Three Months | | Six Months Ended | |
|-------------------------------------|--------------|----------|------------------|----------|
| | Ended | | June 30, | |
| | June 30, | 2014 | 2015 | 2014 |
| SensoryEffects | \$9,087 | \$2,874 | \$16,793 | \$5,475 |
| Animal Nutrition & Health | 7,468 | 5,510 | 15,978 | 9,669 |
| Specialty Products | 6,093 | 5,463 | 11,794 | 10,269 |
| Industrial Products | 1,126 | 4,165 | 4,247 | 7,299 |
| Transaction and integration costs | - | (1,503) | - | (2,848) |
| Interest and other income (expense) | (1,607) | (1,218) | (3,560) | (1,201) |
| Total | \$22,167 | \$15,291 | \$45,252 | \$28,663 |

Transaction and integration costs were primarily related to the definitive agreement to acquire Performance Chemicals & Ingredients Company (d/b/a SensoryEffects; see Note 2).

The following table summarizes domestic (U.S.) and foreign sales for the three and six months ended June 30, 2015 and 2014:

| | Three Months Ended | | Six Months Ended | |
|----------|--------------------|-----------|------------------|-----------|
| | June 30, | | June 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| Domestic | \$103,003 | \$98,191 | \$224,779 | \$154,335 |
| Foreign | 31,770 | 34,039 | 54,856 | 63,890 |
| Total | \$134,773 | \$132,230 | \$279,635 | \$218,225 |

NOTE 11 – SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid during the six months ended June 30, 2015 and 2014 for income taxes and interest is as follows:

| | Six Months | |
|--------------|------------|---------|
| | Ended | |
| | June 30, | |
| | 2015 | 2014 |
| Income taxes | \$12,002 | \$5,933 |
| Interest | \$3,163 | \$1,177 |

NOTE 12 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The changes in accumulated other comprehensive income (loss) were as follows:

| | Three Months Ended June 30, | |
|---|--------------------------------------|-------------|
| | 2015 | 2014 |
| Net foreign currency translation adjustment | \$550 | \$(176) |
| Net change in postretirement benefit plan (see Note 13 for further information) | | |
| Amortization of prior service credit | (5) | (5) |
| Amortization of loss | - | 2 |
| Total before tax | (5) | (3) |
| Tax | 2 | 1 |
| Net of tax | (3) | (2) |
| Total other comprehensive income (loss) | \$547 | \$(178) |
| | Six Months Ended June 30, | |
| | 2015 | 2014 |
| Net foreign currency translation adjustment | \$(2,130) | \$(194) |
| Net change in postretirement benefit plan (see Note 13 for further information) | | |
| Amortization of prior service credit | (9) | (9) |
| Amortization of loss | - | 3 |
| Total before tax | (9) | (6) |
| Tax | 3 | 2 |
| Net of tax | (6) | (4) |
| Total other comprehensive loss | \$(2,136) | \$(198) |

Accumulated other comprehensive loss at June 30, 2015 consisted of the following:

| | Foreign currency translation adjustment | Postretirement benefit plan | Total |
|---------------------------|--|--------------------------------|-----------|
| Balance December 31, 2014 | \$ (2,702) | \$ 51 | \$(2,651) |
| Other comprehensive loss | (2,130) | (6) | (2,136) |
| Balance June 30, 2015 | \$ (4,832) | \$ 45 | \$(4,787) |

NOTE 13 – EMPLOYEE BENEFIT PLAN

The Company currently provides postretirement benefits in the form of a retirement medical plan under a collective bargaining agreement covering eligible retired employees of its Verona, Missouri facility.

Net periodic benefit costs for such retirement medical plan were as follows:

| | Six Months Ended June 30, 2015 2014 | |
|--------------------------------------|---|-------|
| Service cost | \$27 | \$ 28 |
| Interest cost | 18 | 24 |
| Amortization of prior service credit | (9) | (9) |
| Amortization of loss | - | 3 |
| Net periodic benefit cost | \$36 | \$ 46 |

The amount recorded for this obligation on the Company's balance sheet as of June 30, 2015 and December 31, 2014 is \$1,156 and \$1,111, respectively, and is included in other long-term obligations. The plan is unfunded and approved claims are paid from Company funds. Historical cash payments made under such plan have typically been less than \$100 per year.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

In 2015, the Company entered into a six year, nine month lease in St. Louis, Missouri for approximately 9,100 square feet of office space. The office space serves as SensoryEffects' selling and general offices.

In 2012, the Company entered into a six year lease extension for approximately 20,000 square feet of office space in New Hampton, New York. The office space serves as the Company's general offices and as a laboratory facility. In 2013, SensoryEffects entered into a three year lease for approximately 40,000 square feet of warehouse space in St. Louis, Missouri. The Company leases most of its vehicles and office equipment under non-cancelable operating leases, which primarily expire at various times through 2029.

Rent expense charged to operations under such lease agreements for the six months ended June 30, 2015 and 2014 aggregated approximately \$1,271 and \$622, respectively. Aggregate future minimum rental payments required under all non-cancelable operating leases at June 30, 2015 are as follows:

| Year | |
|-----------------------------------|----------|
| July 1, 2015 to December 31, 2015 | \$1,196 |
| 2016 | 1,894 |
| 2017 | 1,650 |
| 2018 | 1,387 |
| 2019 | 1,003 |
| 2020 | 700 |
| Thereafter | 2,909 |
| Total minimum lease payments | \$10,739 |

In 1982, the Company discovered and thereafter removed a number of buried drums containing unidentified waste material from the Company's site in Slate Hill, New York. The Company thereafter entered into a Consent Decree to evaluate the drum site with the

New York Department of Environmental Conservation (“NYDEC”) and performed a Remedial Investigation/Feasibility Study that was approved by NYDEC in February 1994. Based on NYDEC requirements, the Company cleaned the area and removed soil from the drum burial site, which was completed in 1996. The Company continues to be involved in discussions with NYDEC to evaluate test results and determine what, if any, additional actions will be required on the part of the Company to close out the remediation of this site. Additional actions, if any, would likely require the Company to continue monitoring the site. The cost of such monitoring has been less than \$5 per year for the period 2004 to date.

The Company’s Verona, Missouri facility, while held by a prior owner, was designated by the EPA as a Superfund site and placed on the National Priorities List in 1983, because of dioxin contamination on portions of the site. Remediation conducted by the prior owner under the oversight of the EPA and the Missouri Department of Natural Resources (“MDNR”) included removal of dioxin contaminated soil and equipment, capping of areas of residual contamination in four relatively small areas of the site separate from the manufacturing facilities, and the installation of wells to monitor groundwater and surface water contamination by organic chemicals. No ground water or surface water treatment was required. The Company believes that remediation of the site is complete. In 1998, the EPA certified the work on the contaminated soils to be complete. In February 2000, after the conclusion of two years of monitoring groundwater and surface water, the former owner submitted a draft third party risk assessment report to the EPA and MDNR recommending no further action. The prior owner is awaiting the response of the EPA and MDNR to the draft risk assessment.

While the Company must maintain the integrity of the capped areas in the remediation areas on the site, the prior owner is responsible for completion of any further Superfund remedy. The Company is indemnified by the sellers under its May 2001 asset purchase agreement covering its acquisition of the Verona, Missouri facility for potential liabilities associated with the Superfund site and one of the sellers, in turn, has the benefit of certain contractual indemnification by the prior owner that is implementing the above-described Superfund remedy.

From time to time, the Company is a party to various litigation, claims and assessments. Management believes that the ultimate outcome of such matters will not have a material effect on the Company’s consolidated financial position, results of operations, or liquidity.

NOTE 15 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company has a number of financial instruments, none of which are held for trading purposes. The Company estimates that the fair value of all financial instruments at June 30, 2015 and December 31, 2014 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying condensed consolidated balance sheets. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. Considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value, and, accordingly, the estimates are not necessarily indicative of the amounts that the Company could realize in a current market exchange. The carrying value of debt approximates fair value as the interest rate is based on market and the Company’s consolidated leverage ratio. The Company’s financial instruments also include cash

equivalents, accounts receivable, accounts payable and accrued liabilities, which are carried at cost which approximates fair value due to the short-term maturity of these instruments. Cash and cash equivalents at June 30, 2015 and December 31, 2014 includes \$772 in money market funds. The money market funds are valued using level one inputs, as defined by ASC 820, "Fair Value Measurement."

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (All dollar amounts in thousands)

This Report contains forward-looking statements, within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, which reflect our expectation or belief concerning future events that involve risks and uncertainties. Our actions and performance could differ materially from what is contemplated by the forward-looking statements contained in this Report. Factors that might cause differences from the forward-looking statements include those referred to or identified in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014 and other factors that may be identified elsewhere in this Report. Reference should be made to such factors and all forward-looking statements are qualified in their entirety by the above cautionary statements.

Overview

We develop, manufacture, distribute and market specialty performance ingredients and products for the food, nutritional, pharmaceutical, animal health, industrial and medical device sterilization industries.

During the first quarter of fiscal year 2015, information that our chief operating decision maker regularly reviews for purposes of allocating resources and assessing performance changed, and as a result, the Company changed its communication to external investors. Therefore, beginning in fiscal year 2015, we are reporting our financial performance based on our new segments; Specialty Products, SensoryEffects, Animal Nutrition & Health, and Industrial Products. We have retrospectively revised certain prior period amounts to conform to the way we internally manage and monitor segment performance during the current fiscal year. Our reportable segments are described below.

Acquisition of Performance Chemicals & Ingredients Company (d/b/a SensoryEffects) and Long-term Debt

On May 7, 2014, the Company acquired 100 percent (the "Acquisition") of the outstanding common shares of Performance Chemicals & Ingredients Company (d/b/a SensoryEffects) a privately held supplier of customized food and ingredient systems, headquartered in St. Louis, Missouri. The Company made payments of approximately \$569 million on the purchase date, amounting to \$494 million to the former shareholders, including adjustments for working capital acquired and \$75 million to SensoryEffects' lenders to pay off all SensoryEffects bank debt. SensoryEffects is a leader in powder, solid and liquid flavor systems, creamer and specialty emulsified powders, cereal-based products and other functional ingredient food and beverage delivery systems. The Acquisition of SensoryEffects accelerates the Company's growth into health and wellness markets. SensoryEffects was merged with the Company's Food, Pharma & Nutrition segment, strengthening its market leadership position, and the segment was renamed SensoryEffects.

On May 7, 2014, the Company and a bank syndicate entered into a loan agreement providing for a senior secured term loan of \$350,000 and revolving loan of \$100,000 (collectively referred to as the "loans"). The term loan and \$50,000 of the revolving loan were used to fund the Acquisition of SensoryEffects and for general corporate purposes. The Company has made debt payments of \$85,000 related to these loans and has \$100,000 available under the revolving loan.

SensoryEffects

Our SensoryEffects segment supplies ingredients in the food and beverage industry; providing customized solutions in powder, solid and liquid flavor delivery systems, spray dried emulsified powder systems, and cereal systems. Our products include creamer systems, dairy replacers, powdered fats, nutritional beverage bases, beverages, juice & dairy bases, chocolate systems, ice cream bases & variegates, ready-to-eat cereals, grain based snacks, and cereal based ingredients. Additionally, we provide microencapsulation solutions to a variety of applications in food, pharmaceutical and nutritional ingredients to enhance performance of nutritional fortification, processing, mixing, and packaging applications and shelf-life. Major product applications are baked goods, refrigerated and frozen dough systems, processed meats, seasoning blends, confections, and nutritional supplements. We also produce and market human grade choline nutrient products through this segment for wellness applications. Choline is recognized to play a key role in the development and structural integrity of brain cell membranes in infants, processing dietary fat, reproductive development and neural functions, such as memory and muscle function.

Animal Nutrition & Health

Our Animal Nutrition & Health (“ANH”) segment provides nutritional products derived from our microencapsulation and chelation technologies in addition to basic choline chloride. For ruminant animals, our microencapsulated products boost health and milk production, delivering nutrient supplements that are biologically available, providing required nutritional levels. Our proprietary chelation technology provides enhanced nutrient absorption for various species of production and companion animals and is marketed for use in animal feed throughout the world. ANH also manufactures and supplies choline chloride, an essential nutrient for monogastric animal health, predominantly to the poultry, pet and swine industries. Choline, which is manufactured and sold in both dry and aqueous forms, plays a vital role in the metabolism of fat. Choline deficiency can result in reduced growth and perosis in poultry; fatty liver, kidney necrosis and general poor health condition in swine.

Sales of specialty products for the animal nutrition and health industry are highly dependent on dairy industry economics as well as the ability of the Company to leverage the results of university and field research on the animal health benefits of the Company’s products. Management believes that success in the commodity-oriented basic choline chloride marketplace is highly dependent on the Company’s ability to maintain its strong reputation for excellent product quality and customer service. The Company continues to increase production efficiencies in order to maintain its competitive-cost position to effectively compete in a competitive global marketplace.

Specialty Products

Our Specialty Products segment operates commercially as ARC Specialty Products.

Ethylene oxide, at the 100% level, is sold as a sterilant gas, primarily for use in the health care industry. It is used to sterilize a wide range of medical devices because of its versatility and effectiveness in treating hard or soft surfaces, composites, metals, tubing and different types of plastics without negatively impacting the performance of the device being

sterilized. Our 100% ethylene oxide product is distributed in uniquely designed, recyclable, double-walled, stainless steel drums to assure compliance with safety, quality and environmental standards as outlined by the EPA and the DOT. Our inventory of these specially built drums, along with our two filling facilities, represents a significant capital investment. Contract sterilizers and medical device manufacturers are principal customers for this product. We also sell single use canisters with 100% ethylene oxide for use in sterilizing re-usable devices typically processed in autoclave units in hospitals. As a fumigant, ethylene oxide blends are highly effective in killing bacteria, fungi, and insects in spices and other seasoning materials.

Propylene oxide is marketed and sold as a fumigant to aid in the control of insects and microbiological spoilage; and to reduce bacterial and mold contamination in certain shell and processed nut meats, processed spices, cacao beans, cocoa powder, raisins, figs and prunes. We distribute our propylene oxide product primarily in recyclable, single-walled, carbon steel cylinders according to standards outlined by the EPA and the DOT. Our inventory of these cylinders also represents a significant capital investment. Propylene oxide is also sold to customers seeking smaller (as opposed to bulk) quantities and whose requirements include utilization in various chemical synthesis applications, such as increasing paint durability and manufacturing specialty starches and textile coatings.

Industrial Products

Certain derivatives of choline chloride are manufactured and sold into industrial applications predominately as a component for hydraulic fracturing of shale natural gas wells. Our products offer an attractive, effective and more environmentally responsible alternative than other clay stabilizers. Industrial grade Choline Bicarbonate is completely chloride free and our Choline Chloride reduces the amount of chlorides released into the environment up to 75% when compared to Potassium Chloride. The Industrial Products segment also includes the manufacture and sale of methylamines. Methylamines are a primary building block for the manufacture of choline products and are produced at our Italian operation and sold for a wide range of industrial applications in Europe.

The Company sells products for all four segments through its own sales force, independent distributors, and sales agents.

The following tables summarize consolidated business segment net sales and earnings from operations for the three months ended June 30, 2015 and 2014:

Business Segment Net Sales:

| | Three Months Ended | | Six Months Ended | |
|---------------------------|--------------------|-----------|------------------|-----------|
| | June 30, 2015 | 2014 | June 30, 2015 | 2014 |
| SensoryEffects | \$67,230 | \$49,199 | \$134,987 | \$61,349 |
| Animal Nutrition & Health | 41,642 | 43,221 | 84,348 | 84,074 |
| Specialty Products | 13,805 | 13,642 | 27,384 | 26,434 |
| Industrial Products | 12,096 | 26,168 | 32,916 | 46,368 |
| Total | \$134,773 | \$132,230 | \$279,635 | \$218,225 |

Business Segment Earnings From Operations:

| | Three Months | | | |
|-----------------------------------|--------------|----------|------------------|----------|
| | Ended | | Six Months Ended | |
| | June 30, | | June 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| SensoryEffects | \$9,087 | \$2,874 | \$16,793 | \$5,475 |
| Animal Nutrition & Health | 7,468 | 5,510 | 15,978 | 9,669 |
| Specialty Products | 6,093 | 5,463 | 11,794 | 10,269 |
| Industrial Products | 1,126 | 4,165 | 4,247 | 7,299 |
| Transaction and integration costs | - | (1,503) | - | (2,848) |
| Total | \$23,774 | \$16,509 | \$48,812 | \$29,864 |

RESULTS OF OPERATIONS

Three months ended June 30, 2015 compared to three months ended June 30, 2014.

Net Sales

Net sales for the three months ended June 30, 2015 were \$134,773, as compared with \$132,230 for the three months ended June 30, 2014, an increase of \$2,543 or 1.9%. Net sales for the SensoryEffects segment (formerly Food, Pharma & Nutrition) were \$67,230 for the three months ended June 30, 2015, compared with \$49,199 for the three months ended June 30, 2014, an increase of \$18,031 or 36.7%. Net sales from the recently acquired SensoryEffects business contributed \$17,623 to the overall increase. The acquired Powder & Flavor Systems, and Cereal Systems product lines comprised \$12,879 and \$3,399 of the increase, respectively. Also contributing to the higher sales was a \$349 or 4.9% increase in encapsulated ingredients used for baking and food preservation; primarily due to greater volume. Net sales for the Animal Nutrition & Health segment were \$41,642 for the three months ended June 30, 2015, as compared with \$43,221 for the three months ended June 30, 2014, a decrease of \$1,579 or 3.7%. Sales of products targeted for ruminant animal feed markets increased by \$1,583 or 13.6% from the prior year comparable period. The improvement was primarily due to higher sales volumes of Aminoshure and Reashure products as well as higher overall average ruminant selling prices. Global feed grade choline product sales declined by \$2,999 or 10.2% primarily due to the weakened Euro. Net sales for the Industrial Products segment were \$12,096 for the three months ended June 30, 2015 as compared to \$26,168 for the three months ended June 30, 2014, a decrease of \$14,072 or 53.8%. The decrease is principally due to volume decreases experienced in various choline and choline derivatives used in shale fracking applications, consistent with the end market activity decline. Net sales for the Specialty Products segment were \$13,805 for the three months ended June 30, 2015, as compared with \$13,642 for the three months ended June 30, 2014, an increase of \$163 or 1.2%, primarily due to product mix.

Gross Margin

For the three months ended June 30, 2015, gross margin increased to \$41,867 compared to \$32,335 for the three months ended June 30, 2014. Gross margin as a percentage of sales for the three months ended March 31, 2015 increased to 31.1% from 24.5% in the prior

year comparative period. Gross margins for the SensoryEffects segment increased 9.3% for the three months ended June 30, 2015 as compared to the three months ended June 30, 2014, primarily due to the valuation of acquired inventory to fair value, which increased cost of sales by \$4,735 during the three months ended June 30, 2014. Gross margin percentage increased for Animal Nutrition & Health by 5.4% primarily due to a more favorable product mix, raw material cost decreases and efficiencies resulting from higher volumes of products targeted for the ruminant animal feed market. Industrial Products gross margins declined by 4.2% from the prior year comparative period, primarily due to lower volume, higher supply chain costs and lower average selling prices. Gross margin percentage for the Specialty Products segment increased by 3.2% compared to the three month period ended June 30, 2015 due to product mix as well as raw material cost decreases.

Operating Expenses

Operating expenses for the three months ended June 30, 2015 were \$18,093 or 13.4% of net sales as compared to \$15,826 or 12.0% of net sales for the three months ended June 30, 2014. The increase was primarily due to increased expenses associated with the acquired SensoryEffects businesses, including higher intangible asset amortization of \$1,999; partially offset by a reduction of outside professional services expenses. The Company incurred outside and professional services expenses of \$1,478 in the three months ended June 30, 2014 primarily related to the Acquisition.

Earnings from Operations

Principally as a result of the above-noted details, earnings from operations for the three months ended June 30, 2015 were \$23,774 as compared to \$16,509 for the three months ended June 30, 2014, an increase of \$7,265 or 44.0%. Earnings from operations as a percentage of sales ("operating margin") for the three months ended June 30, 2015 were 17.6%, increasing from 12.5% for the three months ended June 30, 2014, primarily due to the aforementioned impact of the valuation of the acquired inventory, transaction and integration expenses, favorable product mix and lower raw material costs; partially offset by volume decreases experienced in the Industrial Products segment for various choline and choline derivatives used in shale fracking applications, and increased amortization expense associated with acquired intangible assets, as well as higher supply chain costs. Excluding the impact of the valuation of acquired inventory to fair value, amortization expenses and transaction expenses, the earnings from operations were \$29,390 or 21.8% of sales for the three months ended June 30, 2015 and \$26,298 or 19.9% of sales for the three months ended June 30, 2014. Earnings from the SensoryEffects segment were \$9,087, an increase of \$6,213 or 216.2% primarily due to increased sales from the Acquisition and the impact of the valuation of acquired inventory; partially offset by increased amortization expense. Animal Nutrition and Health segment earnings from operations were \$7,468, an increase of \$1,958 or 35.5%, primarily the result of a more favorable product mix, raw material cost decreases and efficiencies resulting from higher volumes. Earnings from operations from the Industrial Products segment of \$1,126 for the quarter ended June 30, 2015 declined \$3,038 compared to the quarter ended June 30, 2014; primarily due to volume decreases. Earnings from operations from the Specialty Products segment were \$6,093, an increase of \$630 or 11.5%, primarily the result of improved gross margins.

Other Expenses (Income)

Interest expense for the three months ended June 30, 2015 and June 30, 2014 was \$1,594 and \$1,315, respectively, and is primarily related to the loans entered into on May 7, 2014 to finance the Acquisition of SensoryEffects. Other expense was \$13 for the three months ended June 30, 2015, and other income was \$97 for the three months ended June 30, 2014.

Income Tax Expense

The Company's effective tax rate for the three months ended June 30, 2015 and 2014 was 32.7% and 36.4%, respectively. The decrease in the effective tax rate is primarily attributable to a change in the apportionment relating to state income taxes, and a change in the income proportion towards jurisdictions with lower tax rates.

Net Earnings

Principally as a result of the above-noted details, net earnings for the three months ended June 30, 2015 were \$14,916 as compared with \$9,732 for the three months ended June 30, 2014, an increase of \$5,184 or 53.3%.

Six months ended June 30, 2015 compared to six months ended June 30, 2014.

Net Sales

Net sales for the six months ended June 30, 2015, were \$279,635, as compared with \$218,225 for the six months ended June 30, 2014, an increase of \$61,410 or 28.1%. Net sales for the SensoryEffects segment (formerly Food, Pharma & Nutrition) were \$134,987 for the six months ended June 30, 2015, as compared with \$61,349 for the six months ended June 30, 2014, an increase of \$73,638 or 120.0%. Net sales from the recently acquired SensoryEffects business contributed \$72,163 to the overall increase. The acquired Powder & Flavor Systems, and Cereal Systems product lines comprised \$58,714 and \$9,964 of the increase, respectively. Also contributing to the higher sales was a \$1,903 or 14.6% increase in encapsulated ingredients used for baking and food preservation, due to increases in volume. Net sales for the Animal Nutrition & Health segment were \$84,348 for the six months ended June 30, 2015, as compared with \$84,074 for the six months ended June 30, 2014, an increase of \$274 or 0.3%. Sales of product lines targeted for ruminant animal feed markets increased by \$5,479 or 25.1% from the prior year comparable period, primarily due to higher sales volumes of Aminoshure and Reashure products as well as higher overall average ruminant selling prices. Global feed grade choline product sales decreased \$5,168 or 8.9% primarily due to the weakened Euro as well as decreased volumes sourced from our Italian operations. Net sales for the Industrial Products segment were \$32,916 for the six months ended June 30, 2015 as compared to \$46,368 for the six months ended June 30, 2014, a decrease of \$13,452 or 29.0%. The decrease is principally due to volume decreases experienced in the second quarter of 2015 for various choline and choline derivatives used in shale fracking applications, in correlation with the North America decline of fracking industry. Net sales for the Specialty Products segment were \$27,384 for the six months ended June 30, 2015, as compared with \$26,434 for the six months ended June 30, 2014, an increase of \$950 or 3.6% as volumes of ethylene oxide products used for medical device sterilization and propylene oxide increased modestly.

Gross Margin

For the six months ended June 30, 2015, gross margin increased to \$84,997 compared to \$55,550 for the six months ended June 30, 2014. Gross margin as a percentage of sales for the six months ended June 30, 2015 increased to 30.4% from 25.5% in the prior year comparative period. Gross margin for the SensoryEffects segment increased 5.5% for the six months ended June 30, 2015 as compared to the six months ended June 30, 2014, primarily due to the valuation of acquired inventory to fair value, which increased cost of sales by \$4,735 in 2014. The acquired product lines carry a lower gross margin and partially offset the increased gross margin percentage. Gross margin percentage increased for the Animal Nutrition & Health segment by 7.4% primarily due to a favorable product mix and decreases in certain petrochemical raw material costs. Industrial products gross margins declined by 1.9% from the prior year comparative period primarily due to reduced volumes contributing to unfavorable manufacturing variances and increased supply chain costs. These increased costs were partially offset by favorable petrochemical raw material costs. Gross margin for the Specialty Products segment increased by 1.9% due to reduced raw material costs.

Operating Expenses

Operating expenses for the six months ended June 30, 2015 were \$36,185 or 12.9% of net sales as compared to \$25,686 or 11.8% of net sales for the six months ended June 30, 2014. The increase was primarily due to increased expenses associated with the acquired SensoryEffects businesses, including higher intangible asset amortization of \$7,450; partially offset by a reduction of outside professional services expenses. The Company incurred outside and professional services expenses of \$2,823 in six months ended June 30, 2014. Excluding the impact of amortization expenses and professional fees, operating expenses were 9.0% and 8.9% of net sales for the six months ended 2015 and 2014; respectively.

Earnings From Operations

Principally as a result of the above-noted details, earnings from operations for the six months ended June 30, 2015 were \$48,812 as compared to \$29,864 for the six months ended June 30, 2014, an increase of \$18,948 or 63.5%. Earnings from operations as percentage of sales ("operating margin") for the six months ended June 30, 2015 were 17.5%, increasing from 13.7% for the six months ended June 30, 2014, primarily due to the aforementioned impact of the valuation of the acquired inventory, transaction and integration expenses, favorable product mix and lower raw material costs. Greater amortization expense and higher supply chain costs partially offset the improvement in earnings from operations. Excluding the impact of the valuation of the acquired inventory, amortization expense, and transaction and integration expenses, the earnings from operations were \$60,038 or 21.5% of sales for the six months ended June 30, 2015 as compared to \$40,998 or 18.8% for the six months ended June 30, 2014. Earnings from the SensoryEffects segments were \$16,793, an increase of \$11,318 or 206.7%, primarily due to increased sales from the Acquisition, the impact of the valuation of acquired inventory; partially offset by increased amortization expense. Animal Nutrition & Health segment earnings from operations were \$15,978, an increase of 65.3%, primarily due to a more

favorable product mix and decreases in certain petrochemical raw material costs. Earnings from operations from the Industrial Products segment of \$4,247 for the six months ended June 30, 2015 declined \$3,051 compared to the six months ended June 30, 2014; primarily due to volume decreases. Earnings from operations from the Specialty segment were \$11,794, an increase of \$1,525 or 14.9%, primarily from greater net sales and lower raw material costs.

Other Expenses (Income)

Interest expense for the six months ended June 30, 2015 and 2014 was \$3,475 and \$1,316, and is primarily related to the loans entered into on May 7, 2014 to finance the Acquisition of SensoryEffects. Other expense was \$85 for the six months ended June 30, 2015, and other income was \$115 for the six months ended June 30, 2014.

Income Tax Expense

The Company's effective tax rate for the six months ended June 30, 2015 and 2014 was 33.5% and 35.0% respectively. The decrease in the effective tax rate is primarily attributable to a change in the apportionment relating to state income taxes, and a change in the income proportion towards jurisdictions with lower tax rates.

Net Earnings

Principally as a result of the above-noted details, net earnings for the six months ended June 30, 2015 were \$30,088, as compared with \$18,626 for the six months ended June 30, 2014, an increase of \$11,462 or 61.5%.

FINANCIAL CONDITION

LIQUIDITY AND CAPITAL RESOURCES

(All amounts in thousands, except share and per share data)

During the six months ended June 30, 2015, there were no material changes outside the ordinary course of business in the specified contractual obligations set forth in our Annual Report on Form 10-K for the year ended December 31, 2014. The Company expects its operations to continue generating sufficient cash flow to fund working capital requirements, capital investments and service future debt payments. The Company continues to pursue additional acquisition candidates. The Company could seek additional bank loans or access to financial markets to fund such acquisitions, its operations, working capital, capital investments, or other cash requirements as deemed necessary.

Cash

Cash and cash equivalents increased to \$72,243 at June 30, 2015 from \$50,287 at December 31, 2014 primarily resulting from the activity detailed below. At June 30, 2015, the Company had \$10,666 of cash and cash equivalents held by our foreign subsidiaries. It is our intention to permanently reinvest these funds in our foreign operations by continuing to make additional plant related investments, and potentially invest in partnerships or acquisitions; therefore, we do not currently expect to repatriate these funds

in order to fund our U.S. operations or obligations. However, if these funds are needed for our U.S. operations, we could be required to pay additional U.S. taxes to repatriate these funds. Working capital was \$119,457 at June 30, 2015 as compared to \$85,780 at December 31, 2014, an increase of \$33,677.

Operating Activities

Cash flows from operating activities provided \$49,866 for the six months ended June 30, 2015 as compared to \$27,603 for the six months ended June 30, 2014. The increase in cash flows from operating activities was primarily due to higher net earnings and amortization and depreciation expense adjustments.

Investing Activities

The Company continues to invest in projects across all production facilities and capital expenditures were \$15,299 for the six months ended June 30, 2015. Capital expenditures of approximately \$5,660 were related to expanding the Company's Animal, Nutrition & Health capacity in our manufacturing facility located in Verona, Missouri. In addition, the Company spent approximately \$1,660 towards its agglomeration initiative. As previously noted, on May 7, 2014 the Company acquired SensoryEffects for a purchase price of approximately \$569,000; amounting to approximately \$494,000 to the former shareholders, including adjustments for working capital acquired, and approximately \$75,000 to SensoryEffects' lenders to pay off all SensoryEffects bank debt.

Financing Activities

The Company made debt payments of \$17,500 during 2015 related to the senior secured term loan and has \$100,000 available under a revolving loan agreement.

The Company has an approved stock repurchase program. The total authorization under this program is 3,763,038 shares. Since the inception of the program in June 1999, a total of 2,105,601 shares have been purchased, none of which remained in treasury at June 30, 2015. The Company intends to acquire shares from time to time at prevailing market prices if and to the extent it deems it advisable to do so based on its assessment of corporate cash flow, market conditions and other factors.

Proceeds from stock options exercised were \$9,920 and \$2,881 for the six months ended June 30, 2015 and 2014, respectively. Dividend payments were \$9,251 and \$7,856 for the six months ended June 30, 2015 and 2014, respectively.

Other Matters Impacting Liquidity

The Company currently provides postretirement benefits in the form of a retirement medical plan under a collective bargaining agreement covering eligible retired employees of its Verona, Missouri facility. The liability recorded in other long-term liabilities on the consolidated balance sheet as of June 30, 2015 is \$1,156 and the plan is not funded. Historical cash payments made under the plan have typically been less than \$100 per year.

Critical Accounting Policies

During the first quarter of fiscal year 2015, information that our chief operating decision maker regularly reviews for purposes of allocating resources and assessing performance changed, and as a result, the Company changed its communication to external investors. Therefore, beginning in fiscal year 2015, we are reporting our financial performance based on our new segments; Specialty Products, SensoryEffects, Animal Nutrition & Health, and Industrial Products. We have retrospectively revised certain prior period amounts to conform to the way we internally manage and monitor segment performance during the current fiscal year.

Other than segment information, there were no changes to the Company's Critical Accounting Policies, as described in its December 31, 2014 Annual Report on Form 10-K, during the six months ended June 30, 2015.

Related Party Transactions

The Company was not engaged in related party transactions during the six months ended June 30, 2015.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Cash and cash equivalents are held primarily in certificates of deposit and money market investment funds. The Company has no derivative financial instruments or derivative commodity instruments, nor does the Company have any financial instruments entered into for trading or hedging purposes. As of June 30, 2015, the Company's borrowings were under a bank term loan and revolving loan bearing interest at LIBOR or a fluctuating rate as defined by the loan agreement, at the Company's discretion, plus an applicable rate. The applicable rate is based upon the Company's consolidated leverage ratio, as defined in the loan agreement. A 100 basis point increase or decrease in interest rates, applied to the Company's borrowings at June 30, 2015, would result in an increase or decrease in annual interest expense and a corresponding reduction or increase in cash flow of approximately \$3,150. The Company is exposed to market risks for changes in foreign currency rates and has exposure to commodity price risks, including prices of our primary raw materials. Our objective is to seek a reduction in the potential negative earnings impact of changes in foreign exchange rates and raw material pricing arising in our business activities. The Company manages these financial exposures, where possible, through pricing and operational means. Our practices may change as economic conditions change.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934 (the “Exchange Act”), we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as of the end of the period covered by this report on Form 10-Q. This evaluation was carried out under the supervision and with the participation of our management, including our President and Chief Executive Officer and our Chief Financial Officer. Based upon that evaluation, management concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to management (including the chief executive officer and chief financial officer) to allow timely decisions regarding required disclosure and that our disclosure controls and procedures are effective to give reasonable assurance that the information required to be disclosed by us in reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission.

(b) Changes in Internal Controls

During the most recent fiscal quarter, except with respect to the Performance Chemicals & Ingredients Company (d/b/a SensoryEffects) acquisition described below, there has been no significant change in the Company’s internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

On May 7, 2014, we completed the acquisition of the Performance Chemicals & Ingredients Company (d/b/a SensoryEffects) business. See Note 2 of the Notes to the Condensed Consolidated Financial Statements for additional information. We have integrated SensoryEffects into our internal control over financial reporting process and will include the business in our assessment of internal control over financial reporting as of December 31, 2015.

Part II. Other Information

Item 1A. Risk Factors

There have been no material changes in the Risk Factors identified in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

Item 4. Reserved.

Item 6. Exhibits

Exhibit 10.1 Employment Agreement with Chief Executive Officer.

Exhibit 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a).

Exhibit 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a).

Exhibit 32.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code.

Exhibit 32.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code.

101.INSXBRL Instance Document

101.SCHXBRL Taxonomy Extension Schema Document

101.CALXBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LABXBRL Taxonomy Extension Label Linkbase Document

101.PREXBRL Taxonomy Extension Presentation Linkbase Document

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BALCHEM CORPORATION

By: /s/ Theodore L. Harris

Theodore L. Harris, President and
Chief Executive Officer

By: /s/ William A. Backus

William A. Backus, Chief Financial Officer and Treasurer

Date: August 5, 2015

Exhibit Index

Exhibit No. Description

| | |
|-------------------------------|---|
| <u>Exhibit</u> <u>10.1</u> | Employment Agreement with Chief Executive Officer. |
| <u>Exhibit</u> <u>31.1</u> | Certification of Chief Executive Officer pursuant to Rule 13a-14(a). |
| <u>Exhibit</u> <u>31.2</u> | Certification of Chief Financial Officer pursuant to Rule 13a-14(a). |
| <u>Exhibit</u> <u>32.1</u> | Certification of Chief Executive Officer pursuant to Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code. |
| <u>Exhibit</u> <u>32.2</u> | Certification of Chief Financial Officer pursuant to Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code. |
| 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 |