

BALCHEM CORP  
Form 10-K  
February 29, 2016

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2015

OR

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

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

Commission file number: 1-13648

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Balchem Corporation

(Exact name of Registrant as specified in its charter)

Maryland

13-2578432

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)

52 Sunrise Park Road, New Hampton, NY 10958

(Address of principal executive offices) (Zip Code)

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

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 \$.06-2/3 per share | Nasdaq Global Market |
|---|----------------------|

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

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

Indicate by check mark whether 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 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

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(§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 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.

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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.

(Check one): 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 common stock, par value \$.06-2/3 per share (the “Common Stock”), issued and outstanding and held by non-affiliates of the Registrant, based upon the closing price for the Common Stock on the NASDAQ Global Market on June 30, 2015 was approximately \$1,675,000,000. For purposes of this calculation, shares of the Registrant held by directors and officers of the Registrant and under the Registrant's 401(k)/profit sharing plan have been excluded.

The number of shares outstanding of the Registrant's Common Stock was 31,535,449 as of February 22, 2016.

**DOCUMENTS INCORPORATED BY REFERENCE**

Selected portions of the Registrant’s proxy statement for its 2016 Annual Meeting of Stockholders (the “2016 Proxy Statement”) to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after Registrant’s fiscal year-end of December 31, 2015 are incorporated by reference in Part III of this Annual Report on Form 10-K to the extent stated therein.

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Cautionary Statement Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are not statements of historical facts, but rather reflect our current expectations or beliefs concerning future events and results. We generally use the words “believes,” “expects,” “intends,” “plans,” “anticipates,” “likely,” “will,” “estimates,” “project” and similar expressions to identify forward-looking statements. Such forward-looking statements, including those concerning our expectations, involve risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The risks, uncertainties and factors that could cause our results to differ materially from our expectations and beliefs include, but are not limited to, those factors set forth in this Annual Report on Form 10-K under “Item 1A. - Risk Factors” below, including the following:

- changes in laws or regulations affecting our operations;
- changes in our business tactics or strategies;
- acquisitions of new or complementary operations;
- sales of any of our existing operations;
- changing market forces or contingencies that necessitate, in our judgment, changes in our plans, strategy or tactics; and
- fluctuations in the investment markets or interest rates, which might materially affect our operations or financial condition.

We cannot assure you that the expectations or beliefs reflected in these forward-looking statements will prove correct. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. You are cautioned not to unduly rely on such forward-looking statements when evaluating the information presented in this Annual Report on Form 10-K and all subsequent written and oral forward-looking statements made by us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained herein.

PART I

Item 1. Business

General:

Balchem Corporation (“Balchem,” the “Company,” “we” or “us”), incorporated in the State of Maryland in 1967, is engaged in the development, manufacture and marketing of specialty performance ingredients and products for the food, nutritional, feed, pharmaceutical, medical sterilization and industrial markets. Our reportable segments are strategic businesses that offer products and services to different markets. We presently have four reportable segments: SensoryEffects; Animal Nutrition & Health; Specialty Products; and Industrial Products.

The Company sells its products through its own sales force, independent distributors and sales agents. Financial information concerning the Company's business, business segments and geographic information appears in Management's Discussion and Analysis of Financial Condition and Results of Operations under Item 7 below and in the Notes to our Consolidated Financial Statements included under Item 8 below, which information is incorporated herein by reference.

The Company operates four wholly-owned domestic subsidiaries: SensoryEffects, Inc. (“SE”), a Delaware corporation, SensoryEffects Cereal Systems, Inc. (“SECS”), a Delaware corporation, BCP Ingredients, Inc.

(“BCP”), a Delaware corporation, and Aberco, Inc. (“Aberco”), a Maryland corporation. We operate two wholly-owned subsidiaries in Europe: Balchem BV, a Dutch limited liability company and Balchem Italia Srl, an Italian limited liability company. We also operate one wholly-owned subsidiary in Canada: Balchem LTD, a Canadian corporation. Unless otherwise stated to the contrary, or unless the context otherwise requires, references to the Company in this report includes Balchem Corporation and its subsidiaries.

### 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 (formerly included in Animal Nutrition & Health)

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.

#### Acquisition of Albion International, Inc.

On February 1, 2016, the Company acquired 100 percent of the outstanding common shares of Albion International, Inc. (Albion), a privately held manufacturer of mineral amino acid chelates, specialized mineral salts and mineral complexes, headquartered in Clearfield, Utah. The Company made payments of approximately \$116.4 million on the acquisition date, amounting to approximately \$110.6 million to the former shareholders, adjustments for working capital acquired of \$4.9 million, and approximately \$0.9 million to Albion's lenders to pay off all Albion bank debt. Albion has been a world leader and innovator in the manufacture of superior organic mineral compounds for sixty years and leverages scientific expertise in the areas of human and plant nutrition. Albion's products are renowned in the supplement industry for technologically advanced, unparalleled bioavailability. The acquisition of Albion continues to expand the Company's science based human health and wellness solutions and will immediately increase our product offerings in the nutritional ingredient market. Additionally, the Company will also benefit from a broader geographic footprint and a stronger position as a technological leader in spray-drying and ingredient delivery solutions. Albion's human nutrition business will become a part of the SensoryEffects reportable segment and the plant nutrition business will become a part of the Specialty Products reportable segment.

#### Raw Materials

The raw materials utilized by the Company in the manufacture of its products are sourced from suppliers both domestically and internationally. Such raw materials include materials derived from petrochemicals, minerals, metals, agricultural commodities and other readily available commodities and are subject to price fluctuations due to market conditions. The Company is not experiencing any current difficulties in procuring such materials and does not anticipate any such problems; however, we cannot assure that will always be the case.

#### Intellectual Property

The Company currently holds 16 patents in the United States and overseas and uses certain trade-names and trademarks. It also uses know-how, trade secrets, formulae, and manufacturing techniques that assist in





maintaining competitive positions of certain of its products. Formulae and know-how are of particular importance in the manufacture of a number of the Company's proprietary products. The Company believes that certain of its patents, in the aggregate, are advantageous to its business. However, it is believed that no single patent or related group of patents is currently so material to the Company that the expiration or termination of any single patent or group of patents would materially affect its business. Our U.S. patents expire between 2016 and 2024. The Company believes that its sales and competitive position are dependent primarily upon the quality of its products, technical sales efforts and market conditions, rather than on patent protection.

### Seasonality

In general, the businesses of our segments are not seasonal to any material extent.

### Backlog

At December 31, 2015, the Company had a total backlog of \$30,448,000 (including \$20,947,000 for the SensoryEffects segment; \$7,705,000 for the ANH segment; \$753,000 for the Specialty Products segment and \$1,043,000 for the Industrial Products segment), as compared to a total backlog of \$38,798,000 at December 31, 2014 (including \$23,703,000 for the SensoryEffects segment; \$8,016,000 for the ANH segment; \$699,000 for the Specialty Products segment and \$6,380,000 for the Industrial Products segment). It has generally been the Company's policy and practice to maintain an inventory of finished products and/or component materials for its segments to enable it to ship products within two months after receipt of a product order. All orders in the current backlog are expected to be filled in the 2016 fiscal year.

### Competition

Our competitors include many large and small companies, some of which have greater financial, research and development, production and other resources than the Company. Competition in the food and ingredient markets served by the Company is based primarily on product performance, customer support, quality, service and price. The development of new and improved products is important to the Company's success. This competitive environment requires substantial investments in product and manufacturing process research and development. In addition, the winning and retention of customer acceptance of the Company's food and nutrition products involve substantial expenditures for application testing, either internally or at customer/prospect sites, and sales efforts. Our competition in this market includes a variety of ingredient and nutritional supplement companies many of which are privately-held. Therefore, it is difficult to assess the size of all of our segment competitors or where we rank in comparison to such privately-held competitors.

Competition in the animal feed and industrial markets served by the Company is based primarily on quality, service and price. The markets for our products are subject to competitive risks because these markets are highly price competitive. Our competition in this market includes a variety of animal nutrition and health ingredient companies, along with certain industrial companies, many of which are privately-held. Therefore, we are unable to assess the size of all of our competitors or where we rank in comparison to such privately-held competitors.

In the Specialty Products segment, the Company's products face competition from alternative sterilizing technologies and products. Competition in this marketplace is based primarily on medical device compositions, product performance, customer support, quality, service and price. Our competition in this market includes sterilization companies, a number of which are privately-held. Therefore, we are unable to assess the size of all of our competitors or where we rank in comparison to such privately-held competitors. We are focused on the North American market due to EPA, United States Food and Drug Administration ("FDA") and DOT regulations that are not yet required globally.



## Research & Development

During the years ended December 31, 2015, 2014 and 2013, the Company incurred research and development expenses of approximately \$6.0 million, \$4.8 million and \$3.6 million, respectively, on Company-sponsored research and development for new products and improvements to existing products and manufacturing processes. At December 31, 2015, approximately 30 employees were devoted full time to research and development activities. The Company has historically funded its research and development programs with funds available from current operations with the intent of recovering those costs from profits derived from future sales of products resulting from, or enhanced by, the research and development effort.

The Company prioritizes its product development activities in an effort to allocate resources to those product candidates that, the Company believes, have the greatest commercial potential. Factors considered by the Company in determining the products to pursue include projected markets and needs, status of its proprietary rights, technical feasibility, expected and known product attributes, and estimated costs to bring the product to market.

## Capital Projects

The Company continues to invest in projects across all production facilities and capital expenditures were approximately \$41.3 million, \$13.2 million and \$8.2 million for 2015, 2014 and 2013, respectively. In 2015 and 2014, respectively, capital expenditures of \$11.5 million and \$4.8 million were related to expanding the Company's Animal Nutrition & Health capacity in the manufacturing facility located in Verona, Missouri. Additionally, the Company invested \$10.4 million in agglomeration production equipment during 2015. For 2013, \$3.3 million of the capital expenditures were for the Company's new manufacturing facility in Covington, Virginia. Capital expenditures are projected to range from \$20.0 million to \$30.0 million for 2016.

## Environmental / Regulatory Matters

The Federal Insecticide, Fungicide and Rodenticide Act ("FIFRA"), a health and safety statute, requires that certain products within our specialty products segment must be registered with the EPA because they are considered pesticides. In order to obtain a registration, an applicant typically must demonstrate, through extensive test data, that its product will not cause unreasonable adverse effects on human health or the environment. We hold EPA registrations permitting us to sell ethylene oxide as a medical device sterilant and spice fumigant, and propylene oxide as a fumigant of nuts and spices.

With respect to the treatment of spices with ethylene oxide, the EPA allows the use of EO on the vast majority of spices. However, EPA prohibited its use for the treatment of basil, effective August 1, 2007, but allows the continuing use of ethylene oxide to treat all other spices, provided specific treatment parameters are used. During 2009, the EPA mandated that a toxicity study be performed on ethylene chlorohydrin, which is a "residue of concern", according to the EPA. This study was financed by an industry trade association of which we are a member, and was submitted to the EPA in March 2012. In October 2015, the EPA issued a Data Evaluation Record accepting the ethylene chlorohydrin study.

In April 2008, the EPA issued a RED ("Reregistration Eligibility Decision") for ethylene oxide which permitted the continued use of ethylene oxide "to sterilize medical or laboratory equipment, pharmaceuticals, and aseptic packaging, or to reduce microbial load on musical instruments, cosmetics, whole and ground spices and other seasoning materials and artifacts, archival material or library objects". Currently, the EPA has initiated a new registration review of ethylene oxide, in line with and part of the registration review scheduled for a large number of other pesticides. A Final Work Plan was issued in March 2014. The EPA anticipates this review process will take approximately seven years. As part of the process, EPA has identified several potential additional testing requirements. The EPA and the registrants are in discussions regarding the additional testing. While some additional testing will be necessary, we believe that the use of ethylene oxide will continue to be permitted. The product, when used as a sterilant for certain

medical devices, has no

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known equally effective substitute. Management believes the lack of availability of this product could not be easily tolerated by various medical device manufacturers or the health care industry due to the resultant infection potential.

Similarly, the EPA issued a RED for propylene oxide in August 2006. At that time, the EPA “determined that products containing the active ingredient PPO [propylene oxide] are eligible for reregistration provided that...risk mitigation measures...are adopted.” Our product label was amended as required to reflect these mitigation measures and also to show that propylene oxide has been reclassified as a restricted use pesticide. Currently, the EPA has initiated a new registration review of propylene oxide, in line with and part of the registration review scheduled for a large number of other pesticides. A Final Work Plan was issued in March 2014. The EPA anticipates this review process will take approximately seven years. As part of the process, the EPA has identified several potential additional testing requirements. The Company committed to conducting three additional studies, which have been completed and will be submitted for review shortly. The Company is currently in discussions with the EPA regarding other studies. While it is possible that we will be required to perform additional testing, we believe that the use of propylene oxide to treat nuts and spices will continue to be permitted.

The Company’s facility in Verona, Missouri, 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 for contamination for certain organic chemicals. No ground water or surface water treatment has been required. 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 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 executed the above-described Superfund remedy.

In connection with normal operations at its plant facilities, the Company is required to maintain environmental and other permits, including those relating to the ethylene oxide operations.

The Company believes it is in compliance in all material respects with federal, state, local and international provisions that have been enacted or adopted regulating the discharge of materials into the environment or otherwise relating to the protection of the environment. Such compliance includes the maintenance of required permits under air pollution regulations and compliance with requirements of the Occupational Safety and Health Administration. The cost of such compliance has not had a material effect upon the results of operations or financial condition of the Company. 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 remediated the area and removed soil from the drum burial site. This proceeding has been substantially completed (see Item 3).

In June 2011, we terminated our lease and ceased operations at a manufacturing facility in Channahon, Illinois, which had previously served as our pharmaceutical grade ingredient manufacturing facility, which was registered with the FDA as a drug manufacturing facility. We will continue to produce products which



are required to be manufactured in conformity with current Good Manufacturing Practice (“cGMP”) regulations as interpreted and enforced by the FDA, but will do so through third party contract arrangement. Modifications, enhancements or changes in contracted manufacturing facilities or procedures relating to our pharmaceutical products are, in many circumstances, subject to FDA approval, which may be subject to a lengthy application process or which we may be unable to obtain. Any contracted manufacturing facilities that manufacture our pharmaceutical products are periodically subject to inspection by the FDA and other governmental agencies, and operations at these facilities could be interrupted or halted if the results of these inspections are unsatisfactory.

### Employees

As of January 31, 2016, the Company employed approximately 875 persons. Approximately 90 employees at our Marano, Ticino, Italy facility are covered by a national collective bargaining agreement, which expires in 2017. Approximately 70 employees at the Company’s Verona, Missouri facility are covered by a collective bargaining agreement, which expires in 2017.

### Available Information

The Company’s headquarters is located at 52 Sunrise Park Road, New Hampton, NY 10958. The Company’s telephone number is (845) 326-5600 and its Internet website address is [www.balchem.com](http://www.balchem.com). The Company makes available through its website, free of charge, its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments to such reports, as soon as reasonably practicable after they have been electronically filed with the Securities and Exchange Commission. Such reports are available via a link from the Investor Relations page on the Company’s website to a list of the Company’s reports on the Securities and Exchange Commission’s EDGAR website.

### Item 1A. Risk Factors

Our business is subject to a high degree of risk and uncertainty, including the following risks and uncertainties, which could adversely affect our business, financial condition, results of operation, cash flows and the trading price of our Common Stock:

Global economic conditions may adversely affect our business, operating results and financial condition.

Unfavorable changes in economic conditions, including inflation, recession, or other changes in economic conditions, may adversely impact the markets in which we operate. These conditions may make it extremely difficult for our customers, our vendors and us to accurately forecast and plan future business activities, and they could cause U.S. and foreign businesses to slow spending on our products which would reduce our revenues and profitability. Furthermore, during challenging economic times our customers may face issues gaining timely access to sufficient credit, which could result in an impairment of their ability to make timely payments to us. If that were to occur, we may be required to increase our allowance for doubtful accounts and cash flow would be negatively impacted. We cannot predict the timing, depth or duration of any economic slowdown or subsequent economic recovery, worldwide, or in the markets in which we operate. Also, at any point in time we have funds in our cash accounts that are with third party financial institutions. These balances in the U.S. and Italy exceed the Federal Deposit Insurance Corporation (“FDIC”) and Fondo Interbancario di Tutela dei Depositi (“FITD”) insurance limits, respectively. While we monitor the cash balances in our accounts, these balances could be impacted if the underlying financial institutions fail or could be subject to other adverse conditions in the financial markets.

Increased competition could hurt our business and financial results.

We face competition in our markets from a number of large and small companies, some of which have greater financial, research and development, production and other resources than we do. Our competitive position is based

principally on performance, quality, customer support, service, breadth of product line, manufacturing

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or packaging technology and the selling prices of our products. Our competitors may improve the design and performance of their products and introduce new products with competitive price and performance characteristics. We expect to do the same to maintain our current competitive position and market share.

The loss of governmental permits and approvals would materially harm some of our businesses.

Pursuant to applicable environmental and safety laws and regulations, we are required to obtain and maintain certain governmental permits and approvals, including EPA registrations under FIFRA for two of our products. We maintain EPA FIFRA registrations for ethylene oxide as a medical device sterilant and spice fumigant and for propylene oxide as a fumigant of nuts and spices. The EPA has issued Reregistration Eligibility Decisions for both products in recent years and these uses have been approved for the time being. The EPA may re-examine the registrations in the future in accordance with the provisions of FIFRA. Any future failure of the EPA to allow reregistration of ethylene oxide or propylene oxide would have a material adverse effect on our business and financial results.

Commercial supply of pharmaceutical products that we may develop, subject to cGMP manufacturing regulations, will be performed by third-party cGMP manufacturers. Modifications, enhancements or changes in third-party manufacturing facilities or procedures of our pharmaceutical products are, in many circumstances, subject to FDA approval, which may be subject to a lengthy application process or which we may be unable to obtain. Any third-party cGMP manufacturers that we may use are periodically subject to inspection by the FDA and other governmental agencies, and operations at these facilities could be interrupted or halted if the results of these inspections are unsatisfactory. Failure to comply with the FDA or other governmental regulations can result in fines, unanticipated compliance expenditures, recall or seizure of products, total or partial suspension of production, enforcement actions, injunctions and criminal prosecution, which could have a material adverse effect on our business and financial results.

Permits and approvals may be subject to revocation, modification or denial under certain circumstances. Our operations or activities (including the status of compliance by the prior owner of the Verona, Missouri facility under Superfund remediation) could result in administrative or private actions, revocation of required permits or licenses, or fines, penalties or damages, which could have an adverse effect on us. In addition, we cannot predict the extent to which any legislation or regulation may affect the market for our products or our cost of doing business.

Raw material shortages or price increases could adversely affect our business and financial results.

The principal raw materials that we use in the manufacture of our products can be subject to price fluctuations due to market conditions. Such raw materials include materials derived from petrochemicals, minerals, metals, agricultural commodities and other commodities. While the selling prices of our products tend to increase or decrease over time with the cost of raw materials, these changes may not occur simultaneously or to the same degree. At times, we may be unable to pass increases in raw material costs through to our customers due to certain contractual obligations. Such increases in the price of raw materials, if not offset by product price increases, or substitute raw materials, would have an adverse impact on our profitability. We believe we have reliable sources of supply for our raw materials under normal market conditions. We cannot, however, predict the likelihood or impact of any future raw material shortages. Any shortages could have a material adverse impact on our results of operations.

Our financial success depends in part on the reliability and sufficiency of our manufacturing facilities.

Our revenues depend on the effective operation of our manufacturing, packaging, and processing facilities. The operation of our facilities involves risks, including the breakdown, failure, or substandard performance of equipment, power outages, the improper installation or operation of equipment, explosions, fires, natural disasters, failure to achieve or maintain safety or quality standards, work stoppages, supply or logistical outages, and the need to comply with environmental and other directives of governmental agencies. The



occurrence of material operational problems, including, but not limited to, the above events, could adversely affect our profitability during the period of such operational difficulties.

Our business exposes us to potential product liability claims and recalls, which could adversely impact our financial condition and performance.

Our development, manufacture and sales of food ingredient, pharmaceutical and nutritional supplement products involve an inherent risk of exposure to product liability claims, product recalls, product seizures and related adverse publicity. A product liability judgment against us could also result in substantial and unexpected expenditures, affect consumer confidence in our products, and divert management's attention from other responsibilities. Although we maintain product liability insurance coverage in amounts we believe are customary within the industry, there can be no assurance that this level of coverage is adequate or that we will be able to continue to maintain our existing insurance or obtain comparable insurance at a reasonable cost, if at all. A product recall or a partially or completely uninsured judgment against us could have a material adverse effect on results of operations and financial condition.

We face risks associated with our sales to customers and manufacturing operations outside the United States.

For the year ended December 31, 2015, approximately 20% of our net sales consisted of sales outside the United States. In addition, we conduct a portion of our manufacturing outside the United States. International sales are subject to inherent risks. The majority of our foreign sales occur through our foreign subsidiaries and the remainder of our foreign sales result from exports to foreign distributors, resellers and customers. Our foreign sales and operations are subject to a number of risks, including: longer accounts receivable collection periods; the impact of recessions and other economic conditions in economies outside the United States; export duties and quotas; unexpected changes in regulatory requirements; certification requirements; environmental regulations; reduced protection for intellectual property rights in some countries; potentially adverse tax consequences; political and economic instability; and preference for locally produced products. These factors could have a material adverse impact on our ability to increase or maintain our international sales.

We may, from time to time, experience problems in our labor relations.

In North America, approximately 70 employees, or 8% of our North American workforce, as of December 31, 2015, are represented by a union under a single collective bargaining agreement, which was re-negotiated and is effective as of July 9, 2012. It will expire in 2017. In Europe, approximately 90 employees are covered by a collective bargaining agreement, which was re-negotiated in 2015 and will also expire in 2017. We believe that our present labor relations with all of our union employees are satisfactory, however, our failure to renew these agreements on reasonable terms could result in labor disruptions and increased labor costs, which could adversely affect our financial performance. Similarly, if our relations with the union portion of our workforce do not remain positive, such employees could initiate a strike, work stoppage or slowdown in the future. In the event of such an action, we may not be able to adequately meet the needs of our customers using our remaining workforce and our operations and financial condition could be adversely affected.

Our international operations subject us to currency translation risk and currency transaction risk which could cause our results to fluctuate from period to period.

The financial condition and results of operations of our foreign subsidiaries are reported in Euros and then translated into U.S. dollars at the applicable currency exchange rate for inclusion in our consolidated financial statements. Exchange rates between these currencies in recent years have fluctuated and may do so in the future. Furthermore, we incur currency transaction risk whenever we enter into either a purchase or a sales transaction using a currency different than the functional currency. Given the volatility of exchange rates, we may not be able to effectively manage our currency transactions and/or translation risks. Volatility in currency exchange rates could impact our business and financial results.



Our debt instruments impose operating and financial restrictions which could have an adverse impact on our business and results of operations.

Our recent incurrence of indebtedness could have negative consequences to us, including the following:

- limiting our ability to borrow additional monies for our working capital, capital expenditures, acquisitions; debt service requirements or other general corporate purposes;
- limiting our flexibility in planning for, or reacting to, changes in our operations, our business or the industries in which we compete;
- our leverage may place us at a competitive disadvantage by limiting our ability to invest in the business or in further research and development;
- making us more vulnerable to downturns in our business or the economy; and
- there would be a material adverse effect on our business and financial condition if we were unable to service our indebtedness or obtain additional financing, as needed.

Our ability to make payments on our indebtedness depends on our ability to generate cash in the future. If we do not generate sufficient cash flow to meet our debt service and working capital requirements, we may need to seek additional financing or sell assets. This may make it more difficult for us to obtain financing on terms that are acceptable to us, or at all. Without any such financing, we could be forced to sell assets to make up for any shortfall in our payment obligations under unfavorable circumstances.

Interest payable in accordance with our credit agreement is based on LIBOR. In light of potential fluctuations, we are exposed to risk resulting from adverse changes in interest rates.

Adverse publicity or consumer concern regarding the safety or quality of food products containing our products, or health concerns, whether with our products, products in the same general class as our products or for food products containing our products, may result in the loss of sales. Also, consumer preferences for products containing our products may change.

We are dependent upon consumers' perception of the safety, quality and possible dietary benefits of products containing our food ingredient products. As a result, substantial negative publicity concerning our products or other foods and beverages in which our products are used could lead to a loss of consumer confidence in those products, removal of those products from retailers' shelves and reduced sales and prices of our products. Product quality issues, actual or perceived, or allegations of product contamination, even when false or unfounded, could hurt the image of our products or of brands of products containing our products, and cause consumers to choose other products. Further, any product recall, whether our own or by a third party, whether due to real or unfounded allegations, could impact demand on food products containing our products or even our products. Any of these events could have a material adverse effect on our business, results of operations and financial condition. Consumer preferences, as well as trends, within the food industries change often and our failure to anticipate, identify or react to changes in these preferences and trends could, among other things, lead to reduced demand and price reductions, and could have an adverse effect on our business, results of operations and financial condition. While we continue to diversify our product offerings, developing new products entails risks and we cannot be certain that demand for our products and products containing our products will continue at current levels or increase in the future.

Demand for certain of our products is dependent on the levels of productivity by the oil and gas industry, particularly as it relates to shale gas fracturing. A substantial or an extended decline in oil and gas prices could result in lower expenditures by the oil and gas industry, which could have an adverse effect on our results of operations.

The oil and gas industry historically experiences periodic downturns. Demand for certain of our products depends on the level of expenditures by the oil and gas industry for the exploration, development and production of oil and natural gas reserves. These expenditures are generally dependent on the industry's view



of future oil and natural gas prices and are sensitive to the industry's view of future economic growth and the resulting impact on demand for oil and natural gas. Declines in oil and gas prices could result in significant downturn in the oil and gas industry and thereby result in a reduction in demand for oilfield services and related products, which could lead to reduced demand for our products and downward pressure on the prices we charge. These effects could have an adverse effect on our results of operations and cash flows.

We may not be able to successfully consummate and manage acquisition, joint venture and divestiture activities which could have an impact on our results.

From time to time, we may acquire other businesses, enter into joint ventures and, based on an evaluation of our business portfolio, divest existing businesses. These acquisitions, joint ventures and divestitures may present financial, managerial and operational challenges, including diversion of management attention from existing businesses, difficulty with integrating or separating personnel and financial and other systems, increased expenses, assumption of unknown liabilities and indemnities, and potential disputes with the buyers or sellers. In addition, we may be required to incur asset impairment charges (including charges related to tangible asset, goodwill and other intangible assets) in connection with acquired businesses which may reduce our profitability. If we are unable to consummate such transactions, or successfully integrate and grow acquisitions and achieve contemplated revenue synergies and cost savings, our financial results could be adversely affected. Additionally, joint ventures inherently involve a lesser degree of control over business operations, thereby potentially increasing the financial, legal, operational and/or compliance risks.

Technology failures or cyber security breaches could have an adverse effect on the Company's operations.

The Company relies on information technology systems to process, transmit, store, and protect electronic information. For example, a significant portion of the communications between the Company's personnel, customers, and suppliers depends on information technology. Information technology systems of the Company may be vulnerable to a variety of interruptions due to events beyond its control including, but not limited to, natural disasters, terrorist attacks, telecommunications failures, computer viruses, hackers, and other security issues. The Company has technology and information security processes and disaster recovery plans in place to mitigate its risk to these vulnerabilities; however, these measures may not be adequate to ensure that its operations will not be disrupted, should such an event occur.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We and our affiliates own or lease several manufacturing facilities and sales offices throughout the United States, and we own a single manufacturing facility in Europe. The following table sets forth a list of our principal offices, production and other facilities throughout the world as of December 31, 2015.

| Site                     | Leased/Owned            | Sq. Footage | Products/Functions  |
|--------------------------|-------------------------|-------------|---|
| Corporate Offices        |                         |             |   |
| New Hampton, NY          | Leased                  | 20,000      | Corporate headquarters  |
| St. Louis, MO            | Leased (SensoryEffects) | 9,161       | Administrative offices SensoryEffects                                 |
| Manufacturing Facilities |                         |             |   |
| Verona, MO               | Owned (BCP)             | 151,000     | aqueous and dry choline chloride, animal feed products, human choline |

|                      |                         |         |  |
|----------------------|-------------------------|---------|--|
| Slate Hill, NY       | Owned                   | 51,000  | nutrients, repackaging for Specialty Products, and warehousing encapsulated products, blending and repackaging for Specialty Products, and warehousing |
| Green Pond, SC       | Owned                   | 34,000  | repackaging for Specialty Products and warehousing   |
| Salt Lake City, UT   | Owned                   | 16,500  | chelated mineral nutrients and warehousing   |
| Covington, VA        | Owned                   | 70,000  | encapsulated animal feed products and warehousing  |
| St. Gabriel, LA      | Owned (BCP)             | 15,130  | aqueous choline chloride and warehousing   |
| Marano Ticino, Italy | Owned (Balchem Italia)  | 342,734 | methylamines, metam sodium, animal, human and industrial grade choline, and warehousing  |
| Sleepy Eye, MN       | Owned (SensoryEffects)  | 32,000  | spray drying of dairy creamers and cocoa blends, and warehousing   |
| Bridgeton, MO        | Owned (SensoryEffects)  | 84,000  | creamer products, cocoa powders, liquid and solid flavor inclusions, and warehousing   |
| Marshfield, WI       | Owned (SensoryEffects)  | 70,000  | spray drying of lipid based powders, blending, and warehousing   |
| Reading, PA          | Owned (SensoryEffects)  | 39,750  | spray drying of human nutritional products and warehousing   |
| Defiance, OH         | Owned (SensoryEffects)  | 140,700 | spray drying of creamer products, solid flavor inclusions for baking, blending and warehousing   |
| Lincoln, NE          | Leased (SensoryEffects) | 87,650  | cereal products and warehousing  |
| Morrisburg, Canada   | Owned (Balchem LTD)     | 4,500   | dry choline chloride and warehousing   |

### Item 3. Legal Proceedings

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 remediated the area and removed soil from the drum burial site. Clean-up was completed in 1996, and NYDEC required the Company to monitor the site through 1999. The Company continues to be involved in discussions with NYDEC to evaluate monitoring 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 recently been less than \$5,000 per year.

The Company is also involved in other legal proceedings through the normal course of business. Management believes that any unfavorable outcome related to these proceedings will not have a material effect on the Company's financial position, results of operations or liquidity.



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

(a) Market Information.

Our Common Stock is listed on the Nasdaq Global Market under the symbol "BCPC."

The high and low closing prices for the Common Stock as recorded for each quarterly period during the years ended December 31, 2015 and 2014 were as follows:

| Quarterly Period         | High    | Low     |
|--------------------------|---------|---------|
| Ended March 31, 2015     | \$64.18 | \$52.80 |
| Ended June 30, 2015      | 64.00   | 52.42   |
| Ended September 30, 2015 | 62.00   | 53.49   |
| Ended December 31, 2015  | 69.65   | 60.34   |

| Quarterly Period         | High    | Low     |
|--------------------------|---------|---------|
| Ended March 31, 2014     | \$57.87 | \$49.63 |
| Ended June 30, 2014      | 63.98   | 52.48   |
| Ended September 30, 2014 | 58.48   | 49.08   |
| Ended December 31, 2014  | 68.46   | 52.01   |

On February 22, 2016, the closing price for the Common Stock on the Nasdaq Global Market was \$60.85.

(b) Record Holders.

As of February 22, 2016, the approximate number of holders of record of the Company's Common Stock was 102. Such number does not include stockholders who hold their stock in street name. As of February 22, 2016, the total number of beneficial owners of the Company's Common Stock is estimated to be approximately 20,050.

(c) Dividends.

The Company declared cash dividends of \$0.34 and \$0.30 per share on its Common Stock during its fiscal years ended December 31, 2015 and 2014, respectively.

(d) Securities Authorized for Issuance Under Equity Compensation Plans.

For information concerning prior stockholder approval of and other matters relating to our equity incentive plans, see Item 12 in this Annual Report on Form 10-K.

(e) Performance Graph.

The graph below sets forth the cumulative total stockholder return on the Company's Common Stock (referred to in the table as "BCPC") for the five years ended December 31, 2015, the overall stock market return during such period for shares comprising the Russell 2000® Index (which the Company believes



includes companies with market capitalization similar to that of the Company), and the overall stock market return during such period for shares comprising the Dow Jones U.S. Specialty Chemicals Index, in each case assuming a comparable initial investment of \$100 on December 31, 2010 and the subsequent reinvestment of dividends. The Russell 2000® Index measures the performance of the shares of the 2000 smallest companies included in the Russell 3000® Index. In light of the Company's industry segments, the Company does not believe that published industry-specific indices are necessarily representative of stocks comparable to the Company. Nevertheless, the Company considers the Dow Jones U.S. Specialty Chemicals Index to be potentially useful as a peer group index with respect to the Company. The performance of the Company's Common Stock shown on the graph below is historical only and not necessarily indicative of future performance.

#### Item 6. Selected Financial Data

The selected statements of operations data set forth below for the years ended December 31, 2015, 2014, and 2013 and the selected balance sheet data as of December 31, 2015 and 2014 have been derived from our Consolidated Financial Statements included elsewhere herein. The selected financial data as of December 31, 2013, 2012 and 2011 and for the years ended December 31, 2012 and 2011 have been derived from audited Consolidated Financial Statements not included herein, but which were previously filed with the SEC. The following information should be read in conjunction with Item 7 — “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the Consolidated Financial Statements and notes thereto included elsewhere herein.

(In thousands, except per share data)

| Year ended December 31,<br><u>Statement of Operations Data</u> | 2015      | 2014      | 2013      | 2012      | 2011      |
|--|-----------|-----------|-----------|-----------|-----------|
| Net sales  | \$552,492 | \$541,383 | \$337,173 | \$310,393 | \$291,867 |
| Earnings before income tax expense                             | 87,063    | 77,052    | 65,818    | 59,844    | 56,738    |
| Income tax expense   | 27,341    | 24,226    | 20,944    | 19,839    | 17,973    |
| Net earnings   | 59,722    | 52,826    | 44,874    | 40,005    | 38,765    |

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|                                       |        |        |        |        |        |
|---------------------------------------|--------|--------|--------|--------|--------|
| Basic net earnings per common share   | \$1.92 | \$1.74 | \$1.51 | \$1.38 | \$1.36 |
| Diluted net earnings per common share | \$1.89 | \$1.69 | \$1.45 | \$1.32 | \$1.28 |

| At December 31,                            | 2015      | 2014      | 2013      | 2012      | 2011      |
|--|-----------|-----------|-----------|-----------|-----------|
| <u>Balance Sheet Data</u>                  |           |           |           |           |           |
| Total assets                               | \$881,223 | \$861,531 | \$376,872 | \$312,545 | \$271,717 |
| Long-term debt (including current portion) | 297,500   | 332,500   | -         | -         | 1,410     |
| Other long-term obligations                | 6,683     | 5,950     | 3,877     | 3,431     | 2,788     |
| Total stockholders' equity                 | 463,705   | 391,898   | 331,358   | 273,012   | 232,009   |
| Dividends per common share                 | \$.34     | \$.30     | \$.26     | \$.22     | \$.18     |

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with Item 6 — “Selected Financial Data” and our Consolidated Financial Statements and the related notes included in this report. Those statements in the following discussion that are not historical in nature should be considered to be forward-looking statements that are inherently uncertain. See “Cautionary Statement Regarding Forward-Looking Statements.”

Overview

We develop, manufacture, distribute and market specialty performance ingredients and products for the food, nutritional, pharmaceutical, animal health, medical device sterilization and industrial markets. Our four reportable segments are strategic businesses that offer products and services to different markets: SensoryEffects; Animal Nutrition & Health; Specialty Products; and Industrial Products.

Acquisition of Albion International, Inc.

On February 1, 2016, the Company acquired 100 percent of the outstanding common shares of Albion International, Inc. (Albion), a privately held manufacturer of mineral amino acid chelates, specialized mineral salts and mineral complexes, headquartered in Clearfield, Utah. The Company made payments of approximately \$116.4 million on the acquisition date, amounting to approximately \$110.6 million to the former shareholders, adjustments for working capital acquired of \$4.9 million, and approximately \$0.9 million to Albion’s lenders to pay off all Albion bank debt. Albion has been a world leader and innovator in the manufacture of superior organic mineral compounds for sixty years and leverages scientific expertise in the areas of human and plant nutrition. Albion’s products are renowned in the supplement industry for technologically advanced, unparalleled bioavailability. The acquisition of Albion continues to expand the Company’s science based human health and wellness solutions and will immediately increase our product offerings in the nutritional ingredient market. Additionally, the Company will also benefit from a broader geographic footprint and a stronger position as a technological leader in spray-drying and ingredient delivery solutions. Albion’s human nutrition business will become a part of the SensoryEffects reportable segment and the plant nutrition business will become a part of the Specialty Products reportable segment.

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 million and revolving loan of \$100 million (collectively referred to as the "loans"). The term loan and \$50 million of the revolving loan were used to fund the Acquisition of SensoryEffects and for general corporate purposes. The Company has made debt payments of \$102.5 million related to these loans and has \$100 million available under the revolving loan as of December 31, 2015. As previously noted, on February 1, 2016, the Company acquired 100 percent of the outstanding common shares of Albion International, Inc. (Albion). The Company made payments of approximately \$116.4 million on the acquisition date, of which \$65 million was funded from the revolving line of credit and remaining was funded from the Company existing cash balances.

### 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.

Management believes that future success in this segment is highly dependent on the Company's ability to maintain its government registrations, strong reputation for excellent quality, safety and customer service.

### 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. Demand for certain of our products depends on the level of expenditures by the oil and gas industry for the exploration, development and production of oil and natural gas reserves. These expenditures are generally dependent on the industry's view of future oil and natural gas prices and are sensitive to the industry's view of future economic growth and the resulting impact on demand for oil and natural gas. Declines in oil and gas prices have resulted in significant downturn in the oil and gas industry and thereby resulted in a reduction in demand for oilfield services and related products

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 net sales by segment and business segment earnings from operations for the three years ended December 31, 2015, 2014 and 2013 (in thousands):

## Business Segment Net Sales:

|                           | 2015      | 2014      | 2013      |
|---------------------------|-----------|-----------|-----------|
| SensoryEffects            | \$278,288 | \$206,101 | \$47,569  |
| Animal Nutrition & Health | 165,763   | 176,477   | 155,727   |
| Specialty Products        | 54,236    | 54,053    | 51,086    |
| Industrial Products       | 54,205    | 104,752   | 82,791    |
| Total                     | \$552,492 | \$541,383 | \$337,173 |

## Business Segment Earnings From Operations:

|                           | 2015     | 2014     | 2013     |
|---------------------------|----------|----------|----------|
| SensoryEffects            | \$38,302 | \$21,260 | \$11,233 |
| Animal Nutrition & Health | 27,851   | 23,687   | 18,244   |
| Specialty Products        | 23,995   | 21,316   | 20,224   |
| Industrial Products       | 5,594    | 16,532   | 15,901   |
| Total                     | \$95,742 | \$82,795 | \$65,602 |

Fiscal Year 2015 compared to Fiscal Year 2014

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

Net Sales

Net sales for 2015 were \$552,492 as compared with \$541,383 for 2014, an increase of \$11,109 or 2.1%. Net sales for the SensoryEffects segment were \$278,288, compared with \$206,101, for the year ended December 31, 2014, an increase of \$72,187 or 35.0%. Net sales from the acquired SensoryEffects business contributed \$69,829 to the overall increase. The Powder & Flavor Systems and Cereal Systems product lines comprised \$56,509 and \$10,240 of the increase, respectively. Also contributing to the higher sales was a \$3,070 or 11.1% increase in encapsulated ingredients used for baking and food preservation; primarily due to greater volume. Net sales for the Animal Nutrition & Health segment were \$165,763 for 2015 compared with \$176,477 for the prior year, a decrease of \$10,714 or 6.1%. Sales of products targeted for ruminant animal feed markets realized a sales decline of 1.6% or \$812 from the prior period. The decline was primarily the result of lower sales volumes of Aminoshure® and Nitroshure™ products due to weaker dairy economics, particularly in international markets as well as increased competition, partially offset by increased sales of Reashure®. Global feed grade choline product sales decreased \$9,471 or 8.1% primarily due to lower average selling prices and the weakened Euro, which was partially offset by higher volume. Specialty Products segment sales were flat compared to prior year. The Company experienced Industrial Product segment sales decline of \$50,547 or 48.3% over the prior year predominately due to volume decreases of various choline and choline derivatives used in shale fracking applications, consistent with the end market activity decline.

Gross Margin

Gross margin for 2015 increased to \$168,097 compared to \$144,172 for 2014, an increase of \$23,925 or 16.6% and was principally a result of lower raw material costs and a favorable product mix. Gross margin as a percentage of sales for 2015 increased to 30.4% from 26.6% in the prior year comparative period. Gross margins for the SensoryEffects segment increased 4.1% in 2015 as compared to 2014, due to the valuation of acquired inventory to fair value, which increased cost of sales by \$4,735 in 2014, as well as reduced raw material costs in 2015. Gross margin percentage for the Animal Nutrition and Health segment increased 3.2% compared to 2014, due to a favorable product mix and decreases in certain petrochemical raw material costs. Gross margin percentage for the Specialty Products segment increased 4.9% due to lower raw material costs. Gross margins for the Industrial Products segment declined 3.7% primarily due to reduced volumes contributing to unfavorable manufacturing variances, lower average selling price, and increased supply chain costs. These increased costs were partially offset by favorable petrochemical raw material costs.





### Operating Expenses

Operating expenses for 2015 were \$74,141 or 13.4% of net sales as compared to \$62,029 or 11.5% of net sales for 2014. The increase was primarily due to increased expenses associated with the acquired SensoryEffects business, including higher intangible asset amortization of \$6,768; partially offset by a reduction of transaction and integration costs. The Company incurred transaction and integration costs of \$324 and \$3,652, in 2015 and 2014, respectively. Additionally, the Company recognized a one-time equity compensation charge of \$1,462 during 2015. Partially offsetting 2014 operating expenses is a \$2.9 million favorable net legal settlement. During 2015 and 2014, the Company spent \$5,990 and \$4,810 respectively, on research and development programs, most of which pertained to the Company's SensoryEffects and Animal Nutrition & Health segments. Excluding the impact of amortization expenses, the one-time equity compensation charge, transaction and integration costs and the favorable net legal settlement, operating expenses were 8.4% and 7.8% of net sales for 2015 and 2014, respectively.

### Earnings From Operations

Principally as a result of the above-noted details, earnings from operations for 2015 were \$93,956 as compared to \$82,143 for 2014, an increase of \$11,813 or 14.4%. Earnings from operations as a percentage of sales ("operating margin") for 2015 was 17.0% increasing from 15.2% in 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, the one-time equity compensation charge and higher supply chain costs partially offset the improvement in earnings from operations. Excluding the impact of amortization expenses, valuation of the acquired inventory, transaction and integration expenses, legal settlement, and one-time equity charge, the earnings from operations were \$118,188 or 21.4% of sales in 2015 as compared to \$106,022 or 19.6% of sales in 2014. The Company is continuing to focus on leveraging its plant capabilities, driving efficiencies from core volume growth, broadening product applications of human and animal health specialty products into both the domestic and international markets, as well as capitalizing logistically on the Company's varied choline production capabilities. Earnings from operations for SensoryEffects were \$38,302, an increase of \$17,042 or 80.2% primarily due to a full year of sales from the Acquisition partially offset by increased amortization expense. Animal Nutrition & Health segment earnings from operations were \$27,851, an increase of \$4,164 or 17.6%, primarily due to a more favorable product mix and decreases in certain petrochemical raw material costs. Earnings from operations for the Specialty Products segment were \$23,995, an increase of \$2,679 or 12.6%; primarily from lower raw material costs. Industrial Products segment earnings from operations declined \$10,938 or 66.2%; primarily due to volume decreases.

### Other Expenses (Income)

Interest expense for 2015 and 2014 was \$6,593 and \$5,145, respectively, and is primarily related to the loans entered into on May 7, 2014 to finance the Acquisition of SensoryEffects. Interest income was \$9 and \$64 for 2015 and 2014, respectively. The Company has invested available cash primarily in certificates of deposit and money market investments that have been classified as cash equivalents due to the short maturities of these investments. Other expense was \$309 and \$10 for 2015 and 2014, respectively and is primarily the result of unfavorable fluctuations in foreign currency exchange rates between the US Dollar (the reporting currency) and foreign functional currencies.

### Income Tax Expense

The Company's effective tax rate for 2015 and 2014 was 31.4%.

### Net Earnings

Principally as a result of the above-noted details, net earnings were \$59,722 for 2015, as compared with \$52,826 for 2014, an increase of 13.1%.



Fiscal Year 2014 compared to Fiscal Year 2013

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

### Net Sales

Net sales for 2014 were \$541,383 as compared with \$337,173 for 2013, an increase of \$204,210 or 60.6%. Net sales for the SensoryEffects segment were \$206,101, compared with \$47,569, for the year ended December 31, 2014, an increase of \$158,312 or 333.3%. Net sales from the acquired SensoryEffects business contributed \$156,192 to the overall increase. The acquired Powder & Flavor Systems and Cereal Systems product lines comprised \$132,971 and \$17,499 of the increase, respectively. Also contributing to the higher sales was a \$2,400 or 9.5% increase in encapsulated ingredients used for baking and food preservation; due to a favorable product mix and greater volume. Net sales for the Animal Nutrition & Health segment were \$176,477 for 2014 compared with \$155,723 for the prior year, an increase of \$20,754 or 13.3%. Sales of products targeted for ruminant animal feed markets realized sales growth of 33.2% or \$12,898 from the prior period. The improvement was primarily due to higher sales volumes of Aminoshure, Nitroshure and ReaShure products due to strong dairy economics, which increased demand for our products. Global feed grade choline product sales increased \$6,689 or 6.1% primarily due to increased volumes of choline products sourced from our Italian operation and sold into the European and other international markets. Specialty Products segment sales were \$54,053 for 2014, as compared with \$51,086 for 2013, an increase of \$2,967 or 5.8%. Increased sales of ethylene oxide products used for medical device sterilization were partially offset by lower sales volumes of propylene oxide products used for industrial applications. The Company experienced Industrial segment sales growth of \$21,961 or 26.5% over the prior year predominately due to volume increases of various choline and choline derivatives used in North America industrial applications, most notably for shale fracking.

### Gross Margin

Gross margin for 2014 increased to \$144,172 compared to \$97,241 for 2013, an increase of \$46,931 or 48.2% and was principally a result of higher sales volumes. Gross margin as a percentage of sales for 2014 decreased to 26.6% from 28.9% in the prior year comparative period. Gross margins for the SensoryEffects segment declined 10.8% in 2014 as compared to 2013. The acquired product lines within the SensoryEffects segment carry a lower gross margin and the valuation of acquired inventory to fair value increased cost of sales by \$4,735. Gross margin percentage for the Animal Nutrition and Health segment increased 2.5% compared to 2013, due to a heavier weighting of products for ruminant animal feed markets which tend to have higher margins. Gross margin percentage for the Specialty Products segment was flat. Gross margins for the Industrial Products segment declined 4.6% primarily due to increases in certain petrochemical raw material costs.

### Operating Expenses

Operating expenses for 2014 were \$62,029 or 11.5% of net sales as compared to \$31,819 or 9.4% of net sales for 2013. The increase was primarily due to the Acquisition, including increased amortization expense of \$15,072 related to the acquired intangible assets, and transaction and integration expenses of \$3,652. Partially offsetting the increased expenses was a \$2.9 million favorable net legal settlement. During 2014 and 2013, the Company spent \$4,810 and \$3,622 respectively, on research and development programs, most of which pertained to the Company's SensoryEffects and Animal Nutrition & Health segments.

### Earnings From Operations

Principally as a result of the above-noted details, earnings from operations for 2014 were \$82,143 as compared to \$65,602 for 2013, an increase of \$16,541 or 25.2%. Earnings from operations as a percentage of sales ("operating margin") for 2014 was 15.2% declining from 19.5% in 2013 primarily due to the aforementioned amortization expense associated with acquired intangible assets, the impact of the valuation of the acquired inventory, transaction and integration expenses and product mix; partially offset by the legal



settlement. Excluding the impact of amortization expenses, valuation of the acquired inventory, transaction and integration expenses, and legal settlement, the earnings from operations were \$106,022 or 19.6% of sales. The Company is continuing to focus on leveraging its plant capabilities, driving efficiencies from core volume growth, broadening product applications of human and animal health specialty products into both the domestic and international markets, as well as capitalizing logistically on the Company's varied choline production capabilities. Earnings from operations for SensoryEffects were \$21,260, an increase of \$10,027 or 89.3% primarily due to increased sales from the Acquisition partially offset by increased amortization expense and the impact of the valuation of acquired inventory. Earnings from operations for Animal Nutrition & Health increased by \$5,443 or 29.8% to \$23,687, principally due to the aforementioned higher sales. Earnings from operations for the Specialty Products segment were \$21,316, an increase of \$1,092 or 5.4%. Industrial Products segment earnings from operations increased \$631 or 4.0%; primarily due to volume increases, partially offset by reduced gross margins.

#### Other Expenses (Income)

Interest expense for 2014 was \$5,145 and is primarily related to the loans entered into on May 7, 2014 to finance the Acquisition of SensoryEffects. Interest income was \$64 and \$277 for 2014 and 2013, respectively. The Company has invested available cash primarily in certificates of deposit and money market investments that have been classified as cash equivalents due to the short maturities of these investments. Other expense was \$10 and \$37 for 2014 and 2013, respectively and is primarily the result of unfavorable fluctuations in foreign currency exchange rates between the US Dollar (the reporting currency) and foreign functional currencies.

#### Income Tax Expense

The Company's effective tax rate for 2014 and 2013 was 31.4% and 31.8%, respectively. The decrease in the effective tax rate is primarily attributable to certain tax credits and a purchase price reduction related to the SensoryEffects acquisition.

#### Net Earnings

Principally as a result of the above-noted details, net earnings were \$52,826 for 2014, as compared with \$44,874 for 2013, an increase of 17.7%.

### LIQUIDITY AND CAPITAL RESOURCES

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

#### Contractual Obligations

The Company's contractual obligations as of December 31, 2015, are summarized in the table below:

| Contractual Obligations         | Total     | Payments due by period |           |           |                   |
|---------------------------------|-----------|------------------------|-----------|-----------|-------------------|
|                                 |           | Less than 1 year       | 1-3 years | 3-5 years | More than 5 years |
| Operating lease obligations (1) | \$10,429  | \$2,279                | \$3,329   | \$1,913   | \$2,908           |
| Purchase obligations (2)        | 22,720    | 22,720                 | -         | -         | -                 |
| Debt (3)                        | 297,500   | 35,000                 | 70,000    | 192,500   | -                 |
| Total                           | \$330,649 | \$59,999               | \$73,329  | \$194,413 | \$2,908           |

(1) Principally includes obligations associated with future minimum non-cancelable operating lease obligations.



(2) Principally includes open purchase orders with vendors for inventory not yet received or recorded on our balance sheet.

(3) Consists of \$297,500 senior secured term loan.

The table above excludes a \$6,570 liability for uncertain tax positions, including the related interest and penalties, recorded in accordance with ASC 740-10, as we are unable to reasonably estimate the timing of settlement, if any.

The Company knows of no current or pending demands on, or commitments for, its liquid assets that will materially affect its liquidity.

The Company expects its operations to continue generating sufficient cash flow to fund working capital requirements and necessary capital investments. The Company is actively pursuing additional acquisition candidates. The Company could seek additional bank loans or access to financial markets to fund such acquisitions, its operations, working capital, necessary capital investments or other cash requirements should it deem it necessary to do so.

### Cash

Cash and cash equivalents increased to \$84,795 at December 31, 2015 from \$50,287 at December 31, 2014 primarily resulting from the activity detailed below. At December 31, 2015, the Company had \$14,315 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 as needed and potentially invest in additional 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 operations in the U.S., we could be required to pay additional U.S. taxes to repatriate these funds. Working capital amounted to \$117,709 at December 31, 2015 as compared to \$85,780 at December 31, 2014, an increase of \$31,929.

### Operating Activities

Cash flows from operating activities provided \$103,826 for 2015 compared to \$85,350 for 2014. The increase in cash flows from operating activities was primarily due to higher amortization and depreciation adjustments, stock compensation expense, and net earnings. This was partially offset by unfavorable changes in working capital and deferred income taxes.

### Investing Activities

As previously noted, on May 7, 2014, the Company acquired SensoryEffects for a purchase price of approximately \$494,000, including working capital. The Company continues to invest in projects across all production facilities and capital expenditures were \$41,300 and \$13,199 for the year ended December 31, 2015 and 2014, respectively. In 2015 and 2014, larger capital expenditures of \$11,464 and \$4,833 were related to expanding of the Company's Animal Nutrition & Health capacity in the manufacturing facility located in Verona, Missouri. Additionally, the Company invested approximately \$10,425 in agglomeration production equipment during 2015.

### Financing Activities

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. 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 \$35,000 and \$67,500 related to these loans during 2015 and 2014, respectively,





and had \$100,000 available under the revolving loan as of December 31, 2015. Additionally, on May 7, 2014, the Company made a payment of \$75,550 to SensoryEffects' lenders to pay off all SensoryEffects bank debt.

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 2,125,923 shares have been purchased, 1,089 shares which remained in treasury at December 31, 2015. During the year ended December 31, 2015, a total of 20,692 shares have been purchased at an average cost of \$58.24 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.

Proceeds from stock options exercised and restricted shares purchased totaled \$12,605, \$9,106 and \$9,082 for 2015, 2014 and 2013, respectively. Dividend payments were \$9,251, \$7,856 and \$-0- for 2015, 2014 and 2013, respectively. \$6,466, or \$0.22 per share, of the 2012 dividend payments represents an accelerated dividend in 2012 that would normally have been paid in the first quarter of 2013, but was accelerated due to the anticipated increase in the federal tax on dividends paid after December 31, 2012.

#### Other Matters Impacting Liquidity

As previously noted, on February 1, 2016, the Company acquired 100 percent of the outstanding common shares of Albion International, Inc. (Albion). The Company made payments of approximately \$116.4 million on the acquisition date, of which \$65 million was funded from the revolving line of credit and remaining was funded from the Company's existing cash balances.

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 amount recorded on the Company's balance sheet as of December 31, 2015 for this obligation is \$958. The postretirement plan is not funded. Historical cash payments made under such plan have typically been less than \$100 per year.

#### Critical Accounting Policies

Management of the Company is required to make certain estimates and assumptions during the preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. These estimates and assumptions impact the reported amount of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the consolidated financial statements. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the consolidated financial statements in the period they are determined to be necessary. Actual results could differ from those estimates.

The Company's "critical accounting policies" are those that require application of management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and that may change in subsequent periods. Management considers the following accounting policies to be critical.

#### Revenue Recognition

Revenue for each of our business segments is recognized upon product shipment, passage of title and risk of loss, and when collection is reasonably assured. The Company reports amounts billed to customers related to shipping and handling as revenue and includes costs incurred for shipping and handling in cost of sales. Amounts received for unshipped merchandise are not recognized as revenue but rather they are recorded as customer deposits and are included in current liabilities. In instances of shipments made on consignment, revenue is deferred until a customer indicates to the Company that it has used the Company's products. The Company does not charge its customers rental fees on cylinders or drums used to ship its products.



### Inventories

Inventories are valued at the lower of cost (first in, first out or average) or market value and have been reduced by an allowance for excess or obsolete inventories. The write-down of potentially obsolete or slow-moving inventory is recorded based on management's assumptions about future demand and market conditions.

### Long-lived assets

Long-lived assets, such as property, plant, and equipment and intangible assets with finite lives, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset, which is generally based on discounted cash flows. For the year ended December 31, 2015, there were no triggering events which required asset impairment reviews.

Goodwill represents the excess of costs over fair value of assets of businesses acquired. ASC 350, "Intangibles-Goodwill and Other," requires the use of the acquisition method of accounting for a business combination and defines an intangible asset. Goodwill and intangible assets acquired in a business combination and determined to have an indefinite useful life are not amortized, but are instead assessed for impairment annually and more frequently if events and circumstances indicate that the asset might be impaired, in accordance with the provisions of ASC 350. The Company performed its annual test as of October 1. ASC 350 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment if events and circumstances indicate that the asset might be impaired.

In accordance with ASU No. 2011-08, "Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment" ("ASU 2011-08"), the Company first assesses qualitative factors to determine whether it is "more likely than not" (i.e. a likelihood of more than 50%) that the fair values of our reporting units are less than their respective carrying amounts, including goodwill, as a basis for determining whether it is necessary to perform the two step goodwill impairment test. If determined to be necessary, the two step impairment test shall be used to identify potential goodwill impairment and measure the amount of a goodwill impairment loss to be recognized (if any). The Company has an unconditional option to bypass the qualitative assessment and proceed directly to performing the first step of the goodwill impairment test.

As of October 1, 2015, 2014 and 2013, the Company opted to bypass the qualitative assessment and proceeded directly to performing the first step of the goodwill impairment test. We assessed the fair values of our reporting units by utilizing the income approach, based on a discounted cash flow valuation model as the basis for our conclusions, as well as the market approach and cost approach. Our estimates of future cash flows included significant management assumptions such as revenue growth rates, operating margins, discount rates, estimated terminal values and future economic and market conditions. Our assessment concluded that the fair values of the reporting units exceeded their carrying amounts, including goodwill. Accordingly, the goodwill of the reporting units was not considered impaired. The Company may resume performing the qualitative assessment in subsequent periods.

### Accounts Receivable

We market our products to a diverse customer base, principally throughout the United States, Europe, and Asia. We grant credit terms in the normal course of business to our customers. We perform on-going credit evaluations of our customers and adjust credit limits based upon payment history and the customer's current credit worthiness, as determined through review of their current credit information. We continuously monitor collections and payments from customers and maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. Estimated losses are based on



historical experience and any specific customer collection issues identified. If the financial condition of our customers were to deteriorate resulting in an impairment of their ability to make payments, additional allowances and related bad debt expense may be required.

#### Post-employment Benefits

The Company provides life insurance and health care benefits for certain eligible retirees and health care benefits for certain retirees' eligible survivors. The costs and obligations related to these benefits reflect the Company's assumptions as to general economic conditions and health care cost trends. The cost of providing plan benefits also depends on demographic assumptions including retirements, mortality, turnover, and plan participation. If actual experience differs from these assumptions, the cost of providing these benefits could increase or decrease.

In accordance with ASC 715, "Compensation—Retirement Benefits," the Company is required to recognize the over funded or underfunded status of a defined benefit post retirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position, and to recognize changes in that funded status in the year in which the changes occur through comprehensive income.

#### Intangible Assets with Finite Lives

The useful life of an intangible asset is based on the Company's assumptions regarding expected use of the asset; the relationship of the intangible asset to another asset or group of assets; any legal, regulatory or contractual provisions that may limit the useful life of the asset or that enable renewal or extension of the asset's legal or contractual life without substantial cost; the effects of obsolescence, demand, competition and other economic factors; and the level of maintenance expenditures required to obtain the expected future cash flows from the asset and their related impact on the asset's useful life. If events or circumstances indicate that the life of an intangible asset has changed, it could result in higher future amortization charges or recognition of an impairment loss.

#### Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date. The Company regularly reviews its deferred tax assets for recoverability and would establish a valuation allowance if it believed that such assets may not be recovered, taking into consideration historical operating results, expectations of future earnings, changes in its operations and the expected timing of the reversals of existing temporary differences.

We account for uncertainty in income taxes utilizing ASC 740-10. ASC 740-10 clarifies whether or not to recognize assets or liabilities for tax positions taken that may be challenged by a tax authority. It prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, and disclosures. The application of ASC 740-10 requires judgment related to the uncertainty in income taxes and could impact our effective tax rate.

#### Stock-based Compensation

We account for stock-based compensation in accordance with the provisions of ASC 718, "Compensation-Stock Compensation." Under the fair value recognition provisions of this statement, share-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense



over the vesting period. Determining the fair value of share-based awards at the grant date requires judgment, including estimating our stock price volatility, employee stock option exercise behaviors and employee option forfeiture rates. Expected volatilities are based on historical volatility of the Company's stock. The expected term of the options is based on the Company's historical experience of employees' exercise behavior. As stock-based compensation expense recognized in the Consolidated Statements of Earnings is based on awards ultimately expected to vest, the amount of expense has been reduced for estimated forfeitures. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on historical experience. If factors change and we employ different assumptions in the application of ASC 718, the compensation expense that we record in future periods may differ significantly from what we have recorded in the current period. See Note 3 in Notes to Consolidated Financial Statements for additional information.

#### New Accounting Pronouncements

See Note 1 in Notes to Consolidated Financial Statements regarding recent accounting pronouncements.

#### Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Cash and cash equivalents are held primarily in 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 December 31, 2015, the Company had borrowings of \$297,500. 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 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders  
Balchem Corporation

We have audited the accompanying consolidated balance sheets of Balchem Corporation and Subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of earnings, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2015, and the financial statement schedule of Balchem Corporation listed in the Index at Item 8. We also have audited Balchem Corporation's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Balchem Corporation's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and schedules, and an opinion on the Company's internal control over financial reporting based on our 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 (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (b) 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 (c) 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Balchem Corporation and Subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America, and, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth



therein. Also in our opinion, Balchem Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

/s/ RSM US LLP  
New York, New York  
February 29, 2016

## BALCHEM CORPORATION

## Consolidated Balance Sheets

December 31, 2015 and 2014

(Dollars in thousands, except share and per share data)

|  | 2015      | 2014      |
|--|-----------|-----------|
| Current assets:  |           |           |
| Cash and cash equivalents  | \$84,795  | \$50,287  |
| Accounts receivable, net of allowance for doubtful accounts of \$235 and \$288 at December 31, 2015 and 2014, respectively   | 60,485    | 71,982    |
| Inventories  | 46,085    | 49,623    |
| Prepaid expenses   | 3,208     | 4,545     |
| Deferred income taxes  | 810       | 1,390     |
| Other current assets   | 3,446     | 3,475     |
| Total current assets   | 198,829   | 181,302   |
| Property, plant and equipment, net   | 158,515   | 131,588   |
| Goodwill   | 383,906   | 383,906   |
| Intangible assets with finite lives, net   | 134,911   | 160,394   |
| Other assets   | 5,062     | 4,341     |
| Total assets   | \$881,223 | \$861,531 |
| <br><u>Liabilities and Stockholders' Equity</u>  |           |           |
| Current liabilities:   |           |           |
| Trade accounts payable   | \$14,708  | \$24,352  |
| Accrued expenses   | 12,829    | 15,614    |
| Accrued compensation and other benefits  | 5,128     | 9,137     |
| Dividends payable  | 10,727    | 9,251     |
| Income taxes payable   | 2,728     | 2,168     |
| Current portion of long-term debt  | 35,000    | 35,000    |
| Total current liabilities  | 81,120    | 95,522    |
| Long-term debt   | 262,500   | 297,500   |
| Deferred income taxes  | 67,215    | 70,661    |
| Other long-term obligations  | 6,683     | 5,950     |
| Total liabilities  | 417,518   | 469,633   |
| Commitments and contingencies (note 11)  |           |           |
| Stockholders' equity:  |           |           |
| Preferred stock, \$25 par value. Authorized 2,000,000 shares; none issued and outstanding  | -         | -         |
| Common stock, \$.0667 par value. Authorized 120,000,000 shares; 31,528,449 shares issued and 31,527,360 outstanding at December 31, 2015 and 30,845,586 shares issued and outstanding at December 31, 2014 | 2,102     | 2,058     |
| Additional paid-in capital   | 122,594   | 97,289    |
| Retained earnings  | 344,197   | 295,202   |
| Accumulated other comprehensive (loss)/income  | (5,114 )  | (2,651 )  |
| Treasury stock, at cost: 1,089 and 0 shares at December 31, 2015 and 2014, respectively  | (74 )     | -         |

|  |           |           |
|--|-----------|-----------|
| Total stockholders' equity                 | 463,705   | 391,898   |
| Total liabilities and stockholders' equity | \$881,223 | \$861,531 |

See accompanying notes to consolidated financial statements.

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BALCHEM CORPORATION  
 Consolidated Statements of Earnings  
 Years Ended December 31, 2015, 2014 and 2013  
 (In thousands, except per share data)

|                                       | 2015      | 2014      | 2013      |
|---------------------------------------|-----------|-----------|-----------|
| Net sales                             | \$552,492 | \$541,383 | \$337,173 |
| Cost of sales                         | 384,395   | 397,211   | 239,752   |
| Gross margin                          | 168,097   | 144,172   | 97,421    |
| Operating expenses:                   |           |           |           |
| Selling expenses                      | 46,255    | 35,758    | 15,920    |
| Research and development expenses     | 5,990     | 4,810     | 3,622     |
| General and administrative expenses   | 21,896    | 21,461    | 12,277    |
|                                       | 74,141    | 62,029    | 31,819    |
| Earnings from operations              | 93,956    | 82,143    | 65,602    |
| Other expenses (income):              |           |           |           |
| Interest income                       | (9 )      | (64 )     | (277 )    |
| Interest expense                      | 6,593     | 5,145     | 24        |
| Other, net                            | 309       | 10        | 37        |
| Earnings before income tax expense    | 87,063    | 77,052    | 65,818    |
| Income tax expense                    | 27,341    | 24,226    | 20,944    |
| Net earnings                          | \$59,722  | \$52,826  | \$44,874  |
| Basic net earnings per common share   | \$1.92    | \$1.74    | \$1.51    |
| Diluted net earnings per common share | \$1.89    | \$1.69    | \$1.45    |

See accompanying notes to consolidated financial statements.

BALCHEM CORPORATION  
 Consolidated Statements of Comprehensive Income  
 Years Ended December 31, 2015, 2014 and 2013  
 (In thousands)

|  | 2015     | 2014     | 2013     |
|--|----------|----------|----------|
| Net earnings   | \$59,722 | \$52,826 | \$44,874 |
| Other comprehensive (loss)/income, net of tax:   |          |          |          |
| Net foreign currency translation adjustment  | (2,615 ) | (2,972 ) | 856      |
| Net change in postretirement benefit plan, net of taxes of \$72, \$56, and \$60 at December 31, 2015, 2014, and 2013, respectively | 152      | 123      | 101      |
| Other comprehensive (loss)/income  | (2,463 ) | (2,849 ) | 957      |
| Comprehensive income   | \$57,259 | \$49,977 | \$45,831 |

See accompanying notes to consolidated financial statements.



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BALCHEM CORPORATION

Consolidated Statements of Stockholders' Equity

Years Ended December 31, 2015, 2014 and 2013

(Dollars in thousands, except share and per share data)

|  | Total                |                   | Accumulated                       | Common Stock |          | Treasury Stock |         | Additional      |
|--|----------------------|-------------------|-----------------------------------|--------------|----------|----------------|---------|-----------------|
|  | Stockholders' Equity | Retained Earnings | Other Comprehensive Income (Loss) | Shares       | Amount   | Shares         | Amount  | Paid-in Capital |
| Balance - December 31, 2012  | \$ 273,012           | \$ 214,609        | \$ (759 )                         | 29,454,171   | \$ 1,964 | -              | \$-     | \$ 57,198       |
| Net earnings   | 44,874               | 44,874            | -                                 | -            | -        | -              | -       | -               |
| Other comprehensive income   | 957                  | -                 | 957                               | -            | -        | -              | -       | -               |
| Dividends (\$.26 per share)  | (7,856 )             | (7,856 )          | -                                 | -            | -        | -              | -       | -               |
| Treasury shares purchased  | (1,925 )             | -                 | -                                 | -            | -        | (33,566)       | (1,925) | -               |
| Shares and options issued under stock plans and an income tax benefit of \$9,397 | 22,296               | -                 | -                                 | 771,592      | 52       | 33,566         | 1,925   | 20,319          |
| Balance - December 31, 2013  | 331,358              | 251,627           | 198                               | 30,225,763   | 2,016    | -              | -       | 77,517          |
| Net earnings   | 52,826               | 52,826            | -                                 | -            | -        | -              | -       | -               |
| Other comprehensive loss   | (2,849 )             | -                 | (2,849 )                          | -            | -        | -              | -       | -               |
| Dividends (\$.30 per share)  | (9,251 )             | (9,251 )          | -                                 | -            | -        | -              | -       | -               |
| Treasury shares purchased  | (1,068 )             | -                 | -                                 | -            | -        | (17,497)       | (1,068) | -               |
| Shares and options issued under stock plans and an income tax benefit of \$7,220 | 20,882               | -                 | -                                 | 619,823      | 42       | 17,497         | 1,068   | 19,772          |
| Balance - December 31, 2014  | 391,898              | 295,202           | (2,651 )                          | 30,845,586   | 2,058    | -              | -       | 97,289          |
| Net earnings   | 59,722               | 59,722            | -                                 | -            | -        | -              | -       | -               |
| Other comprehensive loss   | (2,463 )             | -                 | (2,463 )                          | -            | -        | -              | -       | -               |
| Dividends (\$.34 per share)  | (10,727 )            | (10,727 )         | -                                 | -            | -        | -              | -       | -               |

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|  |            |            |             |            |          |          |         |            |
|--|------------|------------|-------------|------------|----------|----------|---------|------------|
| Treasury shares purchased  | (1,205 )   | -          | -           | -          | -        | (20,692) | (1,205) | -          |
| Shares and options issued under stock plans and an income tax benefit of \$7,009 | 26,480     | -          | -           | 682,863    | 44       | 19,603   | 1,131   | 25,305     |
| Balance - December 31, 2015  | \$ 463,705 | \$ 344,197 | \$ (5,114 ) | 31,528,449 | \$ 2,102 | (1,089 ) | \$(74 ) | \$ 122,594 |

See accompanying notes to consolidated financial statements.

BALCHEM CORPORATION  
 Consolidated Statements of Cash Flows  
 Years Ended December 31, 2015, 2014 and 2013  
 (In thousands)

|   | 2015      | 2014      | 2013     |
|---|-----------|-----------|----------|
| Cash flows from operating activities:   |           |           |          |
| Net earnings  | \$59,722  | \$52,826  | \$44,874 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |           |           |          |
| Depreciation and amortization   | 39,964    | 30,524    | 10,474   |
| Stock compensation expense  | 6,829     | 4,557     | 3,817    |
| Deferred income taxes   | (2,857 )  | (11,259 ) | (315 )   |
| Provision for doubtful accounts   | (53 )     | 238       | -        |
| Foreign currency transaction loss   | 25        | 105       | 92       |
| Loss on disposal of assets  | 301       | 150       | -        |
| Changes in assets and liabilities, net of acquired balances                         |           |           |          |
| Accounts receivable   | 10,809    | (8,395 )  | 2,958    |
| Inventories   | 3,126     | 6,698     | (3,942 ) |
| Prepaid expenses and other current assets   | 1,233     | (848 )    | 495      |
| Accounts payable and accrued expenses   | (15,718 ) | 7,747     | (2,770 ) |
| Income taxes  | 633       | 3,370     | (620 )   |
| Other   | (188 )    | (363 )    | 629      |
| Net cash provided by operating activities   | 103,826   | 85,350    | 55,692   |
| Cash flows from investing activities:   |           |           |          |
| Capital expenditures  | (41,300 ) | (13,199 ) | (8,187 ) |
| Cash paid for acquisition, net of cash acquired                                     | -         | (491,057) | -        |
| Proceeds from sale of property, plant and equipment                                 | 34        | 1         | 40       |
| Intangible assets acquired  | (1,011 )  | (169 )    | (230 )   |
| Net cash used in investing activities   | (42,277 ) | (504,424) | (8,377 ) |
| Cash flows from financing activities:   |           |           |          |
| Proceeds from long-term debt  | -         | 350,000   | -        |
| Principal payments on long-term debt  | (35,000 ) | (17,500 ) | -        |
| Proceeds from revolving loan  | -         | 50,000    | -        |
| Principal payments on revolving loan  | -         | (50,000 ) | -        |
| Principal payment on acquired debt  | -         | (75,550 ) | -        |
| Cash paid for financing costs   | -         | (2,593 )  | -        |
| Repayments of short-term obligations  | -         | (89 )     | (89 )    |
| Proceeds from stock options exercised   | 12,605    | 9,106     | 9,082    |
| Excess tax benefits from stock compensation   | 7,009     | 7,220     | 9,397    |
| Dividends paid  | (9,251 )  | (7,856 )  | -        |
| Purchase of treasury stock  | (1,205 )  | (1,068 )  | (1,925 ) |
| Net cash provided by (used in) financing activities                                 | (25,842 ) | 261,670   | 16,465   |
| Effect of exchange rate changes on cash   | (1,199 )  | (1,056 )  | 230      |
| Increase/(Decrease) in cash and cash equivalents                                    | 34,508    | (158,460) | 64,010   |

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|   |          |          |           |
|---|----------|----------|-----------|
| Cash and cash equivalents beginning of period | 50,287   | 208,747  | 144,737   |
| Cash and cash equivalents end of period       | \$84,795 | \$50,287 | \$208,747 |

Supplemental Cash Flow Information - see Note 15

See accompanying notes to consolidated financial statements.

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BALCHEM CORPORATION

Notes to Consolidated Financial Statements

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

NOTE 1 - BUSINESS DESCRIPTION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business Description

Balchem Corporation (including, unless the context otherwise requires, its wholly-owned subsidiaries, SensoryEffects, Inc., SensoryEffects Cereal Systems, Inc., BCP Ingredients, Inc., Aberco, Inc., Balchem BV, Balchem Italia Srl, and Balchem LTD (“Balchem” or the “Company”)), incorporated in the State of Maryland in 1967, is engaged in the development, manufacture and marketing of specialty performance ingredients and products for the food, nutritional, feed, pharmaceutical and medical sterilization industries.

Principles of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

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 14 – Segment Information. We have retrospectively revised certain prior period amounts to conform to the way we internally managed and monitored segment performance during the current fiscal year. This change impacted Note 6 – Intangible Assets and Note 14 – 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.

Revenue Recognition

Revenue for each of our business segments is recognized upon product shipment, passage of title and risk of loss, and when collection is reasonably assured. The Company reports amounts billed to customers related to shipping and handling as revenue and includes costs incurred for shipping and handling in cost of sales. Amounts received for unshipped merchandise are not recognized as revenue but rather they are recorded as customer deposits and are included in current liabilities. In instances of shipments made on consignment, revenue is deferred until a customer indicates to the Company that it has used the Company’s products. The Company does not charge its customers rental fees on cylinders or drums used to ship its products.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less to be cash equivalents. The Company has funds in its cash accounts that are with third party financial institutions, primarily in certificates of deposit and money market funds. The Company’s U.S. and Italy cash balances at these financial institutions exceed the Federal Deposit Insurance Corporation (“FDIC”) and Fondo Interbancario di Tutela dei Depositi (“FITD”) insurance limits.



### Accounts Receivable

Credit terms are granted in the normal course of business to our customers. On-going credit evaluations are performed on our customers and credit limits are adjusted based upon payment history and the customer's current credit worthiness, as determined through review of their current credit information. Collections and payments from customers are continuously monitored and allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments are maintained. Estimated losses are based on historical experience and any specific customer collection issues identified.

### Inventories

Inventories are valued at the lower of cost (first in, first out or average) or market value and have been reduced by an allowance for excess or obsolete inventories. Cost elements include material, labor and manufacturing overhead.

### Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost. Depreciation of plant and equipment is calculated using the straight-line method over the estimated useful lives of the assets as follows:

Buildings 15-25 years

Equipment 2-28 years

Expenditures for repairs and maintenance are charged to expense. Alterations and major overhauls that extend the lives or increase the capacity of plant assets are capitalized. When assets are retired or otherwise disposed of, the cost of the assets and the related accumulated depreciation are removed from the accounts and any resultant gain or loss is included in earnings.

### Business Concentrations

Financial instruments that subject the Company to credit risk consist primarily of accounts receivable, certificates of deposit and money market investments. Investments are managed within established guidelines to mitigate risks. Accounts receivable subject the Company to credit risk partially due to the concentration of amounts due from customers. The Company extends credit to its customers based upon an evaluation of the customers' financial condition and credit histories. The majority of the Company's customers are major national or international corporations. In 2015, 2014 and 2013, no customer accounted for more than 10% of total net sales.

### Goodwill and Acquired Intangible Assets

Goodwill represents the excess of costs over fair value of assets of businesses acquired. ASC 350, "Intangibles-Goodwill and Other," requires the use of the acquisition method of accounting for a business combination and defines an intangible asset. Goodwill and intangible assets acquired in a business combination and determined to have an indefinite useful life are not amortized, but are instead assessed for impairment annually and more frequently if events and circumstances indicate that the asset might be impaired, in accordance with the provisions of ASC 350. The Company performs its annual test as of October 1. ASC 350 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment if events and circumstances indicate that the asset might be impaired.

In accordance with ASU No. 2011-08, "Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment" ("ASU 2011-08") the Company first assesses qualitative factors to determine whether it is "more likely than not" (i.e. a likelihood of more than 50%) that the fair values of our reporting units are less than their respective carrying amounts, including goodwill, as a basis for determining whether it is necessary to perform the two step goodwill impairment

test. If determined to be necessary, the two step impairment test shall be used to identify potential goodwill impairment and measure the amount of a goodwill impairment

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loss to be recognized (if any). The Company has an unconditional option to bypass the qualitative assessment and proceed directly to performing the first step of the goodwill impairment test.

As of October 1, 2015 and 2014, the Company opted to bypass the qualitative assessment and proceeded directly to performing the first step of the goodwill impairment test. We assessed the fair values of our reporting units by utilizing the income approach, based on a discounted cash flow valuation model as the basis for our conclusions, as well as market approaches for certain reporting units. Our estimates of future cash flows included significant management assumptions such as revenue growth rates, operating margins, discount rates, estimated terminal values and future economic and market conditions. Our assessment concluded that the fair values of the reporting units exceeded their carrying amounts, including goodwill. Accordingly, the goodwill of the reporting units is not considered impaired. The Company may resume performing the qualitative assessment in subsequent periods.

The Company had goodwill in the amount of \$383,906 at December 31, 2015 and 2014, subject to the provisions of ASC 350. Goodwill is allocated to the Company's reportable segments as follows:

|                             | 2015      | 2014      |
|-----------------------------|-----------|-----------|
| Sensory Effects             | \$363,784 | \$363,784 |
| 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 |

The following intangible assets with finite lives are stated at cost and are amortized either on an accelerated basis or on a straight-line basis over the following estimated useful lives:

|                                  | Amortization<br>Period<br>(in years) |
|----------------------------------|--------------------------------------|
| Customer relationships and lists | 10                                   |
| Trademarks & trade names         | 17                                   |
| Developed technology             | 5                                    |
| Regulatory registration costs    | 5 - 10                               |
| Patents & trade secrets          | 15 - 17                              |
| Other                            | 5 - 10                               |

For the year ended December 31, 2015, there were no triggering events which required intangible asset impairment reviews.

### Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

### Use of Estimates

Management of the Company is required to make certain estimates and assumptions during the preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of

America. These estimates and assumptions impact the reported amount of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the consolidated financial statements and revenues and expenses during the reporting period. Estimates and assumptions are reviewed

periodically and the effects of revisions are reflected in the consolidated financial statements in the period they are determined to be necessary. Actual results could differ from those estimates.

#### 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 December 31, 2015 and 2014 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying 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 includes cash equivalents, accounts receivable, accounts payable and accrued liabilities, and are carried at cost which approximates fair value due to the short-term maturity of these instruments.

#### Cost of Sales

Cost of sales are primarily comprised of raw materials and supplies consumed in the manufacture of product, as well as manufacturing labor, maintenance labor, depreciation expense, and direct overhead expense necessary to convert purchased materials and supplies into finished product. Cost of sales also includes inbound freight costs, outbound freight costs for shipping products to customers, warehousing costs, quality control and obsolescence expense.

#### Selling, General and Administrative Expenses

Selling expenses consist primarily of compensation and benefit costs, amortization of customer relationships and lists, trade promotions, advertising, commissions and other marketing costs. General and administrative expenses consist primarily of payroll and benefit costs, occupancy and operating costs of corporate offices, depreciation and amortization expense on non-manufacturing assets, information systems costs and other miscellaneous administrative costs. In 2014, general and administrative expenses were reduced by a \$2.9 million net legal settlement.

#### Research and Development

Research and development costs are expensed as incurred.

#### Net Earnings Per Common Share

Basic net earnings per common share is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net earnings per common share is calculated in a manner consistent with basic net earnings per common share except that the weighted average number of common shares outstanding also includes the dilutive effect of stock options outstanding, unvested restricted stock, and unvested performance shares (using the treasury stock method).

#### Stock-based Compensation

The Company has stock-based employee compensation plans, which are described more fully in Note 3. The Company accounts for stock-based compensation in accordance with ASC 718, "Compensation-Stock Compensation," which requires all share-based payments, including grants of stock options, to be recognized in the income statement as an operating expense, based on their fair values. The Company estimates the fair value of each option award on the date of grant using a Black-Scholes based option-pricing model. Estimates of and assumptions about forfeiture rates, terms, volatility, interest rates and dividend yields are used to calculate stock-based compensation. A significant

change to these estimates could materially affect the Company's operating results.

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### Impairment of Long-lived Assets

Long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset, which is generally based on discounted cash flows.

### New Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09”), which addresses revenue recognition issues and, upon its effective date, replaces almost all existing revenue recognition guidance, including industry-specific guidance, in current U.S. GAAP. This standard is effective prospectively for annual and interim periods beginning after December 15, 2017. Although, early adoption is permitted, the Company has elected not to adopt early as this ASU will not have a significant impact on the Company’s consolidated financial statements.

In April 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2015-03, “Simplifying the Presentation of Debt Issuance Cost” (“ASU 2015-03”), which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. This standard is effective prospectively for annual and interim periods beginning after December 15, 2015. Although, early adoption is permitted, the Company has elected not to adopt early as this ASU will not have a significant impact on the Company’s consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, “Simplifying the Measurement of Inventory” (“ASU 2015-11”), which requires inventory to be measured at the lower of cost and new realizable value. This standard is effective prospectively for annual and interim periods beginning after December 15, 2016. Although, early adoption is permitted, the Company has elected not to adopt early as this ASU will not have a significant impact on the Company’s consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16, “Simplifying the Accounting for Measurement-Period Adjustments” (“ASU 2015-16”), to simplify the accounting for adjustments made to provisional amounts recognized in a business combination. The ASU requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. This standard is effective prospectively for annual and interim periods beginning after December 15, 2015. Although, early adoption is permitted, the Company has elected not to adopt early as this ASU will not have a significant impact on the Company’s consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, “Balance Sheet Classification of Deferred Taxes” (“ASU 2015-17”), to simplify the presentation of deferred income taxes. The ASU requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. This standard is effective prospectively for annual and interim periods beginning after December 15, 2016. Although, early adoption is permitted, the Company has elected not to adopt early as this ASU will not have a significant impact on the Company’s consolidated financial statements.

### Reclassifications

Certain reclassifications have been made to the prior years’ financial statements to conform to the current year’s presentation with no impact on net earnings or stockholders’ equity.



NOTE 2 – ACQUISITIONSAcquisition of Albion International, Inc.

On February 1, 2016, the Company acquired 100 percent of the outstanding common shares of Albion International, Inc. (Albion), a privately held manufacturer of mineral amino acid chelates, specialized mineral salts and mineral complexes, headquartered in Clearfield, Utah. The Company made payments of approximately \$116.4 million on the acquisition date, amounting to approximately \$110.6 million to the former shareholders, adjustments for working capital acquired of \$4.9 million, and approximately \$0.9 million to Albion's lenders to pay off all Albion bank debt. Albion has been a world leader and innovator in the manufacture of superior organic mineral compounds for sixty years and leverages scientific expertise in the areas of human and plant nutrition. Albion's products are renowned in the supplement industry for technologically advanced, unparalleled bioavailability. The acquisition of Albion continues to expand the Company's science based human health and wellness solutions and will immediately increase our product offerings in the nutritional ingredient market. Additionally, the Company will also benefit from a broader geographic footprint and a stronger position as a technological leader in spray-drying and ingredient delivery solutions. Albion's human nutrition business will become a part of the SensoryEffects reportable segment and the plant nutrition business will become a part of the Specialty Products reportable segment.

Due to the timing of the acquisition, management has not completed its initial accounting for the acquisition. As a result, the estimated fair values of the assets acquired and liabilities assumed have not been determined; including the estimated goodwill and the related tax deductibility of the goodwill. Additionally, the unaudited pro forma combined financial information has not been completed as the initial accounting is not complete.

Transaction related costs included in general and administrative expenses for the year ending December 31, 2015 are \$324.

Acquisition of Performance Chemicals & Ingredients Company (d/b/a SensoryEffects)

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 \$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  |

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|                       |       |
|-----------------------|-------|
| Developed technology  | 3,200 |
| Other assets          | 3,955 |
| Indemnification asset | 1,650 |



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|  |           |
|--|-----------|
| 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 |

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.

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.

The Company is indemnified for tax liabilities prior to the Acquisition date. The indemnification asset balance increased by \$716 from January 1, 2015 to December 31, 2015 to \$2,638.

Transaction and integration related costs included in selling, general, and administrative expenses for the year ended December 31, 2014 were \$3,652.

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

|   | Year Ended<br>December 31, 2015 |                 | Year Ended<br>December 31, 2014 |                 |
|---|---------------------------------|-----------------|---------------------------------|-----------------|
|   | Net<br>Sales                    | Net<br>Earnings | Net<br>Sales                    | Net<br>Earnings |
| SensoryEffects actual results included in the Company's consolidated income statement | \$226,021                       | \$ 16,512       | \$ 156,192                      | \$ 6,632        |
| Supplemental pro forma combined financial information                                 | \$552,492                       | \$ 59,722       | \$ 625,400                      | \$ 61,730       |
| Basic earnings per share  |                                 | \$ 1.92         |                                 | \$ 2.03         |
| Diluted earnings per share  |                                 | \$ 1.89         |                                 | \$ 1.98         |

2014 supplemental pro forma earnings for the year ended December 31, 2014 exclude \$17,248 of acquisition-related costs incurred and \$4,735 of nonrecurring 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**

In accordance with ASC 718, all share-based payments, including grants of stock options, are recognized in the income statement as an operating expense, based on their fair values.

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.

Additionally excess tax benefits related to stock compensation are presented as a cash inflow from financing activities. The change had the effect of decreasing cash flows from operating activities and increasing cash flows from financing activities by \$7,009, \$7,220 and \$9,397 for the years ended December 31, 2015, 2014 and 2013, respectively.

The Company's results for the years ended December 31, 2015, 2014 and 2013 reflected the following compensation cost as a result of adopting ASC 718 and such compensation cost had the following effects on net earnings:

|                    | Increase/(Decrease) for the<br>Years Ended December 31, |         |         |
|--------------------|---|---------|---------|
|                    | 2015  | 2014    | 2013    |
| Cost of sales      | \$854   | \$593   | \$607   |
| Operating expenses | 5,975   | 3,964   | 3,210   |
| Net earnings       | (4,395)   | (2,926) | (2,370) |

On December 31, 2015, the Company had one share-based compensation plan, which is described below (the "1999 Stock Plan").

In June 1999, the Company adopted the Balchem Corporation 1999 Stock Plan for officers, directors, directors emeritus and employees of and consultants to the Company and its subsidiaries. The 1999 Stock Plan is administered by the Compensation Committee of the Board of Directors of the Company. Under the plan, options and rights to purchase shares of the Company's Common Stock are granted at prices established at the time of grant. Option grants generally become exercisable 20% after 1 year, 60% after 2 years and 100% after 3 years from the date of grant for employees and are fully exercisable on the date of grant for directors. Other option grants are either fully exercisable on the date of grant or become exercisable thereafter in such installments as the Committee may specify. Options granted under the 1999 Stock Plan expire ten years from the date of grant. The 1999 Stock Plan initially reserved an aggregate of 600,000 shares (unadjusted for the stock splits) of Common Stock for issuance under the Plan. In April 2003, the Board of Directors of the Company adopted and stockholders subsequently approved, the Amended and Restated 1999 Stock Plan (the "Amended Plan") which amended the 1999 Stock Plan by: (i) increasing the number of shares of Common Stock reserved for issuance under the 1999 Stock Plan by 600,000 shares (unadjusted for the stock splits), to a total of 1,200,000 shares (unadjusted for the stock splits) of Common Stock; and (ii) confirming the right of the Company to grant awards of Common Stock ("Awards") in addition to the other Stock Rights available under the 1999 Stock Plan, and providing certain language changes relating thereto. The Amended Plan was scheduled to expire in April, 2009. In April, 2008, the Board of Directors of the Company adopted and stockholders subsequently approved, the adoption of an amendment and restatement of the Amended Plan (collectively to be referred to as the "Second Amended Plan"), which provides as follows: (i) for a termination date of April 9, 2018; (ii) to authorize 6,000,000 shares reserved for future grants under the Second Amended Plan; (iii) for the making of grants of stock appreciation rights, restricted stock and performance awards; (iv) for immediate acceleration of vesting of awards issued under the plan in the event of a change in control of the Company; and (v) for compliance with the requirements of Sections 409A and 162(m) of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code" or the "Code"). The 1999 Stock Plan replaced the Company's incentive stock option plan (the "ISO Plan") and its non-qualified stock option plan (the "Non-Qualified Plan"), both of which expired on June 24, 1999. Unexercised options granted under the ISO Plan and the Non-Qualified Plan prior to such termination remained exercisable in accordance with their terms and expired ten years from the date of grant.

The shares to be issued upon exercise of the outstanding options have been approved, reserved and are adequate to cover all exercises. As of December 31, 2015, the plans had 3,793,007 shares available for future awards.

The Company has Restricted Stock Purchase Agreements (the “RSP Agreements”) with its non-employee directors and certain employees of the Company to purchase the Company’s Common Stock pursuant to the Company’s 1999 Stock Plan. Under the RSP Agreements, certain shares have been purchased, ranging from 1,000 shares to 20,250 shares, of the Company’s Common Stock at purchase prices ranging from approximately \$.02 per share to \$.07 per share. The purchased stock is subject to a repurchase option in favor of the Company and to restrictions on transfer until it vests in accordance with the provisions of the RSP Agreements. In 2011, the Company discontinued the use of RSP Agreements and replaced them with Restricted Stock Grant Agreements for the Company’s non-employee directors and certain employees. Under the Restricted Stock Grant Agreements, certain shares of the Company’s Common Stock have been granted, ranging from 500 shares to 54,000 shares, to its non-employee directors and certain employees, subject to time-based vesting requirements.

The Company also has performance share (“PS”) awards, which 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.

The fair value of each option award issued under the 1999 Stock Plan is estimated on the date of grant using a Black-Scholes based option-pricing model that uses the assumptions noted in the following table. Expected volatilities are based on historical volatility of the Company’s stock. The expected term of the options is based on the Company’s historical experience of employees’ exercise behavior. 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.

|                               | Years Ended<br>December 31, |       |       |
|-------------------------------|-----------------------------|-------|-------|
| Weighted Average Assumptions: | 2015                        | 2014  | 2013  |
| Expected Volatility           | 33.2%                       | 33.7% | 39.2% |
| Expected Term (in years)      | 5.5                         | 5.6   | 5.0   |
| Risk-Free Interest Rate       | 1.7 %                       | 1.8 % | 1.0 % |
| Dividend Yield                | 0.6 %                       | 0.5 % | 0.5 % |

The value of the restricted shares is based on the fair value of the award at the date of grant.

PS 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.

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.

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A summary of stock option plan activity for 2015, 2014, and 2013 for all plans is as follows:

|                                  | # of<br>Shares<br>(000s) | Weighted<br>Average<br>Exercise<br>Price |
|----------------------------------|--------------------------|--|
| 2015                             |                          |  |
| Outstanding at beginning of year | 1,470                    | \$ 27.35                                 |
| Granted                          | 209                      | 58.34                                    |
| Exercised                        | (627 )                   | 20.16                                    |
| Forfeited                        | (35 )                    | 52.97                                    |
| Outstanding at end of year       | 1,017                    | \$ 37.29                                 |
| Exercisable at end of year       | 667                      | \$ 29.19                                 |

|                                  | # of<br>Shares<br>(000s) | Weighted<br>Average<br>Exercise<br>Price |
|----------------------------------|--------------------------|--|
| 2014                             |                          |  |
| Outstanding at beginning of year | 1,893                    | \$ 20.94                                 |
| Granted                          | 313                      | 53.38                                    |
| Exercised                        | (610 )                   | 14.92                                    |
| Forfeited                        | (126 )                   | 56.03                                    |
| Outstanding at end of year       | 1,470                    | \$ 27.35                                 |
| Exercisable at end of year       | 1,066                    | \$ 21.52                                 |

|                                  | # of<br>Shares<br>(000s) | Weighted<br>Average<br>Exercise<br>Price |
|----------------------------------|--------------------------|--|
| 2013                             |                          |  |
| Outstanding at beginning of year | 2,543                    | \$ 16.87                                 |
| Granted                          | 177                      | 38.73                                    |
| Exercised                        | (796 )                   | 11.40                                    |
| Forfeited                        | (31 )                    | 33.90                                    |
| Outstanding at end of year       | 1,893                    | \$ 20.94                                 |
| Exercisable at end of year       | 1,516                    | \$ 17.64                                 |

The aggregate intrinsic value for outstanding stock options was \$23,927, \$57,742 and \$71,465 at December 31, 2015, 2014 and 2013, respectively, with a weighted average remaining contractual term of 5.8 years at December 31, 2015. Exercisable stock options at December 31, 2015 had an aggregate intrinsic value of \$21,100 with a weighted average remaining contractual term of 4.4 years.

Other information pertaining to option activity during the years ended December 31, 2015, 2014 and 2013 was as follows:

|   | Years Ended December 31, |          |          |
|---|--------------------------|----------|----------|
|   | 2015                     | 2014     | 2013     |
| Weighted-average fair value of options granted            | \$18.35                  | \$17.36  | \$13.07  |
| Total intrinsic value of stock options exercised (\$000s) | \$24,047                 | \$25,224 | \$28,776 |

Additional information related to stock options outstanding under all plans at December 31, 2015 is as follows:



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| Range of Exercise Prices | Shares Outstanding (000s) | Options Outstanding                         |                                 | Options Exercisable       |                                 |
|--------------------------|---------------------------|---|---------------------------------|---------------------------|---------------------------------|
|                          |                           | Weighted Average Remaining Contractual Term | Weighted Average Exercise Price | Number Exercisable (000s) | Weighted Average Exercise Price |
| \$11.87 - \$22.34        | 254                       | 2.9 years                                   | \$ 17.47                        | 254                       | \$ 17.47                        |
| 29.06 - 41.67            | 389                       | 5.6 years                                   | 33.43                           | 339                       | 32.74                           |
| 46.12 - 60.01            | 374                       | 7.9 years                                   | 54.78                           | 74                        | 53.23                           |
|                          | 1,017                     | 5.8 years                                   | \$ 37.29                        | 667                       | \$ 29.19                        |

Non-vested restricted stock activity for the years ended December 31, 2015, 2014 and 2013 is summarized below:

|  | Shares (000s) | Weighted Average Grant Date Fair Value |
|--|---------------|--|
| Non-vested balance as of December 31, 2014 | 134           | \$ 38.13                               |
| Granted                                    | 77            | 55.77                                  |
| Vested                                     | (61 )         | 37.35                                  |
| Forfeited                                  | -             | -                                      |
| Non-vested balance as of December 31, 2015 | 150           | \$ 47.46                               |

|  | Shares (000s) | Weighted Average Grant Date Fair Value |
|--|---------------|--|
| Non-vested balance as of December 31, 2013 | 172           | \$ 33.69                               |
| Granted                                    | 33            | 54.86                                  |
| Vested                                     | (65 )         | 34.19                                  |
| Forfeited                                  | (6 )          | 45.32                                  |
| Non-vested balance as of December 31, 2014 | 134           | \$ 38.13                               |

|  | Shares (000s) | Weighted Average Grant Date Fair Value |
|--|---------------|--|
| Non-vested balance as of December 31, 2012 | 258           | \$ 26.88                               |
| Granted                                    | 32            | 44.69                                  |
| Vested                                     | (94 )         | 19.31                                  |
| Forfeited                                  | (24 )         | 31.97                                  |
| Non-vested balance as of December 31, 2013 | 172           | \$ 33.69                               |

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Non-vested performance share activity for the years ended December 31, 2015, 2014 and 2013 is summarized below:

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

|  | Shares<br>(000s) | Weighted<br>Average<br>Grant<br>Date Fair<br>Value |
|--|------------------|--|
| Non-vested balance as of December 31, 2013 | -                | \$ -   |
| Granted                                    | -                | -  |
| Vested                                     | -                | -  |
| Forfeited                                  | -                | -  |
| Non-vested balance as of December 31, 2014 | -                | \$ -   |

|  | Shares<br>(000s) | Weighted<br>Average<br>Grant<br>Date Fair<br>Value |
|--|------------------|--|
| Non-vested balance as of December 31, 2012 | -                | \$ -   |
| Granted                                    | -                | -  |
| Vested                                     | -                | -  |
| Forfeited                                  | -                | -  |
| Non-vested balance as of December 31, 2013 | -                | \$ -   |

As of December 31, 2015, 2014 and 2013, there was \$7,705, \$5,981 and \$5,947, respectively, of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the plans. As of December 31, 2015, the unrecognized compensation cost is expected to be recognized over a weighted-average period of approximately 1.5 years. We estimate that share-based compensation expense for the year ended December 31, 2016 will be approximately \$4,500.

#### 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 2,125,923 shares have been purchased, of which 1,089 and -0- remained in treasury at December 31, 2015 and 2014, respectively. During 2015, a total of 20,692 shares have been purchased at an average cost of \$58.24 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 December 31, 2015 and 2014 consisted of the following:

|                   | 2015     | 2014     |
|-------------------|----------|----------|
| Raw materials     | \$16,786 | \$19,822 |
| Work in progress  | 1,807    | 1,989    |
| Finished goods    | 27,492   | 27,812   |
| Total inventories | \$46,085 | \$49,623 |

On a regular basis, the Company evaluates its inventory balances for excess quantities and obsolescence by analyzing demand, inventory on hand, sales levels and other information. Based on these evaluations, inventory balances are reduced, if necessary. The reserve for inventory was \$1,823 and \$1,682 at December 31, 2015 and 2014, respectively.

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

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

|                                    | 2015      | 2014      |
|------------------------------------|-----------|-----------|
| Land                               | \$3,247   | \$3,130   |
| Building                           | 33,051    | 31,030    |
| Equipment                          | 153,682   | 150,170   |
| Construction in progress           | 39,525    | 10,969    |
|                                    | 229,505   | 195,299   |
| Less: Accumulated depreciation     | 70,990    | 63,711    |
| Property, plant and equipment, net | \$158,515 | \$131,588 |

Depreciation expense was \$12,895, \$10,599 and \$6,498 for the years ended December 31, 2015, 2014 and 2013, respectively.

NOTE 6 - INTANGIBLE ASSETS

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

As of December 31, 2015 and 2014, the Company had identifiable intangible assets as follows:

|                                | Amortization<br>Period<br>(In years) | 2015                        |                                     | 2014                        |                                     |
|--------------------------------|--------------------------------------|-----------------------------|-------------------------------------|-----------------------------|-------------------------------------|
|                                |                                      | Gross<br>Carrying<br>Amount | 2015<br>Accumulated<br>Amortization | Gross<br>Carrying<br>Amount | 2014<br>Accumulated<br>Amortization |
| Customer relationships & lists | 10                                   | \$167,442                   | \$ 63,578                           | \$167,442                   | \$ 41,238                           |
| Trademarks & trade names       | 17                                   | 32,014                      | 5,704                               | 32,014                      | 2,540                               |
| Developed technology           | 5                                    | 3,200                       | 1,057                               | 3,200                       | 420                                 |
| Regulatory registration costs  | 5-10                                 | 2,601                       | 849                                 | 1,704                       | 667                                 |
| Patents & trade secrets        | 15-17                                | 1,742                       | 1,022                               | 1,665                       | 933                                 |
| Other                          | 5-10                                 | 759                         | 637                                 | 754                         | 587                                 |
|                                |                                      | \$207,758                   | \$ 72,847                           | \$206,779                   | \$ 46,385                           |

Amortization of identifiable intangible assets was \$26,467, \$19,468 and \$3,976 for 2015, 2014 and 2013, respectively. Assuming no change in the gross carrying value of identifiable intangible assets, the estimated amortization expense is

approximately \$24,380 in 2016, \$20,430 in 2017, \$18,175 in 2018, \$16,390 in 2019 and \$14,625 in 2020. At December 31, 2015 and 2014, there were no identifiable intangible assets with indefinite useful lives as defined by ASC 350, "Intangibles-Goodwill and Other." Identifiable intangible

assets are reflected in the Company's consolidated balance sheets under Intangible assets with finite lives, net. There were no changes to the useful lives of intangible assets subject to amortization in 2015 and 2014.

The Federal Insecticide, Fungicide and Rodenticide Act, ("FIFRA"), a health and safety statute, requires that certain products within our specialty products segment must be registered with the U.S. Environmental Protection Agency ("EPA") because they are considered pesticides. Costs of such registration are included as regulatory registration costs in the table above.

#### 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 December 31, 2015, the Company had a total of \$297,500 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 1.73% at December 31, 2015. The Company has \$100,000 of undrawn revolving loan at December 31, 2015 that is subject to a commitment fee; which is based on the Company's consolidated leverage ratio as defined in the loan agreement. As previously noted, on February 1, 2016, the Company acquired 100 percent of the outstanding common shares of Albion International, Inc. (Albion). The Company made payments of approximately \$116.4 million on the acquisition date, of which \$65 million was funded from the revolving line of credit and remaining was funded from the Company's existing cash balances. 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 December 31, 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 as of December 31, 2015:

|                                   | 2016     | 2017     | 2018     | 2019      | 2020 |
|-----------------------------------|----------|----------|----------|-----------|------|
| Current portion of long-term debt | \$35,000 | -        | -        | -         | -    |
| Long-term debt                    | -        | \$35,000 | \$35,000 | \$192,500 | -    |
| Total                             | \$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 \$1,537 at December 31, 2015, of which \$537 is included in other current assets and \$1,000 is included in other assets. Amortization expense pertaining to these costs totaled \$603 and \$457 for the years ended December 31, 2015 and 2014, respectively, and is included in interest expense in the accompanying condensed consolidated statements of earnings.

NOTE 8 - INCOME TAXES

Income tax expense consists of the following:

|                            | 2015     | 2014     | 2013     |
|----------------------------|----------|----------|----------|
| Current:                   |          |          |          |
| Federal                    | \$29,638 | \$25,937 | \$18,366 |
| Foreign                    | 3,021    | 2,141    | 1,418    |
| State                      | 2,982    | 2,412    | 1,475    |
| Deferred:                  |          |          |          |
| Federal                    | (6,815 ) | (5,772 ) | (75 )    |
| Foreign                    | 58       | 85       | 74       |
| State                      | (1,543 ) | (577 )   | (314 )   |
| Total income tax provision | \$27,341 | \$24,226 | \$20,944 |

The provision for income taxes differs from the amount computed by applying the Federal statutory rate of 35% to earnings before income tax expense due to the following:

|   | 2015     | 2014     | 2013     |
|---|----------|----------|----------|
| Income tax at Federal statutory rate            | \$30,471 | \$26,968 | \$23,036 |
| State income taxes, net of Federal income taxes | 556      | 1,182    | 908      |
| Domestic production activities deduction        | (2,709 ) | (2,567 ) | (1,804 ) |
| Other   | (977 )   | (1,357 ) | (1,196 ) |
| Total income tax provision                      | \$27,341 | \$24,226 | \$20,944 |

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2015 and 2014 were as follows:

|                                    | 2015     | 2014     |
|------------------------------------|----------|----------|
| Deferred tax assets:               |          |          |
| Inventories                        | \$1,432  | \$1,774  |
| Restricted stock and stock options | 4,956    | 4,716    |
| Other                              | 807      | 4,019    |
| Total deferred tax assets          | 7,195    | 10,509   |
| Deferred tax liabilities:          |          |          |
| Amortization                       | \$49,726 | \$60,056 |
| Depreciation                       | 22,464   | 17,969   |
| Prepaid expense                    | 658      | 932      |
| Other                              | 752      | 563      |
| Total deferred tax liabilities     | 73,600   | 79,520   |
| Net deferred tax liability         | \$66,405 | \$69,011 |

There is no valuation allowance for deferred tax assets at December 31, 2015 and 2014. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences. The amount of deferred tax asset realizable, however, could change if management's estimate of future taxable income should change.



Provisions of ASC 740-10 clarify whether or not to recognize assets or liabilities for tax positions taken that may be challenged by a tax authority. A reconciliation of the beginning and ending amount of unrecognized tax benefits, which is included in other long-term obligations on the Company's consolidated balance sheets, is as follows:

|   | 2015    | 2014    | 2013   |
|---|---------|---------|--------|
| Balance at beginning of period                      | \$5,205 | \$3,076 | 2,292  |
| Increases for tax positions of prior years          | 943     | 1,922   | 445    |
| Decreases for tax positions of prior years          | (120 )  | (417 )  | (166 ) |
| Increases for tax positions related to current year | 542     | 624     | 505    |
| Balance at end of period                            | \$6,570 | \$5,205 | 3,076  |

All of the Company's unrecognized tax benefits, if recognized in future periods, would impact the Company's effective tax rate in such future periods.

The Company recognizes both interest and penalties as part of the income tax provision. During the years ended December 31, 2015, 2014 and 2013, the Company recognized approximately \$138, \$37 and \$130 in interest and penalties, respectively. As of December 31, 2015 and 2014, accrued interest and penalties were \$2,405 and \$1,643, respectively.

The Company files income tax returns in the U.S. and in various states and foreign countries. In the major jurisdictions where the Company operates, it is generally no longer subject to income tax examinations by tax authorities for years before 2011. The Company does not anticipate any material change in the total amount of unrecognized tax benefits to occur within the next twelve months.

#### NOTE 9 - NET EARNINGS PER COMMON SHARE

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

|  | Earnings<br>(Numerator) | Number of<br>Shares<br>(Denominator) | Per<br>Share<br>Amount |
|--|-------------------------|--------------------------------------|------------------------|
| 2015   |                         |                                      |                        |
| Basic EPS – Net earnings and weighted average common shares outstanding  | \$ 59,722               | 31,158,142                           | \$ 1.92                |
| Effect of dilutive securities – stock options and restricted stock   |                         | 477,496                              |                        |
| Diluted EPS – Net earnings and weighted average common shares outstanding and effect of stock options and restricted stock | \$ 59,722               | 31,635,638                           | \$ 1.89                |

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|  | Earnings<br>(Numerator) | Number of<br>Shares<br>(Denominator) | Per<br>Share<br>Amount |
|--|-------------------------|--------------------------------------|------------------------|
| 2014   |                         |                                      |                        |
| Basic EPS – Net earnings and weighted average common shares outstanding  | \$ 52,826               | 30,381,310                           | \$ 1.74                |
| Effect of dilutive securities – stock options and restricted stock   |                         | 790,412                              |                        |
| Diluted EPS – Net earnings and weighted average common shares outstanding and effect of stock options and restricted stock | \$ 52,826               | 31,171,722                           | \$ 1.69                |
| 2013   |                         |                                      |                        |
| Basic EPS – Net earnings and weighted average common shares outstanding  | \$ 44,874               | 29,623,952                           | \$ 1.51                |
| Effect of dilutive securities – stock options and restricted stock   |                         | 1,223,183                            |                        |
| Diluted EPS – Net earnings and weighted average common shares outstanding and effect of stock options and restricted stock | \$ 44,874               | 30,847,135                           | \$ 1.45                |

The Company had 194,372, 56,500 and 10,000 stock options outstanding at December 31, 2015, 2014 and 2013, 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 non-forfeitable dividend rights. These awards are restricted 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 10 - EMPLOYEE BENEFIT PLANS**

During 2014, the Company sponsored two 401(k) savings plans for eligible employees. The plans allows participants to make pretax contributions and the Company matches certain percentages of those pretax contributions. One of the plans has a discretionary profit sharing portion and the Company match is made with shares of the Company's Common Stock. All amounts contributed to the plans are deposited into a trust fund administered by independent trustees. The plans were merged in January 2015. The merged plan allows participants to make pretax contributions and the Company matches certain percentages of those contributions. Additionally, the plan has a discretionary profit sharing portion which is made with shares of the Company's stock. The Company provided for profit sharing contributions and matching 401(k) savings plan contributions of \$1,886 and \$738 in 2015, \$938 and \$804 in 2014, and \$918 and \$525 in 2013, respectively.

The Company also provides postretirement benefits in the form of an unfunded retirement medical plan under a collective bargaining agreement covering eligible retired employees of the Verona facility. The Company uses a December 31 measurement date for its postretirement medical plan. In accordance with ASC 715, "Compensation—Retirement Benefits," the Company is required to recognize the over funded or under funded status of a defined benefit post retirement plan (other than a multiemployer plan) as an asset or liability



in its statement of financial position, and to recognize changes in that funded status in the year in which the changes occur through comprehensive income.

The actuarial recorded liabilities for such unfunded postretirement benefit is as follows:

Change in benefit obligation:

|   | 2015    | 2014    |
|---|---------|---------|
| Benefit obligation at beginning of year   | \$1,111 | \$1,152 |
| Service cost with interest to end of year | 54      | 57      |
| Interest cost                             | 36      | 48      |
| Participant contributions                 | 5       | 3       |
| Benefits paid*                            | (6 )    | 42      |
| Actuarial gain                            | (242 )  | (191 )  |
| Benefit obligation at end of year         | \$958   | \$1,111 |

Change in plan assets:

|  | 2015 | 2014 |
|--|------|------|
| Fair value of plan assets at beginning of year | \$ - | \$ - |
| Employer (reimbursement)/contributions*        | 1    | (45) |
| Participant contributions                      | 5    | 3    |
| Benefits paid*                                 | (6 ) | 42   |
| Fair value of plan assets at end of year       | \$ - | \$ - |

\*Stop loss reimbursement credit received in 2014.

Amounts recognized in consolidated balance sheet:

|   | 2015    | 2014      |
|---|---------|-----------|
| Accumulated postretirement benefit obligation   | \$(958) | \$(1,111) |
| Fair value of plan assets   | -       | -         |
| Funded status   | (958)   | (1,111)   |
| Unrecognized prior service cost   | N/A     | N/A       |
| Unrecognized net (gain)/loss  | N/A     | N/A       |
| Net amount recognized in consolidated balance sheet (after ASC 715) (included in other long-term obligations) | \$958   | \$1,111   |
| Accrued postretirement benefit cost (included in other long-term obligations)                                 | \$N/A   | \$N/A     |

Components of net periodic benefit cost:

|   | 2015 | 2014 | 2013  |
|---|------|------|-------|
| Service cost with interest to end of year | \$54 | \$57 | \$67  |
| Interest cost                             | 36   | 48   | 42    |
| Amortization of prior service credit      | (18) | (18) | (18)  |
| Amortization of gain                      | -    | 6    | 17    |
| Total net periodic benefit cost           | \$72 | \$93 | \$108 |

Estimated future employer contributions and benefit payments are as follows:

|                 |      |
|-----------------|------|
| Year            |      |
| 2016            | \$46 |
| 2017            | 48   |
| 2018            | 71   |
| 2019            | 86   |
| 2020            | 77   |
| Years 2021-2025 | 335  |

Assumed health care cost trend rates have been used in the valuation of postretirement health insurance benefits. The trend rate is 7.07% in 2015 declining to 4.50% in 2038 and thereafter. A one percentage point increase in health care cost trend rates in each year would increase the accumulated postretirement benefit obligation as of December 31, 2015 by \$93 and the net periodic postretirement benefit cost for 2015 by \$15. A one percentage point decrease in health care cost trend rates in each year would decrease the accumulated postretirement benefit obligation as of December 31, 2015 by \$82 and the net periodic postretirement benefit cost for 2015 by \$12. The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 3.70% in 2015 and 3.30% in 2014.

The Company contributes to one multiemployer defined benefit plan under the terms of a collective-bargaining agreement covering its union-represented employees of the Verona facility. The risks of participation in this multiemployer plan are different from single-employer plans in the following aspects: (a) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers, (b) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers, and (c) if the Company chooses to stop participating in its multiemployer plan, the Company will be required to pay that plan an amount based on the underfunded status of the plan, referred to as the withdrawal liability.

The Company's participation in this plan for the annual period ended December 31, 2015 is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employee Identification Number (EIN). The zone status is based on information that the Company received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. The last column lists the expiration date of the collective-bargaining agreement to which the plan is subject. Finally, the period-to-period comparability of the contributions for 2015 and 2014 was affected by a 4.0% increase in the 2015 contribution rate. There have been no other significant changes that affect the comparability of 2015 and 2014 contributions. The Company does not represent more than 5% of the contributions to this pension fund.

| Pension Fund   | EIN/Pension Plan Number | Pension Plan Act   | Protection Zone Status | FIP/RP Status Pending/Implemented | Contributions of Balchem Corporation |       |       | Surcharge Imposed | Expiration Date of Collective-Bargaining Agreement |
|--|-------------------------|--------------------|------------------------|-----------------------------------|--------------------------------------|-------|-------|-------------------|--|
|  |                         | 2015               | 2014                   |                                   | 2015                                 | 2014  | 2013  |                   |  |
| Central States, Southeast and Southwest Areas Pension Fund | 36-6044243              | Red as of 1/1/2015 | Red as of 1/1/2014     | Implemented                       | \$515                                | \$498 | \$451 | No                | 5/31/2017  |

**NOTE 11 - COMMITMENTS AND CONTINGENCIES**

In 2012, the Company entered into a six (6) year lease extension for approximately 20,000 square feet of office space. The office space serves as the Company's general offices and as a laboratory facility. The Company leases most of its vehicles and office equipment under non-cancelable operating leases, which expire at various times through 2029. Rent expense charged to operations under such lease agreements for 2015, 2014 and 2013 aggregated approximately \$2,414, \$1,595 and \$1,040, respectively. Aggregate future minimum rental payments required under non-cancelable operating leases at December 31, 2015 are as follows:

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|                              |          |
|------------------------------|----------|
| Year                         |          |
| 2016                         | \$2,279  |
| 2017                         | 1,856    |
| 2018                         | 1,473    |
| 2019                         | 1,129    |
| 2020                         | 784      |
| Thereafter                   | 2,908    |
| Total minimum lease payments | \$10,429 |

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 12 – 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 December 31, 2015 and December 31, 2014 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying 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

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cash equivalents, accounts receivable, accounts payable and accrued liabilities, and are carried at cost which approximates fair value due to the short-term maturity of these instruments. Cash and cash equivalents at December 31, 2015 and 2014, includes \$773 and \$772 in money market funds, respectively. The money market funds and certificates of deposit are valued using level one and level two inputs, respectively, as defined by ASC 820, "Fair Value Measurement."

#### NOTE 13 – ACCUMULATED OTHER COMPREHENSIVE INCOME

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

|   | Years Ended  |           |       |
|---|--------------|-----------|-------|
|   | December 31, |           |       |
|   | 2015         | 2014      | 2013  |
| Net foreign currency translation adjustment                                     | \$(2,615)    | \$(2,972) | \$856 |
| Net change in postretirement benefit plan (see Note 10 for further information) |              |           |       |
| Net gain arising during the period  | 242          | 191       | 162   |
| Amortization of prior service credit  | (18 )        | (18 )     | (18 ) |
| Amortization of gain  | -            | 6         | 17    |
| Total before tax  | 224          | 179       | 161   |
| Tax   | (72 )        | (56 )     | (60 ) |
| Net of tax  | 152          | 123       | 101   |
| Total other comprehensive income (loss)   | \$(2,463)    | \$(2,849) | \$957 |

Accumulated other comprehensive income/(loss) at December 31, 2015 consisted of the following:

|                                 | Foreign<br>currency<br>translation<br>adjustment | Postretirement<br>benefit plan | Total     |
|---------------------------------|--|--------------------------------|-----------|
| Balance December 31, 2014       | \$ (2,702 )                                      | \$ 51                          | \$(2,651) |
| Other comprehensive (loss)/gain | (2,615 )   | 152                            | (2,463)   |
| Balance December 31, 2015       | \$ (5,317 )                                      | \$ 203                         | \$(5,114) |

#### NOTE 14 - 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; SensoryEffects, Animal Nutrition & Health, Specialty Products, 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

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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 (formerly included in Animal Nutrition & Health)

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 Net Sales:

|                           | 2015      | 2014      | 2013      |
|---------------------------|-----------|-----------|-----------|
| SensoryEffects            | \$278,288 | \$206,101 | \$47,569  |
| Animal Nutrition & Health | 165,763   | 176,477   | 155,727   |
| Specialty Products        | 54,236    | 54,053    | 51,086    |
| Industrial Products       | 54,205    | 104,752   | 82,791    |
| Total                     | \$552,492 | \$541,383 | \$337,173 |

## Business Segment Earnings Before Income Taxes:

|   | 2015     | 2014     | 2013     |
|---|----------|----------|----------|
| SensoryEffects  | \$38,302 | \$21,260 | \$11,233 |
| Animal Nutrition & Health                                 | 27,851   | 23,687   | 18,244   |
| Specialty Products  | 23,995   | 21,316   | 20,224   |
| Industrial Products                                       | 5,594    | 16,532   | 15,901   |
| Unallocated equity compensation                           | (1,462 ) | -        | -        |
| Transaction costs, integration costs and legal settlement | (324 )   | (652 )   | -        |
| Interest and other income, net                            | (6,893 ) | (5,091 ) | 216      |
| Total   | \$87,063 | \$77,052 | \$65,818 |

Unallocated equity compensation expense was related to the accelerated vesting of previously-granted unvested options to purchase Company common stock, and removal of the restrictions on previously-granted Restricted Stock.

Transaction and integration costs were primarily related to the definitive agreement to acquire Albion International, Inc. in 2015 and Performance Chemicals & Ingredients Company (d/b/a SensoryEffects) in 2014. See Note 2.

## Depreciation/Amortization:

|                           | 2015     | 2014     | 2013     |
|---------------------------|----------|----------|----------|
| SensoryEffects            | \$30,537 | \$20,873 | \$1,216  |
| Animal Nutrition & Health | 6,573    | 6,026    | 5,896    |
| Specialty Products        | 1,225    | 1,385    | 1,431    |
| Industrial Products       | 1,027    | 1,783    | 1,931    |
| Total                     | \$39,362 | \$30,067 | \$10,474 |

## Business Segment Assets:

|                           | 2015      | 2014      | 2013      |
|---------------------------|-----------|-----------|-----------|
| Sensory Effects           | \$642,929 | \$656,130 | \$22,343  |
| Animal Nutrition & Health | 107,459   | 90,650    | 100,531   |
| Specialty Products        | 24,769    | 24,913    | 24,850    |
| Industrial Products       | 16,191    | 32,330    | 16,179    |
| Other Unallocated         | 89,875    | 57,508    | 212,969   |
| Total                     | \$881,223 | \$861,531 | \$376,872 |

Other unallocated assets consist of certain cash, receivables, prepaid expenses, equipment and leasehold improvements, net of accumulated depreciation, and deferred income taxes, which the Company does not allocate to its individual business segments.

## Capital Expenditures:

|                           | 2015     | 2014     | 2013    |
|---------------------------|----------|----------|---------|
| Sensory Effects           | \$21,361 | \$3,475  | \$1,342 |
| Animal Nutrition & Health | 17,854   | 7,383    | 5,365   |
| Specialty Products        | 940      | 896      | 724     |
| Industrial Products       | 1,145    | 1,445    | 756     |
| Total                     | \$41,300 | \$13,199 | \$8,187 |

## Geographic Revenue Information:

|                   | 2015      | 2014      | 2013      |
|-------------------|-----------|-----------|-----------|
| United States     | \$441,664 | \$420,324 | \$227,651 |
| Foreign Countries | 110,828   | 121,059   | 109,522   |
| Total             | \$552,492 | \$541,383 | \$337,173 |

## Geographic Area Data – Long-Lived Assets (excluding intangible assets):

|               | 2015      | 2014      | 2013     |
|---------------|-----------|-----------|----------|
| North America | \$148,209 | \$121,090 | \$43,078 |
| Europe        | 10,306    | 10,498    | 11,838   |
| Total         | \$158,515 | \$131,588 | \$54,916 |

NOTE 15 - SUPPLEMENTAL CASH FLOW INFORMATION

## Cash paid during the year for:

|              | 2015     | 2014     | 2013     |
|--------------|----------|----------|----------|
| Income taxes | \$19,551 | \$25,304 | \$12,096 |
| Interest     | \$5,987  | \$4,685  | \$40     |

## Non-cash financing activities:

|                   | 2015     | 2014    | 2013    |
|-------------------|----------|---------|---------|
| Dividends payable | \$10,727 | \$9,251 | \$7,856 |

NOTE 16 - QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

(In thousands, except per share data)

|  | 2015             |                   |                  |                   | 2014             |                   |                  |                   |
|--|------------------|-------------------|------------------|-------------------|------------------|-------------------|------------------|-------------------|
|  | First<br>Quarter | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter | First<br>Quarter | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter |
| Net sales                                | \$144,862        | \$134,773         | \$140,128        | \$132,729         | \$85,995         | \$132,230         | \$160,490        | \$162,668         |
| Gross profit                             | 43,130           | 41,867            | 43,174           | 39,926            | 23,215           | 32,335            | 44,487           | 44,135            |
| Earnings before income<br>taxes          | 23,085           | 22,167            | 21,189           | 20,623            | 13,372           | 15,291            | 23,209           | 25,180            |
| Net earnings                             | 15,172           | 14,916            | 13,976           | 15,659            | 8,894            | 9,732             | 15,178           | 19,022            |
| Basic net earnings per<br>common share   | \$.49            | \$.48             | \$.45            | \$.50             | \$.30            | \$.32             | \$.50            | \$.62             |
| Diluted net earnings per<br>common share | \$.48            | \$.47             | \$.44            | \$.49             | \$.29            | \$.31             | \$.49            | \$.61             |

## BALCHEM CORPORATION

## Valuation and Qualifying Accounts

Years Ended December 31, 2015, 2014 and 2013

(In thousands)

| <u>Description</u>              | Balance<br>at<br>Beginning<br>of<br>Year | Additions<br>Charged<br>(Credited)<br>to<br>Costs and<br>Expenses | Deductions | Balance<br>at<br>End of<br>Year |
|---------------------------------|--|---|------------|---------------------------------|
| Year ended December 31, 2015    |  |   |            |                                 |
| Allowance for doubtful accounts | \$ 288                                   | \$ (1 )   | \$ (52 )   | (a) \$ 235                      |
| Inventory reserve               | 1,682                                    | 369   | (228 )     | (a) 1,823                       |
| Year ended December 31, 2014    |  |   |            |                                 |
| Allowance for doubtful accounts | \$ 115                                   | \$ 238  | \$ (65 )   | (a) \$ 288                      |
| Inventory reserve               | 181                                      | 2,073   | (572 )     | (a) 1,682                       |
| Year ended December 31, 2013    |  |   |            |                                 |
| Allowance for doubtful accounts | \$ 115                                   | \$ -  | \$ -       | \$ 115                          |
| Inventory reserve               | 236                                      | 97  | (152 )     | (a) 181                         |

(a) represents write-offs.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

We maintain “disclosure controls and procedures,” as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”), that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2015. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures were effective.

Management's Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed under the supervision of the Company's principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and 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 our financial statements.

A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in a cost-effective control system, no evaluation of internal control over financial reporting can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within our Company have been detected. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Management does not expect that the Company's disclosure controls and procedures or its internal control over financial reporting will

prevent or detect all errors and all fraud.

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These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

As of December 31, 2015, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the 2013 Internal Control—Integrated Framework (New Framework) to conduct an assessment of the effectiveness of the Company's internal control over financial reporting. Based on this assessment, management has determined that the Company's internal control over financial reporting was effective as of December 31, 2015.

#### Attestation Report of Registered Public Accounting Firm

The independent registered public accounting firm of RSM US LLP has issued an attestation report on the Company's internal control over financial reporting, which is included herein.

#### Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting in our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

#### **Item 9B Other Information**

None.

#### PART III

Item 10. Directors, Executive Officers of the Registrant, and Corporate Governance.

(a) Directors of the Company.

The required information is to be set forth in the Company's Proxy Statement for the 2016 Annual Meeting of Stockholders (the "2016 Proxy Statement") under the caption "Directors and Executive Officers," which information is hereby incorporated herein by reference.

(b) Executive Officers of the Company.

The required information is to be set forth in the 2016 Proxy Statement under the caption "Directors and Executive Officers," which information is hereby incorporated herein by reference.

(c) Section 16(a) Beneficial Ownership Reporting Compliance.

The required information is to be set forth in the 2016 Proxy Statement under the caption "Section 16(a) Beneficial Ownership Reporting Compliance," which information is hereby incorporated herein by reference.

(d) Code of Ethics.

The required information is to be set forth in the 2016 Proxy Statement under the caption “Code of Business Conduct and Ethics,” which information is hereby incorporated herein by reference. The

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Company's Code of Ethics for Senior Financial Officers is available on the Corporate Governance page in the Investor Relations section of the Company's website, [www.balchem.com](http://www.balchem.com).

(e) Corporate Governance.

The required information is to be set forth in the 2016 Proxy Statement under the caption "Nomination of Directors," and "Committees of the Board of Directors," which information is hereby incorporated herein by reference.

Item 11. Executive Compensation.

The information required by this Item is to be set forth in the 2016 Proxy Statement under the caption "Executive Compensation," "Compensation Committee Report," and "Compensation Committee Interlocks and Insider Participation," which information is hereby incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this Item is to be set forth in the 2016 Proxy Statement under the caption "Security Ownership of Certain Beneficial Owners and of Management" and the caption "Equity Compensation Plan Information," all of which information is hereby incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions and Director Independence.

The information required by this Item is set forth in the 2016 Proxy Statement under the caption "Related Party Transactions," and "Director Independence," which information is hereby incorporated herein by reference.

Item 14. Principal Accountant Fees and Services.

The information required by this Item is set forth in the 2016 Proxy Statement under the caption "Proposal No. 2 – Ratification of Appointment of Independent Registered Public Accounting Firm," which information is hereby incorporated herein by reference.

Item 15. Exhibits and Financial Statement Schedules.

The following documents are filed as part of this Form 10-K:

|  | Form 10-K<br>Page Number |
|--|--------------------------|
| 1. Financial Statements  |                          |
| Report of Independent Registered Public Accounting Firm  | 28                       |
| Consolidated Balance Sheets as of December 31, 2015 and 2014   | 30                       |
| Consolidated Statements of Earnings for the years ended December 31, 2015, 2014 and 2013             | 31                       |
| Consolidated Statements of Comprehensive Income for the years ended December 31, 2015, 2014 and 2013 | 32                       |
| Consolidated Statements of Stockholders' Equity for the years ended December 31, 2015, 2014 and 2013 | 33                       |
|  | 34                       |

Consolidated Statements of Cash Flows for the years ended December 31, 2015, 2014 and 2013

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## 2. Financial Statement Schedules

Schedule II – Valuation and Qualifying Accounts for the years ended December 31, 2015, 2014 and 2013 60

## 3. Exhibits

- 3.1 Composite Articles of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K dated March 16, 2006 for the year ended December 31, 2005).
- 3.2 Balchem Corporation Articles of Amendment (incorporated by reference to Exhibit A to the Company's definitive proxy statement on Schedule 14A filed with the Commission on April 25, 2008).
- 3.3 Balchem Corporation Articles of Amendment (incorporated by reference to Exhibit A to the Company's definitive proxy statement on Schedule 14A filed with the Commission on April 28, 2011).
- 3.4 By-laws of the Company, as amended and restated as of April 28, 2015 (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K dated April 22, 2015).

10.1 Incentive Stock Option Plan of the Company, as amended, (incorporated by reference to the Company's Registration Statement on Form S-8, File No. 333-35910, dated October 25, 1996, and to Proxy Statement, dated April 22, 1998, for the Company's 1998 Annual Meeting of Stockholders (the "1998 Proxy Statement")).\*

10.2 Stock Option Plan for Directors of the Company, as amended (incorporated by reference to the Company's Registration Statement on Form S-8, File No. 333-35912, dated October 25, 1996, and to the 1998 Proxy Statement).

10.3 Balchem Corporation Second Amended and Restated 1999 Stock Plan, (incorporated by reference to the Company's Registration Statement on Form S-8, File No. No. 333-155655, dated November 25, 2008, and to Proxy Statement, dated April 25, 2008, for the Company's 2008 Annual Meeting of Stockholders).\*

10.4 Balchem Corporation 401(k)/Profit Sharing Plan, dated January 1, 1998 (incorporated by reference to Exhibit 4 to the Company's Registration Statement on Form S-8, File No. 333-118291, dated August 17, 2004).\*

10.5 Employment Agreement, dated as of April 22, 2015, between the Company and Theodore L. Harris (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the For the Quarterly Period Ended June 30, 2015).\*

10.6 Form of Restricted Stock Grant Agreement and Stock Option Agreement (incorporated by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K for the year ended December 31, 2012 (the "2011 10-K")).

10.7 Stock Purchase Agreement, dated as of March 31, 2014, among Performance Chemicals & Ingredients Company (d/b/a SensoryEffects), a Delaware corporation, certain equity owners thereof, the Company and, solely for the limited purposes described therein, Highlander Partners, L.P. (incorporated by reference to the Company's Current Report on Form 8-K dated April 1, 2014). (Pursuant to Item 601(b)(2) of Regulation S-K, the

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schedules to the Stock Purchase Agreement have been omitted and the Company agrees to furnish supplementally a copy of any such omitted schedule to the SEC upon request)

10.8 Credit Agreement dated May 7, 2014 among the Company, certain guarantors, lenders and Bank of America, N.A. (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated May 13, 2014).

10.9 Security and Pledge Agreement dated May 7, 2014 among the Company, certain guarantors and Bank of America, N.A. (incorporated by reference to Exhibit 4.12 to the Company's Current Report on Form 8-K dated May 13, 2014).

21. Subsidiaries of Registrant.

23.1 Consent of RSM US LLP, Independent Registered Public Accounting Firm.

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

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

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.

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101.INS XBRL 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.PRE XBRL Taxonomy Extension Presentation Linkbase Document

\*Each of the Exhibits noted by an asterisk is a management compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 29, 2016 BALCHEM CORPORATION  
By: /s/ Theodore L. Harris  
Theodore L. Harris, President and  
Chief Executive Officer

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Theodore L. Harris  
Theodore L. Harris, President and  
Chief Executive Officer (Principal Executive  
Officer)  
Date: February 29, 2016

/s/ William A. Backus  
William A. Backus, Chief Financial Officer  
and Treasurer (Principal Financial and  
Principal Accounting Officer)  
Date: February 29, 2016

/s/ Dino A. Rossi  
Dino A. Rossi, Chairman  
Date: February 29, 2016

/s/ Paul D. Coombs  
Paul D. Coombs, Director  
Date: February 29, 2016

/s/ David B. Fischer  
David B. Fischer, Director  
Date: February 29, 2016

/s/ Edward L. McMillan  
Edward L. McMillan, Director  
Date: February 29, 2016

/s/ Perry W. Premdas  
Perry W. Premdas, Director  
Date: February 29, 2016

/s/ Dr. John Televantos  
Dr. John Televantos, Director  
Date: February 29, 2016

/s/ Matthew Wineinger  
Matthew Wineinger, Director

Date: February 29, 2016

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EXHIBIT INDEX

Exhibit

Number Description

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