BALCHEM CORP
Form 10-Q
May 04, 2018

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

For The Quarterly Period Ended March 31, 2018
or

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

For the transition period from _____ to _____

Commission File Number 1-13648

BALCHEM CORPORATION
(Exact name of registrant as specified in its charter)

| Maryland | 13-2578432 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |

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

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

Indicate by a check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to filing requirements for the past 90 days.

Yes No

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

Yes No

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," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of April 27, 2018 the registrant had 32,107,760 shares of its Common Stock, $.06 2/3 par value, outstanding.

Part I. Financial Information
Item 1. Financial Statements

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

| | March 31, 2018 (unaudited) | December 31, 2017 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $ 42,679 | $ 40,416 |
| Accounts receivable, net of allowance for doubtful accounts of $362 and $431 at March 31, 2018 and December 31, 2017, respectively | 96,001 | 91,226 |
| Inventories | 66,270 | 60,696 |
| Prepaid expenses | 3,958 | 4,774 |
| Assets held for sale | 677 | - |
| Other current assets | 2,223 | 2,224 |
| Total current assets | 211,808 | 199,336 |
| Property, plant and equipment, net | 187,935 | 189,793 |
| Goodwill | 441,361 | 441,361 |
| Intangible assets with finite lives, net | 121,945 | 128,073 |
| Other assets | 4,940 | 5,073 |
| Total assets | $ 967,989 | $ 963,636 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Trade accounts payable | $ 26,674 | $ 28,451 |
| Accrued expenses | 23,390 | 22,930 |
| Accrued compensation and other benefits | 7,876 | 8,531 |
| Customer deposits | 38 | - |
| Dividends payable | 45 | 13,484 |
| Income taxes payable | 5,092 | - |
| Current portion of long-term debt | 35,000 | 35,000 |
| Total current liabilities | 98,115 | 108,396 |
| Long-term debt | 175,323 | 183,964 |
| Deferred income taxes | 48,534 | 48,548 |
| Other long-term obligations | 6,127 | 5,847 |
| Total liabilities | 328,099 | 346,755 |
| Commitments and contingencies (note 16) | | |
| 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; 32,100,110 shares issued and outstanding at March 31, 2018 and 32,019,605 shares issued and outstanding at December 31, 2017 | 2,140 | 2,135 |

| | | |
|---|---|---|
| Additional paid-in capital | 154,030 | 151,749 |
| Retained earnings | 483,986 | 464,639 |
| Accumulated other comprehensive loss | (266) | (1,642) |
| Total stockholders' equity | 639,890 | 616,881 |
| Total liabilities and stockholders' equity | $ 967,989 | $ 963,636 |

See accompanying notes to condensed consolidated financial statements.

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Net sales | $161,410 | $137,728 |
| Cost of sales | 109,951 | 93,299 |
| Gross margin | 51,459 | 44,429 |
| Operating expenses: | | |
| Selling expenses | 14,059 | 13,712 |
| Research and development expenses | 2,569 | 1,815 |
| General and administrative expenses | 7,419 | 6,199 |
| | 24,047 | 21,726 |
| Earnings from operations | 27,412 | 22,703 |
| Other expenses (income): | | |
| Interest income | (2) | (2) |
| Interest expense | 1,876 | 1,799 |
| Other, net | 361 | 196 |
| Earnings before income tax expense | 25,177 | 20,710 |
| Income tax expense | 5,831 | 5,192 |
| Net earnings | $19,346 | $15,518 |
| Net earnings per common share - basic | $0.60 | $0.49 |
| Net earnings per common share - diluted | $0.60 | $0.48 |

See accompanying notes to condensed consolidated financial statements.

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Net earnings | $ 19,346 | $ 15,518 |
| Other comprehensive income, net of tax: | | |
| Net foreign currency translation adjustment | 1,363 | 541 |
| Net change in postretirement benefit plan, net of taxes of $(4) and $(5) for the three months ended March 31, 2018 and 2017 | 13 | 10 |
| Other comprehensive income | 1,376 | 551 |
| Comprehensive income | $ 20,722 | $ 16,069 |

See accompanying notes to condensed consolidated financial statements.

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Cash flows from operating activities: | | |
| Net earnings | $19,346 | $15,518 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation and amortization | 11,127 | 11,335 |
| Stock compensation expense | 1,793 | 1,840 |
| Deferred income taxes | (38) | (4) |
| Provision for doubtful accounts | (69) | 79 |
| Foreign currency transaction loss | 51 | 101 |
| Asset impairment charge | 71 | - |
| Gain on disposal of assets | (1,093) | (75) |
| Changes in assets and liabilities | | |
| Accounts receivable | (4,340) | 4,128 |
| Inventories | (5,442) | (5,574) |
| Prepaid expenses and other current assets | 345 | (4) |
| Accounts payable and accrued expenses | (2,273) | (9,066) |
| Income taxes | 5,633 | 5,248 |
| Other | 368 | (724) |
| Net cash provided by operating activities | 25,479 | 22,802 |
| Cash flows from investing activities: | | |
| Cash paid for acquisition, net of cash acquired | - | (1,169) |
| Capital expenditures | (3,735) | (2,934) |
| Proceeds from insurance | 1,590 | - |
| Intangible assets acquired | (119) | (147) |
| Net cash used in investing activities | (2,264) | (4,250) |
| Cash flows from financing activities: | | |
| Proceeds from revolving loan | - | 2,000 |
| Principal payments on revolving loan | - | (5,000) |
| Principal payments on long-term debt | (8,750) | (8,750) |
| Proceeds from stock options exercised | 1,261 | 3,969 |
| Dividends paid | (13,421) | (12,069) |
| Purchase of treasury stock | (786) | (611) |
| Net cash used in financing activities | (21,696) | (20,461) |
| Effect of exchange rate changes on cash | 744 | 263 |
| Increase/(Decrease) in cash and cash equivalents | 2,263 | (1,646) |
| Cash and cash equivalents beginning of period | 40,416 | 38,643 |

| | | |
|---|---|---|
| Cash and cash equivalents end of period | $42,679 | $36,997 |

Supplemental Cash Flow Information - see Note 13

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1 – CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements presented herein have been prepared by the Company in accordance with the accounting policies described in its December 31, 2017 consolidated financial statements, and should be read in conjunction with the consolidated financial statements and notes, which appear in the Annual Report on Form 10-K for the year ended December 31, 2017. References in this report to the "Company" mean either Balchem Corporation or Balchem Corporation and its subsidiaries, including SensoryEffects, Inc., SensoryEffects Cereal Systems, Inc., Albion Laboratories, Inc. (formerly known as Albion International, Inc.), BCP Ingredients, Inc., Aberco, Inc., Balchem BV, Balchem Italia Srl, Innovative Food Processors, Inc., and Balchem LTD, on a consolidated basis, as the context requires.

In the opinion of management, the unaudited condensed consolidated financial statements furnished in this Form 10-Q include all adjustments necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented. All such adjustments are of a normal recurring nature. The condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP" or "GAAP") governing interim financial statements and the instructions to Form 10-Q and Article 10 of Regulation S-X under the Securities Exchange Act of 1934 and therefore do not include some information and notes necessary to conform to annual reporting requirements. Certain prior year amounts have been reclassified to conform to current year presentation. The results of operations for the three months ended March 31, 2018 are not necessarily indicative of the operating results expected for the full year or any interim period.

Recent Accounting Pronouncements

Recently Issued Accounting Standards

In February 2016, the FASB issued ASU No. 2016-02, "Leases" ("ASU 2016-02"), which addresses the recognition of assets and liabilities that arise from all leases. The guidance requires lessees to recognize right-to-use assets and lease liabilities for most leases in the Consolidated Balance Sheets. The guidance is effective for annual and interim periods beginning after December 15, 2018 and early adoption is permitted. The Company is currently evaluating the impact of the new guidance.

In October 2016, the FASB issued ASU 2016-16, "Intra-Entity Transfers of Assets Other Than Inventory" ("ASU 2016-16"). The standard requires that an entity recognize the income tax consequences of an intra-entity transfer of an asset when the transfer occurs as opposed to when the asset is transferred to an outside party as required under current U.S. GAAP. The standard does not apply to intra-entity transfers of inventory, which will continue to follow current U.S. GAAP. The Company will be required to adopt ASU 2016-16 as of October 1, 2018. Early adoption is permitted. The Company is currently evaluating the impact of ASU 2016-16 on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, “Simplifying the Test for Goodwill Impairment” (“ASU 2017-04”), which addresses changes to the testing for goodwill impairment by eliminating Step 2 of the process. The guidance is effective for annual and interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted, however the Company has elected not to adopt early as this ASU will not have a significant impact on the Company’s consolidated financial statements.

Recently Adopted Accounting Standards

In May 2014, the FASB issued a comprehensive new revenue recognition standard that superseded existing revenue recognition guidance under U.S. GAAP. The core principle of the new guidance is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The standard creates a five step model that requires companies to exercise judgment when considering the terms of a contract and all relevant facts and circumstances. The standard allows for several transition methods: (a) a full retrospective adoption in which the standard is applied to all of the periods presented, or (b) a modified retrospective adoption in which the standard is applied only to the most current period presented in the financial statements with a cumulative-effect adjustment reflected in retained earnings. The standard also requires expanded disclosures regarding the qualitative and quantitative information of an entity's nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. This new revenue recognition standard is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period.

We performed a detailed review of our contract portfolio representative of our different businesses and compared historical accounting policies and practices to the new standard. Because the standard impacts our business processes, systems and controls, we also developed a comprehensive change management project plan to guide the implementation. Over the course of 2017, we conducted training sessions for those in our global organization that are impacted by the new standard. Our primary business is the sale of products, and the adoption of the new revenue recognition standard did not have a material impact on our financial statements. We adopted the new standard effective January 1, 2018 utilizing the modified retrospective method. The cumulative-effect adjustment to retained earnings upon adoption was not material.

In January 2017, the FASB issued ASU No. 2017-01, “Clarifying the Definition of a Business” (“ASU 2017-01”), which addresses the definition of what constitutes a business by providing clarification of the three elements that constitute a business. The guidance is effective for annual and interim periods beginning after December 15, 2017. The Company adopted ASU 2017-01 on January 1, 2018 prospectively (prior periods have not been restated). There was no significant impact on the Company’s consolidated financial statements.

In March 2018, the FASB issued ASU No. 2018-05, “Amendments to SEC Paragraph Pursuant to SEC Staff Accounting Bulletin No. 118” (“ASU 2018-05”), which clarifies the income tax accounting implications of the Tax Cuts and Jobs Act. The guidance is effective immediately.

NOTE 2—ACQUISITIONS

Acquisition of Chol-Mix Kft

On March 24, 2017, the Company, through its European subsidiary Balchem Italia SRL, entered into an agreement to purchase certain assets of Chol-Mix Kft ("Chol-Mix), a privately held manufacturer of dry choline chloride, with knowledge and technical know-how supporting the application of liquids on carriers, located in Hungary, for a purchase price of €1,500. As of March 31, 2018, approximately €1,150, translated to approximately $1,230, has been paid to Chol-Mix Kft with the remaining balance of approximately €350, translated to approximately $431, due at the end of a related manufacturing agreement. The acquisition of Chol-Mix's assets provides our Animal Nutrition & Health segment with additional dry choline chloride capacity in Europe, geographical expansion opportunities in Eastern Europe, and technical knowledge supporting the application of liquids on carriers.

Management has completed its accounting for the acquisition. As a result, the fair values of the assets acquired have been determined and goodwill of $404 has been recorded.

Acquisition of Innovative Food Processors, Inc.

On June 1, 2017, the Company acquired 100 percent of the outstanding common shares of Innovative Food Processors, Inc. ("IFP"), a privately held manufacturer of agglomerated and microencapsulated food and nutrition ingredients, headquartered in Faribault, Minnesota. The Company made payments of approximately $22,975 on the acquisition date and $635 in September 2017 to true-up working capital, amounting to approximately $16,161 to the former shareholders, adjustments for working capital acquired of $5,065, and $2,384 to IFP's lenders to pay off all IFP bank debt. The acquisition of IFP expands the Company's Human Nutrition & Health segment's processing technology and market reach, while bringing innovative and value-added systems to food, beverage, and nutrition customers.

Management has completed its preliminary initial accounting for the acquisition. As a result, the estimated fair values of the assets acquired and liabilities assumed have been determined and $1,146 of estimated goodwill has been recorded.

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

| | |
|---|---|
| Cash and cash equivalents | $5,065 |
| Accounts receivable | 2,860 |
| Inventories | 2,537 |
| Prepaid expenses | 186 |
| Property, plant and equipment | 12,219 |
| Customer relationships | 2,942 |
| Developed technology | 1,078 |
| Trademark & trade name | 1,388 |
| Covenant not to compete | 126 |

| | |
|---|---|
| Goodwill | 1,146 |
| Trade accounts payable | (844 ) |
| Accrued expenses | (1,416 ) |
| Bank debt | (2,384 ) |
| Deferred income taxes | (3,677 ) |
| Amount paid to shareholders | 21,226 |
| IFP bank debt paid on purchase date | 2,384 |
| Total amount paid on acquisition date | $23,610 |

The goodwill of $1,146 arising from the IFP 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 Human Nutrition & Health segment, and is not tax deductible for income tax purposes.

The valuation of the fair value of tangible and intangible assets acquired and liabilities assumed are based on management's estimates and assumptions that are subject to change. In preparing our fair value of the intangible assets and certain tangible assets acquired, management, among other things, consulted an independent advisor. Additionally, certain intangible assets are not tax deductible and the related deferred tax liabilities are preliminary pending management's final review.

Customer relationships are amortized over a 10-year period utilizing an accelerated method based on the estimated average customer attrition rate. Trademark, trade name, covenant not to compete, and developed technology are amortized over 10 years, 5 years, 3 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 incurred prior to the acquisition date. Indemnified tax liabilities will create an indemnification asset (receivable). At this time, an indemnification asset (receivable) balance has not been established.

Transaction and integration related costs included in general and administrative expenses for the three months ended March 31, 2018 are $576.

The Company has elected not to show pro forma information as this acquisition was immaterial to the overall financial results of the Company.

NOTE 3 – STOCKHOLDERS' EQUITY

STOCK-BASED COMPENSATION

The Company's results for the three months ended March 31, 2018 and 2017 reflected the following stock-based compensation cost, and such compensation cost had the following effects on net earnings:

| | Increase/(Decrease) for the Three Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Cost of sales | $ 245 | $ 311 |
| Operating expenses | 1,548 | 1,530 |
| Net earnings | (1,378) | (1,167) |

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

The Company's stock incentive plans allow for the granting of stock awards and options to purchase common stock. Both incentive stock options and nonqualified stock options can be awarded under the plans. No option will be exercisable for longer than ten years after the date of grant. The Company has approved and reserved a number of shares to be issued upon exercise of the outstanding options that is adequate to cover all exercises. As of March 31, 2018, the plans had 1,372,804 shares available for future awards. Compensation expense for stock options and stock awards is recognized on a straight-line basis over the vesting period, generally three years for stock options, four years for employee restricted stock awards, three years for employee performance share awards, and four years for non-employee director restricted stock awards. Certain awards provide for accelerated vesting if there is a change in control (as defined in the plans) or other qualifying events.

Option activity for the three months ended March 31, 2018 and 2017 is summarized below:

| For the three months ended March 31, 2018 | Shares (000s) | Weighted Average Exercise Price | Aggregate Intrinsic Value | Weighted Average Remaining Contractual Term |
|---|---|---|---|---|
| Outstanding as of December 31, 2017 | 946 | $ 55.44 | $ 24,714 | |
| Granted | 148 | 74.57 | | |
| Exercised | (39) | 32.83 | | |
| Forfeited | (1) | 73.49 | | |
| Cancelled | (1) | 25.39 | | |
| Outstanding as of March 31, 2018 | 1,053 | $ 58.98 | $ 24,680 | 6.6 |
| Exercisable as of March 31, 2018 | 637 | $ 48.54 | $ 21,306 | 5.3 |

| For the three months ended March 31, 2017 | Shares (000s) | Weighted Average Exercise Price | Aggregate Intrinsic Value | Weighted Average Remaining Contractual Term |
|---|---|---|---|---|
| Outstanding as of December 31, 2016 | 1,066 | $ 45.32 | $ 41,161 | |
| Granted | 216 | 85.38 | | |
| Exercised | (108) | 36.57 | | |
| Forfeited | (7) | 57.20 | | |
| Cancelled | (6) | 58.42 | | |
| Outstanding as of March 31, 2017 | 1,161 | $ 53.46 | $ 34,272 | 6.9 |
| Exercisable as of March 31, 2017 | 644 | $ 39.62 | $ 27,584 | 5.1 |

ASC 718 requires companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions: dividend yields of 0.6% and 0.5%; expected volatilities of 27% and 30%; risk-free interest rates of 2.6% and 1.8%; and expected lives of 4.4 and 4.6 years, in each case for the three months ended March 31, 2018 and 2017, respectively.

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

Other information pertaining to option activity during the three months ended March 31, 2018 and 2017 was as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Weighted-average fair value of options granted | $ 18.62 | $ 23.27 |
| Total intrinsic value of stock options exercised ($000s) | $ 1,825 | $ 5,221 |

Non-vested restricted stock activity for the three months ended March 31, 2018 and 2017 is summarized below:

| Three months ended March 31, 2018 | Shares (000s) | Weighted Average Grant Date Fair Value |
|---|---|---|
| Non-vested balance as of December 31, 2017 | 66 | $ 65.66 |
| Granted | 36 | 74.57 |
| Vested | (6) | 50.32 |
| Forfeited | - | - |
| Non-vested balance as of March 31, 2018 | 96 | $ 70.10 |

| Three months ended March 31, 2017 | Shares (000s) | Weighted Average Grant Date Fair Value |
|---|---|---|
| Non-vested balance as of December 31, 2016 | 102 | $ 54.18 |
| Granted | 9 | 85.40 |
| Vested | (14) | 40.98 |
| Forfeited | - | - |
| Non-vested balance as of March 31, 2017 | 97 | $ 59.12 |

Non-vested performance share activity for the three months ended March 31, 2018 and 2017 is summarized below:

| Three months ended March 31, 2018 | Shares (000s) | Weighted Average Grant Date Fair Value |
|---|---|---|
| Non-vested balance as of December 31, 2017 | 39 | $ 72.62 |
| Granted | 32 | 71.27 |
| Vested | (15) | 58.78 |
| Forfeited | - | - |
| Non-vested balance as of March 31, 2018 | 56 | $ 75.47 |

| Three months ended March 31, 2017 | Shares (000s) | Weighted Average Grant Date Fair Value |
|---|---|---|
| Non-vested balance as of December 31, 2016 | 34 | $ 61.06 |
| Granted | 15 | 93.85 |
| Vested | - | - |
| Forfeited | - | - |
| Non-vested balance as of March 31, 2017 | 49 | $ 71.34 |

The performance share (“PS”) awards provide the recipients the right to receive a certain number of shares of the Company’s common stock in the future, subject to an (1) EBITDA performance hurdle, where vesting is dependent upon the Company achieving a certain EBITDA percentage growth over the performance period, and (2) relative total shareholder return (TSR) where vesting is dependent upon the Company’s TSR performance over the performance period relative to a comparator group consisting of the Russell 2000 index constituents. 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 rates of 2.4% and 1.5%; dividend yields of 0.5% and 0.6%; volatilities of 27% and 32%; and initial TSR's of -10.5% and 8.2%, in each case for the three months ended March 31, 2018 and 2017, respectively. Expense is estimated based on the number of shares expected to vest, assuming the requisite service period is rendered and the probable outcome of the performance condition is achieved. The estimate is revised if subsequent information indicates that the actual number of shares likely to vest differs from previous estimates. Expense is ultimately adjusted based on the actual achievement of service and performance targets. The PS will cliff vest 100% at the end of the third year following the grant in accordance with the performance metrics set forth.

As of March 31, 2018 and 2017, there was $13,487 and $13,329, respectively, of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the plans. As of March 31, 2018, the unrecognized compensation cost is expected to be recognized over a weighted-average period of approximately 2 years. The Company estimates that share-based compensation expense for the year ended December 31, 2018 will be approximately $6,600.

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 2,184,471 shares have been purchased, of which no shares remained in treasury at March 31, 2018. During the three months ended March 31, 2018 and 2017, a total of 10,454 and 7,175 shares, respectively, have been purchased at an average cost of $75.04 and $85.18 per share, respectively. 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 March 31, 2018 and December 31, 2017 consisted of the following:

| | March 31, 2018 | December 31, 2017 |
|---|---|---|
| Raw materials | $ 23,173 | $ 20,520 |
| Work in progress | 4,539 | 6,308 |
| Finished goods | 38,558 | 33,868 |
| Total inventories | $ 66,270 | $ 60,696 |

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at March 31, 2018 and December 31, 2017 are summarized as follows:

| | March 31, 2018 | December 31, 2017 |
|---|---|---|
| Land | $ 6,563 | $ 7,262 |
| Building | 64,647 | 63,224 |
| Equipment | 205,101 | 201,341 |
| Construction in progress | 12,394 | 13,860 |
| | 288,705 | 285,687 |
| Less: accumulated depreciation | 100,770 | 95,894 |
| Property, plant and equipment, net | $ 187,935 | $ 189,793 |

NOTE 6 – INTANGIBLE ASSETS

The Company had goodwill in the amount of $441,361 as of March 31, 2018 and December 31, 2017, subject to the provisions of ASC 350, “Intangibles-Goodwill and Other.”

Identifiable intangible assets with finite lives at March 31, 2018 and December 31, 2017 are summarized as follows:

| | Amortization Period (in years) | Gross Carrying Amount at 3/31/18 | Accumulated Amortization at 3/31/18 | Gross Carrying Amount at 12/31/17 | Accumulated Amortization at 12/31/17 |
|---|---|---|---|---|---|
| Customer relationships & lists | 10 | $ 190,097 | $ 109,798 | $ 190,061 | $ 105,573 |
| Trademarks & trade names | 5-17 | 40,630 | 13,939 | 40,630 | 12,895 |
| Developed technology | 5 | 13,338 | 6,603 | 13,338 | 5,936 |
| Other | 3-18 | 13,590 | 5,370 | 13,466 | 5,018 |
| | | $ 257,655 | $ 135,710 | $ 257,495 | $ 129,422 |

Amortization of identifiable intangible assets was approximately $6,193 for the three months ended March 31, 2018. Assuming no change in the gross carrying value of identifiable intangible assets, the estimated amortization expense for the remainder of 2018 is approximately $18,552, approximately $22,639 for 2019, $20,601 for 2020, $17,394 for 2021, $15,825 for 2022 and $14,505 for 2023. At March 31, 2018, there were no identifiable intangible assets with indefinite useful lives as defined by ASC 350. Identifiable intangible assets are reflected in “Intangible assets with finite lives, net” in the Company’s condensed consolidated balance sheets. There were no changes to the useful lives of intangible assets subject to amortization during the three months ended March 31, 2018.

NOTE 7 – EQUITY-METHOD INVESTMENT

In 2013, the Company and Eastman Chemical Company (formerly Taminco Corporation) formed a joint venture (66.66% / 33.34% ownership), St. Gabriel CC Company, LLC, to design, develop, and construct an expansion of the Company’s St. Gabriel aqueous choline chloride plant. The Company contributed the St. Gabriel plant, at cost, and expansion will be funded by the owners. The joint venture became operational as of July 1, 2016. St. Gabriel CC Company, LLC is a Variable Interest Entity (VIE) because the total equity at risk is not sufficient to permit the joint venture to finance its own activities without additional subordinated financial support. Additionally, voting rights (2 votes each) are

not proportionate to the owners' obligation to absorb expected losses or receive the expected residual returns of the joint venture. The Company will receive up to 2/3 of the production offtake capacity and absorbs operating expenses approximately proportional to the actual percentage of offtake. The joint venture is accounted for under the equity method of accounting since the Company is not the primary beneficiary as we do not have the power to direct the activities of the joint venture that most significantly impact its economic performance. The Company recognized a loss of $139 and $134 for the three months ended March 31, 2018 and 2017, respectively, relating to its portion of the joint venture's expenses in other expense. The carrying value of the joint venture at March 31, 2018 and December 31, 2017 is $4,665 and $4,804, respectively, and is recorded in other assets.

NOTE 8 – 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"). On June 1, 2017, $20,000 of the revolving loan was used to fund the Innovative Food Processors, Inc. acquisition (see Note 2). At March 31, 2018, the Company had a total of $210,750 of debt outstanding. The term loan is payable in quarterly installments of $8,750 which commenced 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 3.38% at March 31, 2018. The Company has $100,000 of undrawn revolving loan at March 31, 2018 that is subject to a commitment fee, which is based on the Company's consolidated leverage ratio as defined in the loan agreement. The loan agreement contains quarterly covenants requiring the consolidated leverage ratio to be less than a certain maximum ratio and the consolidated fixed charge coverage ratio to exceed a certain minimum ratio. At March 31, 2018, 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:

| Year | Term loan | Total |
|---|---|---|
| April 1, 2018 to December 31, 2018 | $ 26,250 | $ 26,250 |
| 2019 | 184,500 | 184,500 |
| Future principal payments | 210,750 | 210,750 |
| Less unamortized debt financing costs | 427 | 427 |
| Less current portion of long-term debt | 35,000 | 35,000 |
| Total long-term debt | $ 175,323 | $ 175,323 |

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 $427 at March 31, 2018

and are shown net against outstanding principal on the accompanying balance sheet. Amortization expense pertaining to these costs totaled $109 and $124 for the three months ended March 31, 2018 and 2017, respectively, and is included in interest expense in the accompanying condensed consolidated statements of earnings.

NOTE 9 – NET EARNINGS PER SHARE

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

| Three months ended March 31, 2018 | Net Earnings (Numerator) | Number of Shares (Denominator) | Per Share Amount |
|---|---|---|---|
| Basic EPS – Net earnings and weighted average common shares outstanding | $ 19,346 | 31,985,332 | $ .60 |
| Effect of dilutive securities – stock options, restricted stock, and performance shares | | 342,001 | |
| Diluted EPS – Net earnings and weighted average common shares outstanding and effect of stock options, restricted stock, and performance shares | $ 19,346 | 32,327,333 | $ .60 |

| Three months ended March 31, 2017 | Net Earnings (Numerator) | Number of Shares (Denominator) | Per Share Amount |
|---|---|---|---|
| Basic EPS – Net earnings and weighted average common shares outstanding | $ 15,518 | 31,706,205 | $ .49 |
| Effect of dilutive securities – stock options, restricted stock, and performance shares | | 483,415 | |
| Diluted EPS – Net earnings and weighted average common shares outstanding and effect of stock options, restricted stock, and performance shares | $ 15,518 | 32,189,620 | $ .48 |

The Company had stock options covering 347,211 and 217,860 shares at March 31, 2018 and 2017, 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.

NOTE 10 – INCOME TAXES

The Company’s effective tax rate for the three months ended March 31, 2018 and 2017, was 23.2% and 25.1%, respectively. The decrease in effective tax rate for the three months ended March 31, 2018 compared to the three months ended March 31, 2017 is primarily

attributed to the impact of the U.S. Tax Cuts and Jobs Act (the "Tax Reform Act") that reduced the U.S. corporate tax rate from 35% to 21%. This was partially offset by lower excess tax benefits from stock based compensation related to the adoption of ASU 2016-09 in the first quarter of 2017.

In December 2017, the Tax Reform Act was signed into law making significant changes to the Internal Revenue Code. Changes included, but are not limited to, a corporate tax rate decrease from 35% to 21 % effective for tax years beginning after December 31, 2017, the transition of U.S. international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017.

On December 22, 2017, Staff Accounting Bulletin No. 118 ('SAB 118") was issued to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Reform Act. As of March 31, 2018, additional work is still necessary for a more detailed analysis of the Company's deferred tax assets and liabilities, and its historical foreign earnings as well as potential correlative adjustments. The provisional amounts are subject to adjustment during the measurement period of up to one year following the December 2017 enactment of the Tax Reform Act.

SAB 118 also provided additional guidance to address the accounting for the effects of the Tax Reform Act provisions related to the taxation of Global Intangible Low-Taxed Income ("GILTI"). The guidance provided that companies should make an accounting policy election to recognize deferred taxes for temporary differences expected to reverse as GILTI in future years or to include the tax expense in the year it is incurred. We have not completed our analysis of the effects of GILTI provisions and will further consider the accounting policy election within the measurement period as provided for under SAB 118.

The Tax Reform Act also changed the individuals whose compensation is subject to a $1 million cap on deductibility under Section 162(m) and includes performance-based compensation such as stock options and stock appreciation rights in the calculation. The provision generally applies to taxable years beginning after December 31, 2017 and provides a transition for compensation paid pursuant to a written binding contract that is in effect on November 2, 2017. The Company will need to review carefully the terms of its compensation plans and agreements to assess whether such plans and agreements are considered to be written binding contracts in effect on November 2, 2017. Due to the complexity of applying this new provision, the Company has not yet completed its analysis of these new provisions and will finalize its analysis during the measurement period provided under SAB 118.

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. 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.

The Company files income tax returns in the U.S. and in various states and foreign countries. As of March 31, 2018, in the major jurisdictions where the Company operates, it is generally no longer subject to income tax examinations by tax authorities for years before 2013. As of March 31, 2018 and December 31, 2017, the Company had approximately $5,072 and $4,781, respectively, of unrecognized tax benefits, which are included in other long-term obligations on the Company's consolidated balance sheets. The Company includes interest expense or income as well as potential penalties on unrecognized tax positions as a component of income tax expense in the consolidated statements of earnings. The total amount of accrued interest and penalties related to uncertain tax positions at March 31, 2018 and December 31, 2017 was approximately $1,976 and $1,882, respectively, and is included in other long-term obligations.

NOTE 11 – SEGMENT INFORMATION

Human Nutrition & Health

Our Human Nutrition & Health 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 nutrients and mineral amino acid chelated 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. Our mineral amino acid chelates, specialized mineral salts, and mineral complexes are used as raw materials for inclusion in premier human nutrition products. Science and patented technology have been combined to create an organic molecule in a form the body can readily assimilate.

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, and 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

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.

Our micronutrient agricultural nutrition business sells chelated minerals primarily into high value crops. We have a unique and patented two-step approach to solving mineral deficiency in plants to optimize health, yield and shelf-life. First, we determine optimal mineral balance for plant health. We then have a foliar applied Metalosate product range, utilizing patented amino acid chelate technology. Our products quickly and efficiently deliver mineral nutrients. As a result, the farmer/grower gets healthier crops that are more resistant to disease and pests, larger yields and healthier food for the consumer with extended shelf life for produce being shipped long distances.

Industrial Products

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

Business Segment Assets:

| | March 31, 2018 | December 31, 2017 |
|---|---|---|
| Human Nutrition & Health | $ 720,931 | $ 719,010 |
| Animal Nutrition & Health | 115,399 | 118,418 |
| Specialty Products | 63,527 | 63,141 |
| Industrial Products | 21,751 | 18,471 |
| Other Unallocated | 46,381 | 44,596 |
| Total | $ 967,989 | $ 963,636 |

Depreciation/Amortization:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Human Nutrition & Health | $ 8,532 | $ 8,115 |
| Animal Nutrition & Health | 1,305 | 1,889 |
| Specialty Products | 1,010 | 1,016 |
| Industrial Products | 171 | 189 |
| Total | $ 11,018 | $ 11,209 |

Capital Expenditures:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Human Nutrition & Health | $ 2,079 | $ 1,755 |
| Animal Nutrition & Health | 830 | 792 |
| Specialty Products | 582 | 216 |
| Industrial Products | 244 | 171 |
| Total | $ 3,735 | $ 2,934 |

Business Segment Net Sales:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Human Nutrition & Health | $83,063 | $73,127 |
| Animal Nutrition & Health | 46,141 | 38,078 |
| Specialty Products | 17,740 | 18,790 |
| Industrial Products | 14,466 | 7,733 |
| Total | $161,410 | $137,728 |

Business Segment Earnings Before Income Taxes:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Human Nutrition & Health | $ 13,003 | $ 10,196 |
| Animal Nutrition & Health | 7,484 | 5,376 |
| Specialty Products | 5,135 | 6,463 |
| Industrial Products | 2,479 | 722 |
| Transaction costs, integration costs, and legal settlement | (689) | (54) |
| Interest and other expense | (2,235) | (1,993) |
| Total | $ 25,177 | $ 20,710 |

Transaction and integration costs were primarily related to the aforementioned definitive agreements (see Note 2).

NOTE 12 – REVENUE

Adoption of ASC Topic 606, "Revenue from Contracts with Customers"

On January 1, 2018, we adopted Topic 606 using the modified retrospective method applied to those contracts that were in progress as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historical accounting under Topic 605. The impact to revenues as a result of applying Topic 606 was an increase of $458 for the three months ended March 31, 2018.

Revenue Recognition

Revenues are recognized when control of the promised goods is transferred to our customers, in an amount that reflects the consideration we expect to realize in exchange for those goods.

The following table presents our revenues disaggregated by revenue source (in thousands, unaudited). Sales and usage-based taxes are excluded from revenues.

| | Three Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Product Sales | $148,782 | $124,623 |
| Co-manufacturing | 8,839 | 10,099 |
| Bill and Hold | 1,289 | 983 |
| Consignment | 1,045 | 643 |
| Product Sales Revenue | 159,955 | 136,348 |
| Royalty Revenue | 1,455 | 1,380 |
| Total Revenue | $161,410 | $137,728 |

The following table presents our revenues disaggregated by geography, based on the billing addresses of our customers (in thousands, unaudited):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Domestic Revenue | $120,668 | $106,300 |
| Foreign Revenue | 40,742 | 31,428 |
| Total Revenue | $161,410 | $137,728 |

Product Sales Revenues

Balchem’s primary operation is the manufacturing and sale of health and wellness ingredient products, in which Balchem receives an order from a customer and fulfills that order. Balchem’s product sales have three sub-streams of revenue: co-manufacturing, bill and hold, and consignment.

Royalty Revenues

Royalty revenue consists of agreements with customers to use Balchem’s intellectual property in exchange for a sales based royalty. Royalty revenue is recorded as part of the Human Nutrition & Health segment.

Contract Liabilities

We record contract liabilities when cash payments are received or due in advance of our performance, including amounts which are refundable.

Our payment terms vary by the type and location of our customer and the products offered. The term between invoicing and when payment is due is not significant. For certain

products or services and customer types, we require payment before the products are delivered to the customer.

Practical Expedients and Exemptions

We generally expense sales commissions when incurred because the amortization period would have been one year or less. These costs are recorded within selling and marketing expenses.

We do not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which we recognize revenue at the amount to which we have the right to invoice for products shipped.

NOTE 13 – SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid during the three months ended March 31, 2018 and 2017 for income taxes and interest is as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Income taxes | $ - | $ 195 |
| Interest | $ 1,763 | $ 1,676 |

NOTE 14 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Net foreign currency translation adjustment | $ 1,363 | $ 541 |
| Net change in postretirement benefit plan (see Note 15 for further information) | | |
| Amortization of prior service cost (credit) | 18 | 19 |
| Amortization of gain | (1) | (4) |
| Total before tax | 17 | 15 |
| Tax | (4) | (5) |
| Net of tax | 13 | 10 |
| Total other comprehensive income | $ 1,376 | $ 551 |

Accumulated other comprehensive loss at March 31, 2018 and December 31, 2017 consisted of the following:

| | Foreign currency translation adjustment | Postretirement benefit plan | Total |
|---|---|---|---|
| Balance December 31, 2017 | $ (1,303) | $ (339) | $(1,642) |
| Other comprehensive income | 1,363 | 13 | 1,376 |
| Balance March 31, 2018 | $ 60 | $ (326) | $(266) |

NOTE 15 – EMPLOYEE BENEFIT PLAN

The Company provides postretirement benefits in the form of two unfunded postretirement medical plans; one that under a collective bargaining agreement covers eligible retired employees of the Verona facility and a plan for Named Executive Officers.

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Service cost | $ 19 | $ 17 |
| Interest cost | 11 | 12 |
| Amortization of prior service cost | 18 | 19 |
| Amortization of gain | (1) | (4) |
| Net periodic benefit cost | $ 47 | $ 44 |

The amount recorded for these obligations on the Company's balance sheet as of March 31, 2018 and December 31, 2017 is $1,603 and $1,573, respectively, and is included in other long-term obligations. These plans are unfunded and approved claims are paid from Company funds. Historical cash payments made under such plan have typically been less than $100 per year.

NOTE 16 – COMMITMENTS AND CONTINGENCIES

Rent expense charged to operations under lease agreements for the three months ended March 31, 2018 and 2017 aggregated approximately $786 and $792, respectively. Aggregate future minimum rental payments required under all non-cancelable operating leases at March 31, 2018 are as follows:

| Year | |
|---|---|
| April 1, 2018 to December 31, 2018 | $1,994 |
| 2019 | 2,177 |
| 2020 | 1,845 |
| 2021 | 1,663 |
| 2022 | 1,345 |
| 2023 | 1,332 |
| Thereafter | 4,665 |
| Total minimum lease payments | $15,021 |

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"). Based on NYDEC requirements, the Company cleaned the area and removed soil from the drum burial site. 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").

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 17 – 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 March 31, 2018 and December 31, 2017 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying condensed consolidated balance sheets. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. Considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value, and, accordingly, the estimates are not necessarily indicative of the amounts that the Company could realize in a current market exchange. The carrying value of debt approximates fair value as the interest rate is based on market and the Company's consolidated leverage ratio. The Company's financial instruments also include cash equivalents, accounts receivable, accounts payable, and accrued liabilities, which are carried at cost and approximates fair value due to the short-term maturity of these instruments. Cash and cash equivalents at March 31, 2018 and December 31, 2017 includes $784 and $782 in money market funds, respectively. The money market funds are valued using level one, as defined by ASC 820, "Fair Value Measurement."

NOTE 18 – RELATED PARTY TRANSACTIONS

The Company provides services on a contractual agreement to St. Gabriel CC Company, LLC. These services include accounting, information technology, quality control, and

purchasing services, as well as operation of the St. Gabriel CC Company, LLC plant. The Company also sells raw materials to St. Gabriel CC Company, LLC. In return, St. Gabriel CC Company, LLC provides choline chloride finished goods. The services the Company provided amounted to $927 and $878, respectively, for the three months ended March 31, 2018 and 2017. The raw materials sold amounted to $7,278 and $4,348, respectively, for the three months ended March 31, 2018 and 2017. These services and raw materials are primarily recorded, net of the finished goods received from St. Gabriel CC Company, LLC of $6,036 and $4,685, respectively for the three months ended March 31, 2018 and 2017, in cost of goods sold. At March 31, 2018, the Company had a receivable of $3,313, recorded in accounts receivable from St. Gabriel CC Company, LLC for services rendered and raw materials sold and a payable of $2,228 for finished goods received recorded in accrued expenses. In addition, the Company had a receivable in the amount of $8 related to non-contractual monies owed from St. Gabriel CC Company, LLC, recorded in receivables.

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

This Report contains forward-looking statements, within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, which reflect our expectation or belief concerning future events that involve risks and uncertainties. Our actions and performance could differ materially from what is contemplated by the forward-looking statements contained in this Report. Factors that might cause differences from the forward-looking statements include those referred to or identified in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017 and other factors that may be identified elsewhere in this Report. Reference should be made to such factors and all forward-looking statements are qualified in their entirety by the above cautionary statements.

Overview

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

Acquisition of Chol-Mix Kft

On March 24, 2017, the Company, through its European subsidiary Balchem Italia SRL, entered into an agreement to purchase certain assets of Chol-Mix Kft (“Chol-Mix), a privately held manufacturer of dry choline chloride, with knowledge and technical know-how supporting the application of liquids on carriers, located in Hungary, for a purchase price of €1,500. As of March 31, 2018, approximately €1,150, translated to approximately $1,230, has been paid to Chol-Mix Kft with the remaining balance of approximately €350, translated to approximately $431, due at the end of a related manufacturing agreement. The acquisition of Chol-Mix’s assets will provide our Animal Nutrition & Health segment with additional dry choline chloride capacity in Europe, geographical expansion opportunities in Eastern Europe, and technical knowledge supporting the application of liquids on carriers.

Acquisition of Innovative Food Processors, Inc.

On June 1, 2017, the Company acquired 100 percent of the outstanding common shares of Innovative Food Processors, Inc. (“IFP”), a privately held manufacturer of agglomerated and microencapsulated food and nutrition ingredients, headquartered in Faribault, Minnesota. The Company made payments of approximately $22,975 on the acquisition date and subsequently $635 in September 2017 to true-up the opening balance of working capital, amounting to approximately $16,161 to the former shareholders, adjustments for working capital acquired of $5,065, and $2,384 to IFP’s lenders to pay off all IFP bank debt. The acquisition of IFP expands the Company’s Human Nutrition & Health segment’s processing technology and market reach, while bringing innovative and value-added systems to food, beverage, and nutrition customers.

Human Nutrition & Health

Our Human Nutrition & Health 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 nutrients and mineral amino acid chelated 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. Our mineral amino acid chelates, specialized mineral salts, and mineral complexes are used as raw materials for inclusion in premier human nutrition products. Proprietary technology has been combined to create an organic molecule in a form the body can readily assimilate.

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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 global marketplace.

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.

Our micronutrient agricultural nutrition business sells chelated minerals primarily into high value crops. We have a unique and patented two-step approach to solving mineral deficiency in plants to optimize health, yield and shelf-life. First, we determine optimal mineral balance for plant health. We then have a foliar applied Metalosate product range, utilizing patented amino acid chelate technology. Our products quickly and efficiently deliver mineral nutrients. As a result, the farmer/grower gets healthier crops that are more resistant to disease and pests, larger yields and healthier food for the consumer with extended shelf life for produce being shipped long distances.

Industrial Products

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

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

The following tables summarize consolidated business segment net sales and earnings from operations for the three months ended March 31, 2018 and 2017:

Business Segment Net Sales:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Human Nutrition & Health | $83,063 | $73,127 |
| Animal Nutrition & Health | 46,141 | 38,078 |
| Specialty Products | 17,740 | 18,790 |
| Industrial Products | 14,466 | 7,733 |
| Total | $161,410 | $137,728 |

Business Segment Earnings From Operations:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Human Nutrition & Health | $ 13,003 | $ 10,196 |
| Animal Nutrition & Health | 7,484 | 5,376 |
| Specialty Products | 5,135 | 6,463 |
| Industrial Products | 2,479 | 722 |
| Transaction costs, integration costs and legal settlement | (689) | (54) |
| Total | $ 27,412 | $ 22,703 |

RESULTS OF OPERATIONS

Three months ended March 31, 2018 compared to three months ended March 31, 2017.

Net Sales

Net sales for the three months ended March 31, 2018 were $161,410, as compared with $137,728 for the three months ended March 31, 2017, an increase of $23,682 or 17.2%. Net sales for the Human Nutrition & Health segment were $83,063 for the three months ended March 31, 2018, compared with $73,127 for the three months ended March 31, 2017, an increase of $9,936 or 13.6%. Sales from Powder Systems were up $9,261 or 38.9% and Encapsulates' sales were up $2,575 or 34.7%, when compared to the three months ended March 31, 2017, with the acquired IFP business contributing to both product lines' increases. Net sales for the Animal Nutrition & Health segment were $46,141 for the three months ended March 31, 2018, as compared with $38,078 for the three months ended March 31, 2017, an increase of $8,063 or 21.2%. Global feed grade choline product sales increased by $8,094 or 34.1% primarily due to higher average selling prices and higher volumes. Sales of products targeted for ruminant animal feed markets decreased by $611 or 5.1% from the prior year comparable period. The decline was primarily the result of lower sales volumes of Aminoshure®, due to weakening dairy economics, particularly in international markets as well as increased competition. Net sales for the Specialty Products segment were $17,740 for the three months ended March 31, 2018, as compared with $18,790 for the three months ended March 31, 2017, a decrease of $1,050 or 5.6%. Unfavorable domestic weather patterns led to decreased plant nutrition volumes. Net sales

for the Industrial Products segment were $14,466 for the three months ended March 31, 2018 as compared to $7,733 for the three months ended March 31, 2017, an increase of $6,733 or 87.1%. The increase is principally due higher sales of various choline and choline derivatives used in shale fracking applications.

Gross Margin

For the three months ended March 31, 2018, gross margin increased to $51,459 compared to $44,429 for the three months ended March 31, 2017. Gross margin as a percentage of sales for the three months ended March 31, 2018 decreased to 31.9% from 32.3% in the prior year comparative period. Gross margin percentage for the Human Nutrition & Health segment increased 0.2% for the three months ended March 31, 2018 as compared to the three months ended March 31, 2017. Gross margin percentage increased for Animal Nutrition & Health by 0.9% primarily due to higher average selling prices of feed grade choline products. Gross margin percentage for the Specialty Products segment decreased by 1.0% compared to the three month period ended March 31, 2017 due to reduced plant nutrition volumes. Industrial Products gross margin percentage increased by 7.0% from the prior year comparative period, primarily due to an improved cost structure.

Operating Expenses

Operating expenses for the three months ended March 31, 2018 were $24,047 or 14.9% of net sales as compared to $21,726 or 15.8% of net sales for the three months ended March 31, 2017. The increase was primarily due to the inclusion of IFP expenses of $918, increased research and development spend of $611, certain compensation-related expenses of $1,969, and increased transaction and integration costs of $635, partially offset by insurance proceeds associated with the Clearfield fire of $1,590 and lower amortization of $1,012, when compared to 2017.

Earnings from Operations

Principally as a result of the above-noted details, earnings from operations for the three months ended March 31, 2018 were $27,412 as compared to $22,703 for the three months ended March 31, 2017, an increase of $4,709 or 20.7%. Earnings from operations as a percentage of sales (“operating margin”) for the three months ended March 31, 2018 were 17.0%, increasing from 16.5% for the three months ended March 31, 2017. Earnings from the Human Nutrition & Health segment were $13,003, an increase of $2,807 or 27.5%, primarily due to the aforementioned higher sales. Animal Nutrition & Health segment earnings from operations were $7,484, an increase of $2,108 or 39.2%, primarily the result of higher sales of feed grade choline, partially offset by lower sales of products targeted from ruminant animals. Earnings from operations from the Specialty Products segment were $5,135, a decrease of $1,328, or 20.6%, primarily the result of the aforementioned lower plant nutrition sales volumes. Earnings from operations from the Industrial Products segment of $2,479 for the quarter ended March 31, 2018 increased $1,757 compared to the quarter ended March 31, 2017, primarily due to the aforementioned higher sales volumes.

Other Expenses (Income)

Interest expense for the three months ended March 31, 2018 and 2017 was $1,876 and $1,799, respectively, and is primarily related to the loans entered into on May 7, 2014. Other expense was $361 for the three months ended March 31, 2018 and $196 for the three months ended March 31, 2017, respectively.

Income Tax Expense

The Company's effective tax rate for the three months ended March 31, 2018 and 2017, was 23.2% and 25.1%, respectively. The decrease in effective tax rate for the three months ended March 31, 2018 compared to the three months ended March 31, 2017 is primarily attributed to the impact of the U.S. Tax Cuts and Jobs Act (the "Tax Reform Act") that reduced the U.S. corporate tax rate from 35% to 21%. This was partially offset by lower excess tax benefits from stock based compensation related to the adoption of ASU 2016-09 in the first quarter of 2017.

In December 2017, the Tax Reform Act was signed into law making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a corporate tax rate decrease from 35% to 21 % effective for tax years beginning after December 31, 2017, the transition of U.S. international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017.

On December 22, 2017, Staff Accounting Bulletin No. 118 ('SAB 118") was issued to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Reform Act. As of March 31, 2018, additional work is still necessary for a more detailed analysis of the Company's deferred tax assets and liabilities, and its historical foreign earnings as well as potential correlative adjustments. The provisional amounts are subject to adjustment during the measurement period of up to one year following the December 2017 enactment of the Tax Reform Act.

SAB 118 also provided additional guidance to address the accounting for the effects of the Tax Reform Act provisions related to the taxation of Global Intangible Low-Taxed Income ("GILTI"). The guidance provided that companies should make an accounting policy election to recognize deferred taxes for temporary differences expected to reverse as GILTI in future years or to include the tax expense in the year it is incurred. We have not completed our analysis of the effects of GILTI provisions and will further consider the accounting policy election within the measurement period as provided for under SAB 118.

The Tax Reform Act also changed the individuals whose compensation is subject to a $1 million cap on deductibility under Section 162(m) and includes performance-based compensation such as stock options and stock appreciation rights in the calculation. The provision generally applies to taxable years beginning after December 31, 2017 and provides a transition for compensation paid pursuant to a written binding contract that is in effect on November 2, 2017. The Company will need to review carefully the terms of its compensation plans and agreements to assess whether such plans and agreements are considered to be written binding contracts in effect on November 2, 2017. Due to the complexity of applying this new provision, the Company has not yet completed its analysis of these new provisions and will finalize its analysis during the measurement period provided under SAB 118.

Net Earnings

Principally as a result of the above-noted details, net earnings for the three months ended March 31, 2018 were $19,346 as compared with $15,518 for the three months ended March 31, 2017, an increase of $3,828 or 24.7%.

FINANCIAL CONDITION
LIQUIDITY AND CAPITAL RESOURCES
(All amounts in thousands, except share and per share data)

During the three months ended March 31, 2018, there were no other material changes outside the ordinary course of business in the specified contractual obligations set forth in our Annual Report on Form 10-K for the year ended December 31, 2017. The Company expects its operations to continue generating sufficient cash flow to fund working capital requirements, capital investments and service future debt payments. The Company continues to pursue additional acquisition candidates. The Company could seek additional bank loans or access to financial markets to fund such acquisitions, its operations, working capital, capital investments, or other cash requirements as deemed necessary.

Cash

Cash and cash equivalents increased to $42,679 at March 31, 2018 from $40,416 at December 31, 2017. At March 31, 2018, the Company had $30,757 of cash and cash equivalents held by our foreign subsidiaries. It is our intention to permanently reinvest these funds in our foreign operations by continuing to make additional plant related investments, and potentially invest in partnerships or acquisitions; therefore, we do not currently expect to repatriate these funds in order to fund our U.S. operations or obligations. However, if these funds are needed for our U.S. operations, we could be required to pay additional taxes to repatriate these funds. Working capital was $113,693 at March 31, 2018 as compared to $90,940 at December 31, 2017, an increase of $22,753.

Operating Activities

Cash flows from operating activities provided $25,479 for the three months ended March 31, 2018 as compared to $22,802 for the three months ended March 31, 2017. The increase in cash flows from operating activities was primarily due to the aforementioned increase in earnings.

Investing Activities

As previously noted, on March 24, 2017, the Company, through its European subsidiary Balchem Italia SRL, entered into an agreement to purchase the assets of Chol-Mix Kft, a privately held manufacturer of dry choline chloride, with knowledge and technical know-how supporting the application of liquids on carriers, located in Hungary, for a purchase price of €1.5 million. As of March 31, 2018, approximately €1,150, translated to approximately $1,230, has been paid to Chol-Mix Kft with the remaining balance of approximately €350, translated to approximately $431, due at the end of a related manufacturing agreement.

The Company continues to invest in projects across all production facilities, capital expenditures were $3,735 and $2,934 for the three months ended March 31, 2018 and 2017, respectively.

Financing Activities

The Company made debt payments of $8,750 during 2018 and 2017 related to the senior secured term loan. In addition, the Company made net debt payments of $3,000 related to the revolving loan in 2017 and has $100,000 available under a revolving loan agreement as of March 31, 2018.

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 2,184,471 shares have been purchased, none of which remained in treasury at March 31, 2018. The Company intends to acquire shares from time to time at prevailing market prices if and to the extent it deems it advisable to do so based on its assessment of corporate cash flow, market conditions and other factors.

Proceeds from stock options exercised were $1,261 and $3,969 for the three months ended March 31, 2018 and 2017, respectively. Dividend payments were $13,421 and $12,069 for the three months ended March 31, 2018 and 2017, respectively.

Other Matters Impacting Liquidity

The Company currently provides postretirement benefits in the form of two retirement medical plans. The liability recorded in other long-term liabilities on the consolidated balance sheet as of March 31, 2018 is $1,603 and the plans are not funded. Historical cash payments made under these plans have typically been less than $100 per year. We do not anticipate any changes to the payments made in the current year.

Critical Accounting Policies

Beginning January 1, 2018, we implemented ASC 606, “Revenue from Contracts with Customers.” Although the new revenue standard had an immaterial impact on our ongoing net income, we did implement changes to our processes related to revenue recognition and the control activities within them. These included the development of new policies based on the five-step model provided in the new revenue standard, new training, ongoing contract review requirements, and gathering of information provided for disclosures.

There have been no material changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Act) during the fiscal quarter ended March 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We implemented internal controls to ensure we adequately evaluated our contracts and properly assessed the impact of the new accounting standard related to revenue recognition on our financial statements to facilitate adoption of the standard on January 1, 2018. There were no significant changes to our internal control over financial reporting due to the adoption of the new standard.

Related Party Transactions

The Company was engaged in related party transactions with St. Gabriel CC Company, LLC during the three months ended March 31, 2018. See Note 18.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Cash and cash equivalents are held primarily in certificates of deposit and money market investment funds. The Company has no derivative financial instruments or derivative commodity instruments, nor does the Company have any financial instruments entered into for trading or hedging purposes. As of March 31, 2018, the Company's borrowings were under a bank term loan and revolving loan bearing interest at LIBOR or a fluctuating rate as defined by the loan agreement, at the Company's discretion, plus an applicable rate. The applicable rate is based upon the Company's consolidated leverage ratio, as defined in the loan agreement. A 100 basis point increase or decrease in interest rates, applied to the Company's borrowings at March 31, 2018, would result in an increase or decrease in annual interest expense and a corresponding reduction or increase in cash flow of approximately $2,108. The Company is exposed to market risks for changes in foreign currency rates and has exposure to commodity price risks, including prices of our primary raw materials. Our objective is to seek a reduction in the potential negative earnings impact of changes in foreign exchange rates and raw material pricing arising in our business activities. The Company manages these financial exposures, where possible, through pricing and operational means. Our practices may change as economic conditions change.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

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

(b) Changes in Internal Controls

Beginning January 1, 2018, we implemented ASC 606, "Revenue from Contracts with Customers." Although the new revenue standard had an immaterial impact on our ongoing net income, we did implement changes to our processes related to revenue recognition and the control activities within them. These included the development of new policies based on the five-step model provided in the new revenue standard, new training, ongoing contract review requirements, and gathering of information provided for disclosures.

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Part II. Other Information

Item 1A. Risk Factors

There have been no material changes in the Risk Factors identified in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Item 2C. Issuer Purchase of Equity Securities

The following table summarizes the share repurchase activity for the three months ended March 31, 2018:

| | Total Number of Shares Purchased[1] | Average Price Paid Per Share[2] | Total Number of Shares Purchased as Part of Publicly Announced Programs[1] | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Progams |
|---|---|---|---|---|
| January 1 – 31, 2018 | - | $ - | - | $ 121,099,000 |
| February 1 – 28, 2018 | 10,454 | $ 75.04 | 10,454 | $ 120,303,000 |
| March 1 – 31, 2018 | - | $ - | - | $ 120,303,000 |
| | 10,454 | | 10,454 | |

[1] 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 2,184,471 shares have been purchased, of which no shares remained in treasury at March 31, 2018. There is no expiration for this program.

[2] Average price paid per share includes costs associated with the repurchases.

Item 6. Exhibits

| | |
|---|---|
| Exhibit 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a). |
| Exhibit 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a). |
| Exhibit 32.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code. |
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| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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

BALCHEM CORPORATION

By: /s/ Theodore L. Harris
Theodore L. Harris, Chairman, President and Chief Executive Officer

By: /s/ Mary Theresa Coelho
Mary Theresa Coelho, Chief Financial Officer and Treasurer

Date: May 4, 2018

Exhibit Index

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