BALCHEM CORP
Form 10-Q
May 07, 2015

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

For The Quarterly Period Ended March 31, 2015

or

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

For the transition period from ____________ to ____________

Commission File Number 1-13648

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

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

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

As of May 1, 2015 the registrant had 31,089,601 shares of its Common Stock, $.06 2/3 par value, outstanding.

Part I. Financial Information
Item 1. Financial Statements

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

	March 31, 2015 (unaudited)	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 56,613	$ 50,287
Accounts receivable, net of allowance for doubtful accounts of $265 and $288 at March 31, 2015 and December 31, 2014	64,088	71,982
Inventories	50,451	49,623
Prepaid expenses	3,370	4,545
Deferred income taxes	1,372	1,390
Other current assets	3,233	3,475
Total current assets	179,127	181,302
Property, plant and equipment, net	133,494	131,588
Goodwill	383,906	383,906
Intangible assets with finite lives, net	154,135	160,394
Other assets	4,180	4,341
Total assets	$ 854,842	$ 861,531
Liabilities and Stockholders' Equity		
Current liabilities:		
Trade accounts payable	$ 20,041	$ 24,352
Accrued expenses	16,555	15,614
Accrued compensation and other benefits	4,735	9,137
Dividends payable	-	9,251
Income taxes payable	1,789	2,168
Current portion of long-term debt	35,000	35,000
Total current liabilities	78,120	95,522
Long-term debt	288,750	297,500
Deferred income taxes	70,701	70,661
Other long-term obligations	6,047	5,950
Total liabilities	443,618	469,633
Commitments and contingencies (note 14)		
Stockholders' equity:		
Preferred stock, $25 par value. Authorized 2,000,000 shares; none issued and outstanding	-	-
Common stock, $.0667 par value. Authorized 60,000,000 shares; 31,056,901 shares issued and outstanding at March 31, 2015 and 30,845,586 shares issued and outstanding at December 31, 2014	2,071	2,058

Additional paid-in capital	104,113	97,289
Retained earnings	310,374	295,202
Accumulated other comprehensive loss	(5,334)	(2,651)
Total stockholders' equity	411,224	391,898
Total liabilities and stockholders' equity	$ 854,842	$ 861,531

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

	Three Months Ended March 31, 2015	2014
Net sales	$144,862	$85,995
Cost of sales	101,732	62,780
Gross margin	43,130	23,215
Operating expenses:		
Selling expenses	11,786	4,189
Research and development expenses	1,448	773
General and administrative expenses	4,858	4,898
	18,092	9,860
Earnings from operations	25,038	13,355
Other expenses (income):		
Interest income	(2)	(46)
Interest expense	1,881	1
Other, net	74	28
Earnings before income tax expense	23,085	13,372
Income tax expense	7,913	4,478
Net earnings	$15,172	$8,894
Net earnings per common share - basic	$0.49	$0.30
Net earnings per common share - diluted	$0.48	$0.29

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

	Three Months Ended March 31, 2015	2014
Net earnings	$15,172	$8,894
Other comprehensive loss, net of tax:		
Net foreign currency translation adjustment	(2,680)	(18)
Net change in postretirement benefit plan, net of taxes of $2 and $1 for the three months ended March 31, 2015 and 2014	(3)	(2)
Other comprehensive loss	(2,683)	(20)
Comprehensive income	$12,489	$8,874

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

	Three Months Ended March 31, 2015	2014
Cash flows from operating activities:		
Net earnings	$15,172	$8,894
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	10,026	2,631
Stock compensation expense	1,174	988
Deferred income taxes	4	55
Provision for doubtful accounts	(16)	-
Foreign currency transaction loss	34	36
Loss on disposal of assets	85	-
Changes in assets and liabilities		
Accounts receivable	7,125	(4,387)
Inventories	(1,286)	(50)
Prepaid expenses and other current assets	1,322	526
Accounts payable and accrued expenses	(7,010)	400
Income taxes	(168)	1,123
Customer deposits and other deferred revenue	11	-
Other	125	24
Net cash provided by operating activities	26,598	10,240
Cash flows from investing activities:		
Deposit held in escrow	-	(5,500)
Capital expenditures	(6,368)	(1,138)
Intangible assets acquired	(387)	(27)
Net cash used in investing activities	(6,755)	(6,665)
Cash flows from financing activities:		
Principal payments on long-term debt	(8,750)	-
Repayments of short-term obligations	-	(89)
Proceeds from stock options exercised	3,175	1,327
Excess tax benefits from stock compensation	2,488	1,689
Dividends paid	(9,251)	(7,856)
Purchase of treasury stock	-	(33)
Net cash used in financing activities	(12,338)	(4,962)
Effect of exchange rate changes on cash	(1,179)	(30)
Increase (decrease) in cash and cash equivalents	6,326	(1,417)
Cash and cash equivalents beginning of period	50,287	208,747
Cash and cash equivalents end of period	$56,613	$207,330

Supplemental Cash Flow Information - see Note 11

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1 – CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

In the opinion of management, the unaudited condensed consolidated financial statements furnished in this Form 10-Q include all adjustments necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented. All such adjustments are of a normal recurring nature. The condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP" or "GAAP") governing interim financial statements and the instructions to Form 10-Q and Article 10 of Regulation S-X under the Securities Exchange Act of 1934 and therefore do not include some information and notes necessary to conform to annual reporting requirements. Certain prior year amounts have been reclassified to conform to current year presentation. The results of operations for the three months ended March 31, 2015 are not necessarily indicative of the operating results expected for the full year or any interim period.

Retrospective Revision of Certain Prior Period Information

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

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

NOTE 2—ACQUISITION OF PERFORMANCE CHEMICALS & INGREDIENTS COMPANY

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

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

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

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

As a result of our reviews of the tax balances, a retrospective revision of an additional $260 to deferred income taxes and goodwill was made to the purchase price allocation as of May 7, 2014.

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 $54 from January 1, 2015 to March 31, 2015 to $1,976.

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

	Three Months Ended March 31, 2015		Three Months Ended March 31, 2014	
	Net Sales	Net Earnings	Net Sales	Net Earnings
SensoryEffects actual results included in the Company's consolidated income statement from January 1, 2015 through March 31, 2015	$54,540	$2,906	$-0-	$-0-
Supplemental pro forma combined financial information	$144,862	$15,172	$144,607	$11,852
Basic earnings per share		$0.49		$0.39
Diluted earnings per share		$0.48		$0.38

2014 supplemental pro forma earnings for the three months ended March 31, 2014, exclude $1,268 of acquisition-related costs incurred. The pro forma information presented does not purport to be indicative of the results that actually would have been attained if the SensoryEffects acquisition had occurred at the beginning of the periods presented and is not intended to be a projection of future results.

NOTE 3 – STOCKHOLDERS' EQUITY

STOCK-BASED COMPENSATION

The Company records stock-based compensation in accordance with the provisions of ASC 718, "Compensation-Stock Compensation." The Company's results for the three months ended March 31, 2015 and 2014 reflected the following stock-based compensation cost, and such compensation cost had the following effects on net earnings:

	Increase/(Decrease) for the Three Months Ended March 31,	
	2015	2014
Cost of sales	$ 212	$ 148
Operating expenses	962	840
Net earnings	(760)	(653)

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

The Company's stock incentive plans allow for the granting of stock awards and options to purchase common stock. Both incentive stock options and nonqualified stock options can be awarded under the plans. No option will be exercisable for longer than ten years after the date of grant. The Company has approved and reserved a number of shares to be issued upon exercise of the outstanding options that is adequate to cover all exercises. As of March 31, 2015, the plans had 3,825,592 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 to seven 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, 2015 and 2014 is summarized below:

For the three months ended March 31, 2015	Shares (000s)	Weighted Average Exercise Price	Aggregate Intrinsic Value ($000s)	Weighted Average Remaining Contractual Term
Outstanding as of December 31, 2014	1,470	$ 27.35	$ 57,742	
Granted	197	58.52		
Exercised	(192)	16.52		
Forfeited	(1)	45.08		
Outstanding as of March 31, 2015	1,474	$ 32.93	$ 33,736	6.2
Exercisable as of March 31, 2015	1,040	$ 24.75	$ 31,849	4.9

For the three months ended March 31, 2014	Shares (000s)	Weighted Average Exercise Price	Aggregate Intrinsic Value ($000s)	Weighted Average Remaining Contractual Term
Outstanding as of December 31, 2013	1,893	$ 20.94	$ 71,465	
Granted	158	50.57		
Exercised	(125)	10.60		
Forfeited	(13)	43.10		
Outstanding as of March 31, 2014	1,913	$ 23.92	$ 53,946	5.6
Exercisable as of March 31, 2014	1,504	$ 19.28	$ 49,392	4.7

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 0.6%; expected volatilities of 33% and 33%; risk-free interest rates of 1.8% and 1.7%; and expected lives of 5.5 and 5.6 years, in each case for the three months ended March 31, 2015 and 2014, respectively.

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

Other information pertaining to option activity during the three months ended March 31, 2015 and 2014 was as follows:

	Three Months Ended March 31,	
	2015	2014
Weighted-average fair value of options granted	$18.42	$15.98
Total intrinsic value of stock options exercised ($000s)	$8,039	$5,418

Non-vested restricted stock activity for the three months ended March 31, 2015 and 2014 is summarized below:

Three months ended March 31, 2015	Shares (000s)	Weighted Average Grant Date Fair Value
Non-vested balance as of December 31, 2014	134	$ 38.13
Granted	19	58.52
Vested	(10)	14.37
Forfeited	-	-
Non-vested balance as of March 31, 2015	143	$ 42.53

Three months ended March 31, 2014	Shares (000s)	Weighted Average Grant Date Fair Value
Non-vested balance as of December 31, 2013	172	$ 33.69
Granted	20	50.49
Vested	(2)	35.79
Forfeited	(2)	32.70
Non-vested balance as of March 31, 2014	188	$ 35.42

During the three months ended March 31, 2015, the Company granted 24,010 equity-settled performance shares (PS's) with a weighted average fair value of $58.78 to certain employees. There were no vested or forfeited PS during the three months ended March 31, 2015. PS awards provide the recipient the right to receive a certain number of shares of the Company's common stock in the future, subject to an (1) EBITDA performance hurdle, where vesting is dependent upon the Company achieving a certain EBITDA percentage growth over the performance period, and (2) relative total shareholder return (TSR) where vesting is dependent upon the Company's TSR performance over the performance period relative to a comparator group consisting of the Russell 2000 index constituents established at January 1, 2015. Expense is measured based on the fair value at the date of grant utilizing a Black-Scholes methodology to produce a Monte-Carlo simulation model which allows for the incorporation of the performance hurdles that must be met before the PS vests. The assumptions used in the fair value determination were: risk free interest rate: 1.00%; dividend yield: 0.5%; volatility: 34% and initial TSR -6.9%. Expense is based on the estimated number of shares expected to vest, assuming the requisite service period is rendered and the probable outcome of the performance condition is achieved. The estimate is revised if subsequent information indicates that the actual number of shares likely to vest differs from previous estimates. Expense is ultimately adjusted based on the actual achievement of service and performance targets. The PS will cliff vest 100% at the end of the third year following the grant in accordance with the performance metrics set forth.

As of March 31, 2015 and 2014, there was $10,622 and $8,259, respectively, of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the plans. As of March 31, 2015, the unrecognized compensation cost is expected to be recognized over a weighted-average period of 1.8 years. The Company estimates that share-based compensation expense for the year ended December 31, 2015 will be approximately $4,700.

REPURCHASE OF COMMON STOCK

The Company has an approved stock repurchase program. The total authorization under this program is 3,763,038 shares. Since the inception of the program in June 1999, a total of 2,105,231 shares have been purchased, none of which remained in treasury at March 31, 2015. During the three months ended March 31, 2015, no shares were purchased. 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, 2015 and December 31, 2014 consisted of the following:

	March 31, 2015	December 31, 2014
Raw materials	$17,745	$ 19,822
Work in progress	2,439	1,989
Finished goods	30,267	27,812
Total inventories	$50,451	$ 49,623

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

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

	March 31, 2015	December 31, 2014
Land	$2,997	$3,130
Building	30,723	31,030
Equipment	149,036	150,170
Construction in progress	14,218	10,969
	196,974	195,299
Less: accumulated depreciation	63,480	63,711
Property, plant and equipment, net	$133,494	$131,588

NOTE 6 – INTANGIBLE ASSETS

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

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

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

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

	Amortization Period (in years)	Gross Carrying Amount at 3/31/15	Accumulated Amortization at 3/31/15	Gross Carrying Amount at 12/31/14	Accumulated Amortization at 12/31/14
Customer relationships & lists	10	$167,442	$ 46,822	$167,442	$ 41,238
Trademarks & trade names	17	32,014	3,332	32,014	2,540
Developed technology	5	3,200	577	3,200	420
Regulatory registration costs	5-10	2,012	705	1,704	667
Patents & trade secrets	15-17	1,705	955	1,665	933
Other	5-10	754	601	754	587
		$207,127	$ 52,992	$206,779	$ 46,385

Amortization of identifiable intangible assets was approximately $6,600 for the three months ended March 31, 2015. Assuming no change in the gross carrying value of identifiable intangible assets, the estimated amortization expense for the remainder of 2015 is $19,900, approximately $24,350 for 2016, $20,350 for 2017, $18,100 for 2018, $16,250 for 2019 and $14,500 for 2020. At March 31, 2015, there were no identifiable intangible assets with indefinite useful lives as defined by ASC 350. Identifiable intangible assets are reflected in “Intangible assets with finite lives, net” in the Company’s condensed consolidated balance sheets. There were no changes to the useful lives of intangible assets subject to amortization during the three months ended March 31, 2015.

NOTE 7 – LONG-TERM DEBT

On May 7, 2014, the Company and a bank syndicate entered into a loan agreement providing for a senior secured term loan of $350,000 and revolving loan of $100,000 (collectively referred to as the “loans”). The term loan and $50,000 of the revolving loan were used to fund the Performance Chemicals & Ingredients Company acquisition (see Note 2) and for general corporate purposes. At March 31, 2015, the Company had a total of $323,750 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 1.67% at March 31, 2015. The Company has $100,000 of undrawn revolving loan at March 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. 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, 2015, the Company was in compliance with these covenants. Indebtedness under the Company’s loan agreements are secured by assets of the company.

The following table summarizes the future minimum debt payments:

	2015	2016	2017	2018	2019
Current portion of long-term debt	$26,250	$8,750	-	-	-
Long-term debt	-	26,250	$35,000	$35,000	$192,500
Total	$26,250	$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 $1,982 at March 31, 2015. Amortization expense pertaining to these costs totaled $157 for the three months ended March 31, 2015, and is included in interest expense in the accompanying condensed consolidated statement of earnings.

NOTE 8 – NET EARNINGS PER SHARE

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

Three months ended March 31, 2015	Net Earnings (Numerator)	Number of Shares (Denominator)	Per Share Amount
Basic EPS – Net earnings and weighted average common shares outstanding	$ 15,172	30,842,208	$ .49
Effect of dilutive securities – stock options and restricted stock		616,096	
Diluted EPS – Net earnings and weighted average common shares outstanding and effect of stock options and restricted stock	$ 15,172	31,458,304	$ .48

Three months ended March 31, 2014	Net Earnings (Numerator)	Number of Shares (Denominator)	Per Share Amount
Basic EPS – Net earnings and weighted average common shares outstanding	$ 8,894	30,146,705	$ .30
Effect of dilutive securities – stock options and restricted stock		932,299	
Diluted EPS – Net earnings and weighted average common shares outstanding and effect of stock options and restricted stock	$ 8,894	31,079,004	$ .29

The Company had stock options covering 399,868 and 11,500 shares at March 31, 2015 and 2014, respectively, that could potentially dilute basic earnings per share in future periods that were not included in diluted earnings per share because their effect on the period presented was anti-dilutive.

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

NOTE 9 – INCOME TAXES

The Company accounts for uncertainty in income taxes in accordance with ASC 740-10, "Accounting for Uncertainty in Income Taxes." ASC 740-10 clarifies whether or not to recognize assets or liabilities for tax positions taken that may be challenged by a tax authority. All of the unrecognized tax benefits, if recognized in future periods, would impact the Company's effective tax rate. The Company files income tax returns in the U.S. and in various states and foreign countries. As of March 31, 2015, in the major jurisdictions where the Company operates, it is generally no longer subject to income tax examinations by tax authorities for years before 2010. During the three months ended March 31, 2015, the increase in the amount of unrecognized tax benefits was primarily related to the aforementioned Acquisition (See Note 2) of Performance Chemicals & Ingredients Company (d/b/a SensoryEffects). The Acquisition resulted in an assumed liability for unrecognized tax benefits based on an estimated fair value of $1,976. The Company is indemnified for this liability, and as such, has recognized a corresponding indemnification asset of $1,976. During the three months ended March 31, 2014, there was no significant change to the amount of unrecognized tax benefits. As of March 31, 2015 and December 31, 2014, the Company had approximately $5,400 and $5,200, respectively, of unrecognized tax benefits, which are included in other long-term obligations on the Company's consolidated balance sheets. The Company includes interest expense or income as well as potential penalties on unrecognized tax positions as a component of income tax expense in the consolidated statements of earnings. The total amount of accrued interest and penalties related to uncertain tax positions at March 31, 2015 and December 31, 2014 was approximately $1,810 and $1,643, respectively, and is included in other long-term obligations.

NOTE 10 – SEGMENT INFORMATION

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

SensoryEffects

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

Animal Nutrition & Health

Our Animal Nutrition & Health ("ANH") segment provides nutritional products derived from our microencapsulation and chelation technologies in addition to basic choline chloride. For ruminant animals, our microencapsulated products boosts 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 low-cost position to effectively compete in a competitive global marketplace.

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.

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

Business Segment Assets:

	March 31, 2015	December 31, 2014
Specialty Products	$25,752	$24,913
SensoryEffects	652,470	656,130
Animal Nutrition & Health	92,804	90,650
Industrial Products	21,597	32,330
Other Unallocated	62,219	57,508
Total	$854,842	$861,531

Depreciation/Amortization:

	Three Months Ended March 31,	
	2015	2014
Specialty Products	$341	$360
SensoryEffects	7,639	299
Animal Nutrition & Health	1,546	1,521
Industrial Products	343	451
Total	$9,869	$2,631

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Capital Expenditures:

	Three Months Ended March 31,	
	2015	2014
Specialty Products	$211	$17
SensoryEffects	2,626	298