BALCHEM CORP
Form 10-Q
May 03, 2019

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2019

OR

o 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, NY 10958
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (845) 326-5600

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes þ 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.
(Check one): Large accelerated filer þ Accelerated filer o
Non-accelerated filer o Smaller reporting company o Emerging growth company o
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 þ

As of April 25, 2019, the registrant had 32,333,546 shares of its Common Stock, $.06 2/3 par value, outstanding.

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BALCHEM CORPORATION
QUARTERLY REPORT ON FORM 10-Q
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Part I. Financial Information

Item 1. Financial Statements

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

Assets	March 31, 2019 (unaudited)	December 31, 2018
Current assets:		
Cash and cash equivalents	$ 39,004	$ 54,268
Accounts receivable, net of allowance for doubtful accounts of $583 and $610 at March 31, 2019 and December 31, 2018 respectively	99,834	99,545
Inventories	66,764	67,187
Prepaid expenses	3,510	3,830
Assets held for sale	11,748	—
Other current assets	806	1,484
Total current assets	221,666	226,314
Property, plant and equipment, net	188,036	194,339
Goodwill	446,453	447,995
Intangible assets with finite lives, net	100,088	105,985
Right of use assets	8,036	—
Other assets	7,609	6,722
Total assets	$ 971,888	$ 981,355
Liabilities and Stockholders' Equity		
Current liabilities:		
Trade accounts payable	$ 26,342	$ 33,345
Accrued expenses	20,922	22,025
Accrued compensation and other benefits	6,255	11,022
Dividends payable	78	15,220
Income tax payable	6,989	444
Lease liabilities - current	2,467	—
Liabilities held for sale	757	—
Total current liabilities	63,810	82,056
Revolving loan	140,000	156,000
Deferred income taxes	44,311	44,309
Lease liabilities - non-current	5,559	—
Other long-term obligations	7,699	7,372
Total liabilities	261,379	289,737
Commitments and contingencies (note 16)		
Stockholders' equity:		
Preferred stock, $25 par value. Authorized 2,000,000 shares; none issued and outstanding	—	—
	2,156	2,151

Common stock, $.0667 par value. Authorized 120,000,000 shares; 32,336,228 shares issued and 32,330,032 outstanding at March 31, 2019 and 32,256,915 shares issued and 32,256,209 outstanding at December 31, 2018, respectively		
Additional paid-in capital	166,762	165,098
Retained earnings	546,810	528,027
Accumulated other comprehensive loss	(4,686)	(3,602)
Treasury stock, at cost: 6,196 and 706 shares at March 31, 2019 and December 31, 2018	(533)	(56)
Total stockholders' equity	710,509	691,618
Total liabilities and stockholders' equity	$ 971,888	$ 981,355

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2019	**2018**
Net sales	$157,029	$161,410
Cost of sales	107,934	109,951
Gross margin	49,095	51,459
Operating expenses:		
Selling expenses	14,126	14,059
Research and development expenses	2,895	2,569
General and administrative expenses	5,594	7,591
	22,615	24,219
Earnings from operations	26,480	27,240
Other expenses:		
Interest expense, net	1,589	1,874
Other, net	98	189
	1,687	2,063
Earnings before income tax expense	24,793	25,177
Income tax expense	6,010	5,831
Net earnings	$18,783	$19,346
Net earnings per common share - basic	$0.58	$0.60
Net earnings per common share - diluted	$0.58	$0.60

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31, 2019	2018
Net earnings	$18,783	$19,346
Other comprehensive (loss) income, net of tax:		
Net foreign currency translation adjustment	(1,089)	1,363
Net change in postretirement benefit plans, net of taxes of $(2) and $(4) for the three months ended March 31, 2019 and 2018	5	13
Other comprehensive (loss) income	(1,084)	1,376
Comprehensive income	$17,699	$20,722

See accompanying notes to condensed consolidated financial statements.

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BALCHEM CORPORATION
Condensed Consolidated Statements of Changes in Stockholders' Equity
For the three months ended March 31, 2019 and 2018
(Dollars in thousands, except share and per share data)

	Total Stockholders' Equity	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Common Stock Shares	Common Stock Amount	Treasury Stock Shares	Treasury Stock Amount	Additional Paid-in Capital
Balance - December 31, 2018	$ 691,618	$ 528,027	$ (3,602)	32,256,209	$ 2,151	(706)	$ (56)	$ 165,098
Net earnings	18,783	18,783	—	—	—	—	—	—
Other comprehensive (loss)	(1,084)	—	(1,084)	—	—	—	—	—
Treasury shares purchased	(727)	—	—	—	—	(8,496)	(727)	—
Shares and options issued under stock plans	1,919	—	—	73,823	5	3,006	250	1,664
Balance - March 31, 2019	$ 710,509	$ 546,810	$ (4,686)	32,330,032	$ 2,156	(6,196)	$ (533)	$ 166,762
Balance - December 31, 2017	$ 616,881	$ 464,639	$ (1,642)	32,019,605	$ 2,135	—	—	$ 151,749
Net earnings	19,346	19,346	—	—	—	—	—	—
Other comprehensive income	1,376	—	1,376	—	—	—	—	—
Dividends	1	1	—	—	—	—	—	—
Treasury shares purchased	(786)	—	—	—	—	(10,454)	(786)	—
Shares and options issued under stock plans	3,072	—	—	80,505	5	10,454	786	2,281
Balance - March 31, 2018	$ 639,890	$ 483,986	$ (266)	32,100,110	$ 2,140	—	—	$ 154,030

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31, 2019	2018
Cash flows from operating activities:		
Net earnings	$18,783	$19,346
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	10,836	11,127
Stock compensation expense	1,631	1,793
Deferred income taxes	35	(38)
Provision for (recovery of) doubtful accounts	88	(69)
Foreign currency transaction loss	50	51
Asset impairment charge	114	71
Gain on disposal of assets	(2,719)	(1,093)
Changes in assets and liabilities		
Accounts receivable	(912)	(4,340)
Inventories	(139)	(5,442)
Prepaid expenses and other current assets	972	345
Accounts payable and accrued expenses	(12,389)	(2,273)
Income taxes	6,575	5,633
Other	(442)	368
Net cash provided by operating activities	22,483	25,479
Cash flows from investing activities:		
Capital expenditures	(8,488)	(3,735)
Proceeds from insurance	2,727	1,590
Intangible assets acquired	(19)	(119)
Net cash used in investing activities	(5,780)	(2,264)
Cash flows from financing activities:		
Principal payments on revolving loan	(16,000)	—
Principal payments on long-term debt	—	(8,750)
Proceeds from stock options exercised	288	1,261
Dividends paid	(15,135)	(13,421)
Purchase of treasury stock	(727)	(786)
Net cash used in financing activities	(31,574)	(21,696)
Effect of exchange rate changes on cash	(393)	744
(Decrease) increase in cash and cash equivalents	(15,264)	2,263
Cash and cash equivalents beginning of period	54,268	40,416
Cash and cash equivalents end of period	$39,004	$42,679

See accompanying notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(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, 2018 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, 2018. 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, Bioscreen Technologies 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 (the "Exchange Act") and therefore do not include some information and notes necessary to conform to annual reporting requirements. The results of operations for the three months ended March 31, 2019 are not necessarily indicative of the operating results expected for the full year or any interim period.

Certain reclassifications have been made to prior period amounts to conform with the current period's presentation.

Recent Accounting Pronouncements

Recently Issued Accounting Standards

In March 2019, the FASB issued ASU 2019-01, "Leases (Topic 842): Codification Improvements," which further clarifies the determination of fair value of leases and modifies transition disclosure requirements for changes in accounting principles. The effective date of the amendments is for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The Company is currently evaluating the impact of this pronouncement on the Company’s consolidated financial statements and disclosures. As stated below, the Company adopted Accounting Standards Codification ("ASC") 842 ("ASU 2016-02), Leases, as of January 1, 2019.

In August 2018, the FASB issued ASU 2018-15, “Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract.” The guidance requires implementation costs incurred by customers in cloud computing arrangements to be deferred over the noncancelable term of the cloud computing arrangements plus any optional renewal periods (1) that are reasonably certain to be exercised by the customer or (2) for which exercise of the renewal option is controlled by the cloud service provider. The effective date of this pronouncement is for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted and the standard may be adopted either using the prospective or retrospective transition approach. The Company is currently evaluating the impact of this pronouncement on the Company’s consolidated financial statements and disclosures.

In August 2018, the FASB issued ASU 2018-14, “Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans,” which modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement benefit plans. The guidance removes disclosures that are no longer considered cost beneficial, clarifies the specific requirements of disclosures and adds disclosure requirements identified as relevant. This update should be applied on a retrospective basis to all periods presented and is effective for fiscal years ending after December 31, 2020. Early adoption is permitted. The Company expects this new guidance will have minimal impact on its financial reporting.

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 February 2016, the FASB issued ASU No. 2016-02, “Leases” (“ASU 2016-02”), which was clarified by ASU 2018-11 and addresses the recognition of assets and liabilities that arise from all leases. The guidance requires lessees to recognize right-of-use assets

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("ROU") 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. The Company adopted the new standard on January 1, 2019 and has elected the optional transition method to account for the impact of the adoption with a cumulative-effect adjustment in the period of adoption. The new standard provides a number of optional practical expedients in transition. The Company has elected the “package of practical expedients”, which permits it not to reassess under the new standard its prior conclusions about lease identification, lease classification and initial direct costs. The Company has not elected the use-of-hindsight or the practical expedient pertaining to land easements, the latter not being applicable to the Company. The new standard also provides practical expedients for an entity’s ongoing accounting. The Company has elected the short-term lease recognition exemption for all leases that qualify, which means for those leases that qualify, the Company will not recognize ROU assets or lease liabilities. The Company has also elected the practical expedient to not separate lease and non-lease components for all of its leases. Refer to Note 19 "Leases."

NOTE 2 – SIGNIFICANT ACQUISITIONS AND DIVESTITURES

The Company did not complete any acquisitions during the three months ended March 31, 2019 or 2018. Total transaction and integration costs related to recent acquisitions, including the subsequent event identified below, are recorded in general and administrative expenses and amounted to $485 and $689 for the three months ended March 31, 2019 and 2018, respectively.

Potential Divestiture

As of March 31, 2019, the Company was in negotiations for the sale of an insignificant portion of the Company's business. The transaction is estimated to be completed during 2019 and no gain or loss has been recognized in the Company's condensed consolidated statements of earnings as of March 31, 2019. The related assets and liabilities have been reclassified as current assets held for sale and current liabilities held for sale within the Company's condensed consolidated balance sheets as of March 31, 2019 and include the following:

	March 31, 2019
Accounts receivable	$353
Inventory	376
Property, plant, and equipment, net	9,314
Right of use assets	317
Goodwill	1,380
Other current assets	8
Assets held for sale	$11,748
Trade accounts payable	$126
Accrued expenses	260
Accrued compensation and other benefits	52
Lease liabilities	319
Liabilities held for sale	$757

Subsequent Event

On May 2, 2019, the Company entered into a securities purchase agreement for the acquisition of Chemogas Holding NV and its Subsidiaries ("Chemogas"), a privately held specialty gases company headquartered in Grimbergen, Belgium, for a purchase price of €95,000, subject to certain adjustments as provided in the definitive agreement. The transaction is subject to customary conditions to closing and will be financed through the Company's Credit Agreement (as defined below) and cash on hand.

Chemogas has been a leader in the packaging and distribution of a wide variety of specialty gases, most notably ethylene oxide, primarily in the European and Asian markets, for medical device sterilization. Through its operational and logistical excellence, Chemogas supports its customers' needs across more than 70 countries. With this acquisition, Balchem significantly expands its geographic presence in the packaged ethylene oxide market, enabling the Company to offer worldwide service and support to its medical device sterilization customers within the Specialty Products segment. The Chemogas sites in Europe and Asia will form a global network of facilities when combined with Balchem's sites in the United States.

In connection with this transaction, the Company incurred transaction costs of $307 for the three months ended March 31, 2019, which are included in general and administrative expenses.

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NOTE 3 – STOCKHOLDERS' EQUITY
STOCK-BASED COMPENSATION
The Company's results for the three months ended March 31, 2019 and 2018 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, 2019	2018
Cost of sales	$ 288	$ 245
Operating expenses	1,343	1,548
Net earnings	(1,258)	(1,378)

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, 2019, the plans had 1,096,274 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, three to four years for employee restricted stock awards, three years for employee performance share awards, and three to 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, 2019 and 2018 is summarized below:

For the three months ended March 31, 2019	**Shares (000s)**	**Weighted Average Exercise Price**	**Aggregate Intrinsic Value**	**Weighted Average Remaining Contractual Term**
Outstanding as of December 31, 2018	887	$ 61.59	$ 16,192	
Granted	185	84.19		
Exercised	(7)	40.85		
Forfeited	—	—		
Canceled	—	—		
Outstanding as of March 31, 2019	1,065	$ 65.64	$ 28,924	6.7
Exercisable as of March 31, 2019	685	$ 56.91	$ 24,588	5.4

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		
Canceled	(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

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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 24% and 27%; risk-free interest rates of 2.5% and 2.6%; and expected lives of 4.0 years and 4.4 years, in each case for the three months ended March 31, 2019 and 2018, 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, 2019 and 2018 was as follows:

	Three Months Ended March 31,	
	2019	**2018**
Weighted-average fair value of options granted	$18.26	$18.62
Total intrinsic value of stock options exercised ($000s)	$302	$1,825

Non-vested restricted stock activity for the three months ended March 31, 2019 and 2018 is summarized below:

Three months ended March 31, 2019	**Shares (000s)**	**Weighted Average Grant Date Fair Value**
Non-vested balance as of December 31, 2018	79	$ 72.75
Granted	66	84.27
Vested	(8)	58.52
Forfeited	—	—
Non-vested balance as of March 31, 2019	137	$ 79.16

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

Non-vested performance share activity for the three months ended March 31, 2019 and 2018 is summarized below:

Three months ended March 31, 2019	**Shares (000s)**	**Weighted Average Grant Date Fair Value**
Non-vested balance as of December 31, 2018	53	$ 75.61
Granted	33	81.79

Vested	(9)	65.64
Forfeited	(7)	60.85
Non-vested balance as of March 31, 2019	70	$ 81.26

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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

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 EBITDA performance hurdle, where vesting is dependent upon the Company achieving a certain EBITDA percentage growth over the performance period, and 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 2.5% and 2.4%; dividend yields of 0.5% and 0.5%; volatilities of 24% and 27%; and initial TSR's of -5.9% and -10.5%, in each case for the three months ended March 31, 2019 and 2018, 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, 2019 and 2018, there was $17,475 and $13,487, respectively, of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the plans. As of March 31, 2019, 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, 2019 will be approximately $7,700.

REPURCHASE OF COMMON STOCK

The Company has an approved stock repurchase program. The total authorization under this program is 3,763,083 shares. Since the inception of the program in June 1999, a total of 2,199,268 shares have been purchased, of which 6,196 shares remained in treasury at March 31, 2019. During the three months ended March 31, 2019 and 2018, a total of 8,496 and 10,454 shares, respectively, have been purchased at an average cost of $85.53 and $75.04 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, 2019 and December 31, 2018 consisted of the following:

	March 31, 2019	**December 31, 2018**
Raw materials	$ 21,398	$ 23,661
Work in progress	5,102	4,649
Finished goods	40,264	38,877
Total inventories	$ 66,764	$ 67,187

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NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at March 31, 2019 and December 31, 2018 are summarized as follows:

	March 31, 2019	December 31, 2018
Land	$ 8,489	$ 7,965
Building	68,844	67,702
Equipment	201,890	213,909
Construction in progress	21,362	18,170
	300,585	307,746
Less: accumulated depreciation	112,549	113,407
Property, plant and equipment, net	$ 188,036	$ 194,339

NOTE 6 – INTANGIBLE ASSETS

The Company had goodwill in the amount of $446,453 and $447,995 as of March 31, 2019 and December 31, 2018, respectively, subject to the provisions of ASC 350, "Intangibles-Goodwill and Other." The decrease in goodwill is primarily the result of the reclassification of a portion of the Company's goodwill to assets held for sale (See Note 2) of $1,380, with the remaining change due to foreign exchange translation adjustments. Refer to Note 2 "Significant Acquisitions and Divestitures" for more information.

Identifiable intangible assets with finite lives at March 31, 2019 and December 31, 2018 are summarized as follows:

	Amortization Period (in years)	Gross Carrying Amount at 03/31/19	Accumulated Amortization at 3/31/2019	Gross Carrying Amount at 12/31/2018	Accumulated Amortization at 12/31/2018
Customer relationships & lists	10	$ 192,120	$ 126,408	$ 192,185	$ 122,545
Trademarks & trade names	5-17	39,681	17,409	39,934	16,755
Developed technology	5	13,338	9,271	13,338	8,604
Other	3-18	14,907	6,870	14,913	6,481
		$ 260,046	$ 159,958	$ 260,370	$ 154,385

Amortization of identifiable intangible assets was approximately $5,842 and $6,193 for the three months ended March 31, 2019 and 2018, respectively. Assuming no change in the gross carrying value of identifiable intangible assets, estimated amortization expense is $17,140 for the remainder of 2019, $20,878 for 2020, $17,645 for 2021, $16,151 for 2022, $14,879 for 2023 and $6,486 for 2024. At March 31, 2019 and 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, 2019 and 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 the Company does 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 $101 and $139 for the three months ended March 31, 2019 and 2018, respectively, relating to its portion of the joint venture's expenses in other expense. The carrying value of the joint venture at March 31, 2019 and December 31, 2018 is $4,801 and $4,902, respectively, and is recorded in other assets.

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NOTE 8 – REVOLVING LOAN

On June 27, 2018, the Company and a bank syndicate entered into a five year senior secured revolving credit agreement ("Credit Agreement"), which replaced the existing credit facility that had provided for a senior secured term loan A of $350,000 and a revolving loan of $100,000. The Credit Agreement, which expires on June 27, 2023, provides for revolving loans up to $500,000 (collectively referred to as the "loans"). The loans may be used for working capital, letters of credit, and other corporate purposes and may be drawn upon at the Company's discretion. The initial proceeds from the Credit Agreement were used to repay the outstanding balance of $210,750 on its senior secured term loan A, which was due May 2019. There are no installment payments required on the revolving loans; they may be voluntarily prepaid in whole or in part without premium or penalty, and all outstanding amounts are due on the maturity date. As of March 31, 2019, the balance outstanding amounted to $140,000.

Amounts outstanding under the Credit Agreement are subject to an interest rate equal to a fluctuating rate as defined by the Credit Agreement plus an applicable rate. The applicable rate is based upon the Company's consolidated net leverage ratio, as defined in the Credit Agreement, and the interest rate was 3.496% at March 31, 2019. The Company is also required to pay a commitment fee on the unused portion of the revolving loan, which is based on the Company's consolidated net leverage ratio as defined in the Credit Agreement and ranges from 0.15% to 0.275% (0.15% at March 31, 2019). The unused portion of the revolving loan amounted to $360,000 at March 31, 2019. The Company is also required to pay, as applicable, letter of credit fees, administrative agent fees, and other fees to the arrangers and lenders.

Costs associated with the issuance of the revolving loans are capitalized and amortized on a straight-line basis over the term of the Credit Agreement. Costs associated with the issuance of the extinguished debt instrument were capitalized and amortized over the term of the respective financing arrangement using the effective interest method. Capitalized costs net of accumulated amortization totaled $1,197 and $1,268 at March 31, 2019 and December 31, 2018, respectively, and are included in other assets on the balance sheet. Amortization expense pertaining to these costs totaled $71 and $109 for the three months ended March 31, 2019 and 2018, respectively, and are included in interest expense in the accompanying condensed consolidated statements of earnings.

The Credit Agreement contains quarterly covenants requiring the consolidated leverage ratio to be less than a certain maximum ratio and the consolidated interest coverage ratio to exceed a certain minimum ratio. At March 31, 2019, the Company was in compliance with these covenants. Indebtedness under the Company's loan agreements are secured by assets of the Company.

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, 2019	**Net Earnings (Numerator)**	**Number of Shares (Denominator)**	**Per Share Amount**
Basic EPS – Net earnings and weighted average common shares outstanding	$ 18,783	32,188,469	$ .58
Effect of dilutive securities – stock options, restricted stock, and performance shares		320,663	
Diluted EPS – Net earnings and weighted average common shares outstanding and effect of stock options, restricted stock, and performance shares	$ 18,783	32,509,132	$ .58

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

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The Company had 515,573 and 347,211 stock options outstanding at March 31, 2019 and 2018, 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, 2019 and 2018, was 24.2% and 23.2%, respectively. The increase in the effective tax rate for the three months ended March 31, 2019 compared to the three months ended March 31, 2018 was attributable to higher state taxes and lower excess tax benefits from stock-based compensation.

Balchem will continue to evaluate and analyze the impact of the U.S. Tax Cuts and Jobs Act that was enacted on December 22, 2017 and the additional guidance that has been issued, and may be issued, by the U.S. Department of Treasury, the Securities and Exchange Commission, or the Financial Accounting Standards Board regarding this act.

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.

The Company accounts for uncertainty in income taxes utilizing ASC 740-10, "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. 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, 2019, in the major jurisdictions where the Company operates, it is generally no longer subject to income tax examinations by tax authorities for years before 2014. As of March 31, 2019 and December 31, 2018, the Company had approximately $5,648 and $5,709, 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, 2019 and December 31, 2018 was approximately $1,854 and $1,839, respectively, and is included in other long-term obligations.

NOTE 11 – SEGMENT INFORMATION

Human Nutrition & Health

The Company's Human Nutrition & Health ("HNH") segment provides 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. The Company's 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. Sales growth for human nutrition applications is reliant on differentiation from lower-cost competitive products through scientific data, intellectual property and customer perceptions of brand value. Consequently, the Company makes investments in such activities for long-term value differentiation. This segment also serves the food and beverage industry for beverage, bakery, dairy, confectionary, and savory manufacturers. The Company partners with our customers from ideation through commercialization to bring on-trend beverages, baked goods, confections, dairy and meat products to market. The Company's expertise in trends analysis and product development, combined with manufacturing capabilities in customized spray dried and emulsified powders, blended lipid systems, liquid flavor delivery systems, juice and dairy bases, chocolate systems, as well as ice cream bases and variegates makes the Company a one-stop solutions provider for beverage and dairy product development needs. Additionally, this segment provides 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. The Company also creates cereal systems for ready-to-eat cereals, grain-based snacks, and cereal based ingredients.

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Animal Nutrition & Health

The Company’s Animal Nutrition & Health (“ANH”) segment provides nutritional products derived from its microencapsulation and chelation technologies in addition to basic choline chloride. For ruminant animals, the Company’s microencapsulated products boost health and milk production, delivering nutrient supplements that are biologically available, providing required nutritional levels. The Company’s 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. In poultry, choline deficiency can result in reduced growth rates and perosis in young birds, while in swine production choline is a necessary and required component of gestating and lactating sow diets for both liver health and prevention of leg deformity.

Sales of value-added encapsulated products are highly dependent on overall industry economics as well as the Company's ability to leverage the results of university and field research on the animal health and production benefits of our 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 drive 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. The Company’s 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. The Company’s inventory of these specially built drums, along with its two filling facilities, represents a significant capital investment. Contract sterilizers and medical device manufacturers are principal customers for this product. The Company also sells 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. The Company distributes its propylene oxide product primarily in recyclable, single-walled, carbon steel cylinders according to standards outlined by the EPA and the DOT. Its 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.

The Company’s micronutrient agricultural nutrition business sells chelated minerals primarily into high value crops. The Company has a unique and patented two-step approach to solving mineral deficiency in plants to optimize health, yield and shelf-life. First, the Company determines optimal mineral balance for plant health. The Company then has a foliar applied Metalosate product range, utilizing patented amino acid chelate technology. Its 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. The Company’s products offer an attractive, effective and more environmentally responsible alternative than other clay stabilizers. Industrial grade choline bicarbonate is completely chloride free and the Company's 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 its Italian operation and sold for a wide range of industrial applications in Europe.

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The segment information is summarized as follows:

Business Segment Assets:

	March 31, 2019	December 31, 2018
Human Nutrition & Health	$ 703,042	$ 702,692
Animal Nutrition & Health	135,738	136,810
Specialty Products	65,715	59,558
Industrial Products	25,588	22,822
Other Unallocated [1]	41,805	59,473
Total	$ 971,888	$ 981,355

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

Business Segment Net Sales:

	Three Months Ended March 31, 2019	2018
Human Nutrition & Health	$ 85,149	$ 83,063
Animal Nutrition & Health	43,361	46,141
Specialty Products	18,424	17,740
Industrial Products	10,095	14,466
Total	$ 157,029	$ 161,410

Business Segment Earnings Before Income Taxes:

	Three Months Ended March 31, 2019	2018
Human Nutrition & Health	$ 13,703	$ 12,932
Animal Nutrition & Health	5,256	7,484
Specialty Products	6,697	5,034
Industrial Products	1,637	2,479
Transaction costs, integration costs, and unallocated legal fees [2]	(804)	(689)
Unallocated amortization expense [3]	(9)	—
Interest and other (expense)	(1,687)	(2,063)
Total	$ 24,793	$ 25,177

[2] Transaction costs, integration costs and unallocated legal fees for three month ended March 31, 2019 and 2018, respectively, were primarily related to acquisitions.
[3] Unallocated amortization expense for three months ended March 31, 2019 was related to amortization of intangible assets in connection with a company-wide ERP system implementation.

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Depreciation/Amortization:

	Three Months Ended March 31,	
	2019	**2018**
Human Nutrition & Health	$7,986	$8,532
Animal Nutrition & Health	1,578	1,305
Specialty Products	1,021	1,010
Industrial Products	171	171
Total	$10,756	$11,018

Capital Expenditures:

	Three Months Ended March 31,	
	2019	**2018**
Human Nutrition & Health	$5,255	$2,079
Animal Nutrition & Health	1,471	830
Specialty Products	1,474	582
Industrial Products	288	244
Total	$8,488	$3,735

NOTE 12 – REVENUE

Revenue Recognition

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

The following table presents revenues disaggregated by revenue source. Sales and usage-based taxes are excluded from revenues.

	Three Months Ended March 31,	
	2019	**2018**
Product Sales	$143,874	$146,914
Co-manufacturing	10,630	10,707
Bill and Hold	857	1,289
Consignment	589	1,045
Product Sales Revenue	155,950	159,955
Royalty Revenue	1,079	1,455
Total Revenue	$157,029	$161,410

The following table presents revenues disaggregated by geography, based on the billing addresses of customers:

	Three Months Ended March 31,	
	2019	**2018**
United States	$118,111	$120,668
Foreign Countries	38,918	40,742
Total Revenue	$157,029	$161,410

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Product Sales Revenues

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

Under the co-manufacturing agreements, the Company is responsible for the manufacture of a finished good where the customer provides some or all of the raw materials. The Company controls the manufacturing process and the ultimate end-product before it is shipped to the customer. Based on these factors, the Company has determined that it is the principal in these agreements and therefore revenue is recognized in the gross amount of consideration the Company expects to be entitled for the goods provided.

Royalty Revenues

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

Contract Liabilities

The Company records contract liabilities when cash payments are received or due in advance of performance, including amounts which are refundable.

The Company's payment terms vary by the type and location of customers and the products offered. The term between invoicing and when payment is due is not significant. For certain products or services and customer types, the Company requires payment before the products are delivered to the customer.

Practical Expedients and Exemptions

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

The Company does 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 the Company recognizes revenue at the amount to which it has the right to invoice for products shipped.

NOTE 13 – SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid during the three months ended March 31, 2019 and 2018 for income taxes and interest is as follows:

Three Months Ended March 31,