

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

**FORM 10-Q**

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended September 30, 2020  
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, NY 10958  
(Address of principal executive offices) (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol	Name of each exchange on which registered
Common Stock, par value \$.06-2/3 per share	BCPC	Nasdaq Global Market

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically 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  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  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 October 21, 2020, the registrant had 32,351,112 shares of its Common Stock, \$.06 2/3 par value, outstanding.

**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)*

<u>Assets</u>	<u>September 30, 2020</u> <u>(unaudited)</u>	<u>December 31, 2019</u>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 78,967	\$ 65,672
Accounts receivable, net of allowance for doubtful accounts of \$2,201 and \$2,080 at September 30, 2020 and December 31, 2019 respectively	98,709	93,444
Inventories	77,430	83,893
Prepaid expenses	5,021	4,385
Prepaid income taxes	7,185	5,098
Other current assets	2,810	2,454
<b>Total current assets</b>	<b>270,122</b>	<b>254,946</b>
Property, plant and equipment, net	219,554	216,859
Goodwill	526,257	523,998
Intangible assets with finite lives, net	126,182	143,924
Right of use assets	8,188	7,338
Other assets	11,038	8,617
<b>Total assets</b>	<b>\$ 1,161,341</b>	<b>\$ 1,155,682</b>
<b><u>Liabilities and Stockholders' Equity</u></b>		
<b>Current liabilities:</b>		
Trade accounts payable	\$ 23,329	\$ 37,267
Accrued expenses	28,991	24,604
Accrued compensation and other benefits	14,083	11,057
Dividends payable	136	16,855
Lease liabilities - current	1,874	2,475
<b>Total current liabilities</b>	<b>68,413</b>	<b>92,258</b>
Revolving loan	193,569	248,569
Deferred income taxes	57,082	56,431
Lease liabilities - non-current	6,026	4,827
Derivative liabilities	7,004	2,103
Other long-term obligations	9,804	7,827
<b>Total liabilities</b>	<b>341,898</b>	<b>412,015</b>
Commitments and contingencies (Note 16)		
<b>Stockholders' equity:</b>		
Preferred stock, \$25 par value. Authorized 2,000,000 shares; none issued and outstanding	—	—
Common stock, \$0.0667 par value. Authorized 120,000,000 shares; 32,451,415 shares issued and 32,342,602 shares outstanding at September 30, 2020 and 32,405,796 shares issued and 32,201,917 outstanding at December 31, 2019, respectively	2,164	2,161
Additional paid-in capital	175,160	174,218
Retained earnings	653,382	590,921
Accumulated other comprehensive loss	(1,217)	(5,564)
Treasury stock, at cost: 108,813 and 203,879 shares at September 30, 2020 and December 31, 2019, respectively	(10,046)	(18,069)
<b>Total stockholders' equity</b>	<b>819,443</b>	<b>743,667</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,161,341</b>	<b>\$ 1,155,682</b>

*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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
<b>Net sales</b>	<b>\$ 175,140</b>	<b>\$ 158,595</b>	<b>\$ 522,931</b>	<b>\$ 477,178</b>
<b>Cost of sales</b>	<b>118,772</b>	<b>104,587</b>	<b>355,852</b>	<b>320,157</b>
<b>Gross margin</b>	<b>56,368</b>	<b>54,008</b>	<b>167,079</b>	<b>157,021</b>
<b>Operating expenses:</b>				
Selling expenses	14,224	15,227	43,490	44,847
Research and development expenses	2,692	2,699	7,961	8,446
General and administrative expenses	10,424	10,052	33,405	24,816
	<u>27,340</u>	<u>27,978</u>	<u>84,856</u>	<u>78,109</u>
<b>Earnings from operations</b>	<b>29,028</b>	<b>26,030</b>	<b>82,223</b>	<b>78,912</b>
<b>Other expenses:</b>				
Interest expense, net	953	1,672	3,609	4,749
Other, net	168	(78)	244	53
	<u>1,121</u>	<u>1,594</u>	<u>3,853</u>	<u>4,802</u>
<b>Earnings before income tax expense</b>	<b>27,907</b>	<b>24,436</b>	<b>78,370</b>	<b>74,110</b>
Income tax expense	6,339	3,760	15,909	14,822
<b>Net earnings</b>	<b>\$ 21,568</b>	<b>\$ 20,676</b>	<b>\$ 62,461</b>	<b>\$ 59,288</b>
<b>Net earnings per common share - basic</b>	<b>\$ 0.67</b>	<b>\$ 0.64</b>	<b>\$ 1.94</b>	<b>\$ 1.84</b>
<b>Net earnings per common share - diluted</b>	<b>\$ 0.66</b>	<b>\$ 0.64</b>	<b>\$ 1.92</b>	<b>\$ 1.82</b>

*See accompanying notes to condensed consolidated financial statements.*

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
<b>Net earnings</b>	\$ 21,568	\$ 20,676	\$ 62,461	\$ 59,288
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	4,313	(2,209)	7,440	(3,513)
Unrealized gain (loss) on cash flow hedge	227	(657)	(2,659)	(1,956)
Change in postretirement benefit plans	137	5	(434)	16
<b>Other comprehensive gain (loss)</b>	<b>4,677</b>	<b>(2,861)</b>	<b>4,347</b>	<b>(5,453)</b>
<b>Comprehensive income</b>	<b>\$ 26,245</b>	<b>\$ 17,815</b>	<b>\$ 66,808</b>	<b>\$ 53,835</b>

*See accompanying notes to condensed consolidated financial statements.*

**BALCHEM CORPORATION**  
**Condensed Consolidated Statements of Changes in Stockholders' Equity**  
**For the three and nine months ended September 30, 2020 and 2019**  
*(Dollars in thousands, except share and per share data)*

	Total Stockholders' Equity	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Common Stock		Treasury Stock		Additional Paid-in Capital
				Shares	Amount	Shares	Amount	
<b>Balance - December 31, 2019</b>	<b>\$ 743,667</b>	<b>\$ 590,921</b>	<b>\$ (5,564)</b>	<b>32,405,796</b>	<b>\$ 2,161</b>	<b>(203,879)</b>	<b>\$ (18,069)</b>	<b>\$ 174,218</b>
Net earnings	19,768	19,768	—	—	—	—	—	—
Other comprehensive (loss)	(2,905)	—	(2,905)	—	—	—	—	—
Treasury shares purchased	(891)	—	—	—	—	(8,224)	(891)	—
Shares and options issued under stock plans	6,632	—	—	41,619	3	81,530	7,266	(637)
<b>Balance - March 31, 2020</b>	<b>766,271</b>	<b>610,689</b>	<b>(8,469)</b>	<b>32,447,415</b>	<b>2,164</b>	<b>(130,573)</b>	<b>(11,694)</b>	<b>173,581</b>
Net earnings	21,125	21,125	—	—	—	—	—	—
Other comprehensive income	2,575	—	2,575	—	—	—	—	—
Treasury shares purchased	(2,134)	—	—	—	—	(24,281)	(2,134)	—
Shares and options issued under stock plans	4,686	—	—	4,000	—	44,935	4,194	492
<b>Balance - June 30, 2020</b>	<b>792,523</b>	<b>631,814</b>	<b>(5,894)</b>	<b>32,451,415</b>	<b>2,164</b>	<b>(109,919)</b>	<b>(9,634)</b>	<b>174,073</b>
Net earnings	21,568	21,568	—	—	—	—	—	—
Other comprehensive income	4,677	—	4,677	—	—	—	—	—
Treasury shares purchased	(2,957)	—	—	—	—	(31,224)	(2,957)	—
Shares and options issued under stock plans	3,632	—	—	—	—	32,330	2,545	1,087
<b>Balance - September 30, 2020</b>	<b>\$ 819,443</b>	<b>\$ 653,382</b>	<b>\$ (1,217)</b>	<b>32,451,415</b>	<b>\$ 2,164</b>	<b>(108,813)</b>	<b>\$ (10,046)</b>	<b>\$ 175,160</b>

*See accompanying notes to condensed consolidated financial statements.*

**Condensed Consolidated Statements of Changes in Stockholders' Equity (continued)**  
**For the three and nine months ended September 30, 2020 and 2019**  
*(Dollars in thousands, except share and per share data)*

	Total Stockholders' Equity	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Common Stock		Treasury Stock		Additional Paid-in Capital
				Shares	Amount	Shares	Amount	
<b>Balance - December 31, 2018</b>	<b>\$ 691,618</b>	<b>\$ 528,027</b>	<b>\$ (3,602)</b>	<b>32,256,915</b>	<b>\$ 2,151</b>	<b>(706)</b>	<b>\$ (56)</b>	<b>\$ 165,098</b>
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	—	—	79,313	5	3,006	250	1,664
<b>Balance - March 31, 2019</b>	<b>710,509</b>	<b>546,810</b>	<b>(4,686)</b>	<b>32,336,228</b>	<b>2,156</b>	<b>(6,196)</b>	<b>(533)</b>	<b>166,762</b>
Net earnings	19,829	19,829	—	—	—	—	—	—
Other comprehensive (loss)	(1,508)	—	(1,508)	—	—	—	—	—
Shares and options issued under stock plans	3,515	—	—	19,068	1	6,196	533	2,981
<b>Balance - June 30, 2019</b>	<b>732,345</b>	<b>566,639</b>	<b>(6,194)</b>	<b>32,355,296</b>	<b>2,157</b>	<b>—</b>	<b>—</b>	<b>169,743</b>
Net earnings	20,676	20,676	—	—	—	—	—	—
Other comprehensive (loss)	(2,861)	—	(2,861)	—	—	—	—	—
Treasury shares purchased	(20,594)	—	—	—	—	(232,499)	(20,594)	—
Shares and options issued under stock plans	4,020	—	—	46,290	3	—	—	4,017
<b>Balance - September 30, 2019</b>	<b>\$ 733,586</b>	<b>\$ 587,315</b>	<b>\$ (9,055)</b>	<b>32,401,586</b>	<b>\$ 2,160</b>	<b>(232,499)</b>	<b>\$ (20,594)</b>	<b>\$ 173,760</b>

*See accompanying notes to condensed consolidated financial statements.*

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

	<b>Nine Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>
<b>Cash flows from operating activities:</b>		
<b>Net earnings</b>	<b>\$ 62,461</b>	<b>\$ 59,288</b>
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	38,349	33,485
Stock compensation expense	6,755	5,717
Deferred income taxes	532	(198)
Provision for doubtful accounts	250	896
Foreign currency transaction loss	153	21
Asset impairment charge	1,915	114
Loss/(gain) on disposal of assets	57	(3,220)
Changes in assets and liabilities		
Accounts receivable	(4,979)	8,340
Inventories	6,802	(6,017)
Prepaid expenses and other current assets	(844)	(784)
Accounts payable and accrued expenses	(6,978)	(145)
Income taxes	(1,957)	(5,955)
Other	24	(48)
<b>Net cash provided by operating activities</b>	<b>102,540</b>	<b>91,494</b>
<b>Cash flows from investing activities:</b>		
Cash paid for acquisition, net of cash acquired	—	(94,690)
Capital expenditures and intangible assets acquired	(20,552)	(21,669)
Proceeds from insurance	—	2,727
Proceeds from sale of assets	22	11,523
Purchase of convertible notes	(850)	(1,000)
<b>Net cash used in investing activities</b>	<b>(21,380)</b>	<b>(103,109)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from revolving loan	10,000	123,569
Principal payments on revolving loan	(65,000)	(61,000)
Principal payments on finance lease	(112)	—
Principal payments on acquired debt	—	(12,222)
Proceeds from stock options exercised	8,179	3,734
Dividends paid	(16,704)	(15,135)
Purchase of treasury stock	(5,982)	(21,321)
<b>Net cash (used in) provided by financing activities</b>	<b>(69,619)</b>	<b>17,625</b>
Effect of exchange rate changes on cash	1,754	(874)
<b>Increase in cash and cash equivalents</b>	<b>13,295</b>	<b>5,136</b>
<b>Cash and cash equivalents beginning of period</b>	<b>65,672</b>	<b>54,268</b>
<b>Cash and cash equivalents end of period</b>	<b>\$ 78,967</b>	<b>\$ 59,404</b>

*See accompanying notes to condensed consolidated financial statements.*



## 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 in accordance with the accounting policies described in its December 31, 2019 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, 2019. The condensed consolidated financial statements reflect the operations of Balchem Corporation and its subsidiaries (the "Company"). All intercompany balances and transactions have been eliminated in consolidation.

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 and nine months ended September 30, 2020 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 2020, the FASB issued Accounting Standards Update ("ASU") 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." This ASU provides temporary optional guidance to ease the potential burden in accounting for reference rate reform. The new guidance provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. The ASU is intended to help stakeholders during the global market-wide reference rate transition period. Therefore, this standards update is in effect from March 12, 2020 through December 31, 2022. The Company is currently evaluating the impact of this pronouncement on the consolidated financial statements and disclosures.

In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes." The amendments in this update simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. The effective date of this update is for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted. The standard may be adopted either using the prospective or retrospective transition approach and could also be applied on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. 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 not have a significant impact on its financial reporting.

##### *Recently Adopted Accounting Standards*

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. The standard may be adopted either using the prospective or retrospective transition approach. The Company adopted the new standard on January 1, 2020. The standard update did not have a significant impact on the Company's consolidated financial statements and disclosures.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The guidance was issued with the objective of improving the financial reporting of hedging relationships to better portray the economic results of companies' risk management activities in its financial statements, as well as simplifying the application of hedge accounting guidance especially in the area of assessment of effectiveness of the hedge. In April 2019, the FASB issued ASU 2019-04, "Codification Improvements to Topic 815, Derivative and Hedging", which further clarified ASU 2017-12. The amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Company adopted the new standards in the second quarter of 2019, upon entering into derivative transactions. Refer to Note 20, "Derivative Instruments and Hedging Activities."

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. The Company adopted the new standard on January 1, 2020. This ASU did not have a significant impact on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments", which requires that credit losses be reported based on expected losses instead of the incurred loss model. The update made several consequential amendments to the codification which requires the accounting for available-for-sale debt securities to be individually assessed for credit losses when fair value is less than the amortized cost basis. The FASB subsequently issued ASU 2019-04, ASU 2019-05, and ASU 2019-11, all of which further clarified ASU 2016-13. The Company adopted the new standard and related updates on January 1, 2020. The adoption did not have a significant impact on the consolidated financial statements.

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 ("ROU") assets and lease liabilities for most leases in the Consolidated Balance Sheets and 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. 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 ASU was adopted by the Company on January 1, 2020 and did not have a significant impact on its consolidated financial statements and disclosures. Refer to Note 19, "Leases."

## **NOTE 2 – SIGNIFICANT ACQUISITIONS**

### ***Acquisition***

On December 13, 2019, the Company completed the acquisition of Zumbro River Brand, Inc. ("Zumbro"). The Company made payments of \$51,842 on the acquisition date, amounting to \$46,497 to the former shareholders and \$5,345 to Zumbro's lenders to pay Zumbro debt. Considering the cash acquired of \$686, net payments made to the former shareholders were \$45,811. In May 2020, the Company received an adjustment for working capital acquired of \$561.

The estimated goodwill of \$18,505 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 Human Nutrition & Health ("HNNH") and \$4,723 is deductible for income taxes.

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

Cash and cash equivalents	\$ 686
Accounts receivable	3,314
Inventories	4,052
Prepaid & other current assets	521
Property, plant and equipment	15,245
Right of use assets	3,181
Customer relationships	8,200
Developed technology	4,400
Trade name	2,300
Other non-current assets	10
Accounts payable & accrued expenses	(1,651)
Lease liabilities	(3,181)
Debt	(5,345)
Deferred income taxes	(3,740)
Goodwill	18,505
Amount paid to shareholders	46,497
Zumbro debt paid on purchase date	5,345
Total amount paid on acquisition date	\$ 51,842

The estimated 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 estimates of the intangible assets and certain tangible assets acquired, management, among other things, consulted an independent advisor. Valuation methods utilized included cost and market approaches for property, plant and equipment, excess earnings method for customer relationships and the relief from royalty method for other intangible assets.

Customer relationships are amortized over a 15-year period utilizing an accelerated method based on the estimated average customer attrition rate. Trade name and developed technology are amortized over 10 years and 12 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. Indemnified tax liabilities will create an indemnification asset (receivable). An indemnification asset balance has not been established.

On May 27, 2019, the Company acquired 100 percent of the outstanding common shares of Chemogas Holdings, NV and its subsidiary companies (collectively, "Chemogas"). The Company made payments of approximately €99,503 (translated to \$111,324) on the acquisition date, amounting to approximately €88,579 (translated to \$99,102) to the former shareholders and approximately €10,924 (translated to \$12,222) to Chemogas' lender to pay Chemogas bank debt. Considering the cash acquired of €3,943 (translated to \$4,412), net payments made to the former shareholders were €84,636 (translated to \$94,690).

The goodwill of \$59,319 that arose on the acquisition date consists largely of expected synergies, including the combined entities' experience and technical problem-solving capabilities, and acquired workforce. The goodwill is assigned to the Specialty Products segment and is not 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	\$	4,412
Accounts receivable		4,176
Inventories		957
Property, plant and equipment		15,972
Customer relationships		39,158
Developed technology		2,461
Trade name		1,119
Other assets		1,491
Accounts payable		(3,261)
Bank debt		(12,222)
Other liabilities		(1,030)
Pension obligations (net)		(594)
Deferred income taxes		(12,856)
Goodwill		59,319
Amount paid to shareholders		99,102
Chemogas bank debt paid on purchase date		12,222
<b>Total amount paid on acquisition date</b>	<b>\$</b>	<b>111,324</b>

The valuation of the fair value of tangible and intangible assets acquired and liabilities assumed are based on management's estimates and assumptions. In preparing our fair value estimates of the intangible assets and certain tangible assets acquired, management, among other things, consulted an independent advisor. Valuation methods utilized included cost and market approaches for property, plant and equipment, excess earnings method for customer relationships and the relief from royalty method for other intangible assets.

Customer relationships are amortized over a 20-year period utilizing an accelerated method based on the estimated average customer attrition rate. Trade name and developed technology are amortized over 2 years and 10 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. Indemnified tax liabilities will create an indemnification asset (receivable). An indemnification asset balance has not been established.

In connection with the Chemogas and Zumbro acquisitions, the Company incurred transaction and integration costs of \$51 and \$1,395 for the three and nine months ended September 30, 2020, respectively, and \$316 and \$1,178 for the three and nine months ended September 30, 2019, respectively.

Total transaction and integration costs related to recent acquisitions, including the Chemogas and Zumbro acquisitions described above, are recorded in general and administrative expenses. These costs amounted to \$61 and \$1,885 for the three and nine months ended September 30, 2020, respectively, and \$354 and \$1,451 for the three and nine months ended September 30, 2019.

### **NOTE 3 – STOCKHOLDERS' EQUITY**

#### **STOCK-BASED COMPENSATION**

The Company's results for the three and nine months ended September 30, 2020 and 2019 reflected the following stock-based compensation cost, and such compensation cost had the following effects on net earnings:

	<b>Increase/(Decrease) for the</b>		<b>Increase/(Decrease) for the</b>	
	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Cost of sales	\$ 320	\$ 288	\$ 895	\$ 864
Operating expenses	1,935	1,807	5,860	4,853
Net earnings	(1,718)	(1,610)	(5,137)	(4,401)

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 September 30, 2020, the plans had 904,516 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 nine months ended September 30, 2020 and 2019 is summarized below:

<b>For the nine months ended September 30, 2020</b>	<b>Shares (000s)</b>	<b>Weighted Average Exercise Price</b>	<b>Aggregate Intrinsic Value</b>	<b>Weighted Average Remaining Contractual Term</b>
Outstanding as of December 31, 2019	951	\$ 68.18	\$ 31,814	
Granted	150	111.51		
Exercised	(159)	51.51		
Forfeited	(10)	94.27		
Canceled	—	—		
Outstanding as of September 30, 2020	<u>932</u>	\$ 77.72	\$ 20,638	6.5
Exercisable as of September 30, 2020	<u>589</u>	\$ 67.66	\$ 17,644	5.2

<b>For the nine months ended September 30, 2019</b>	<b>Shares (000s)</b>	<b>Weighted Average Exercise Price</b>	<b>Aggregate Intrinsic Value</b>	<b>Weighted Average Remaining Contractual Term</b>
Outstanding as of December 31, 2018	887	\$ 61.59	\$ 16,192	
Granted	187	84.29		
Exercised	(82)	45.44		
Forfeited	(11)	80.38		
Canceled	(4)	70.90		
Outstanding as of September 30, 2019	<u>977</u>	\$ 67.06	\$ 31,356	6.5
Exercisable as of September 30, 2019	<u>608</u>	\$ 58.25	\$ 24,904	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 0.5% and 0.6%; expected volatilities of 26% and 24%; risk-free interest rates of 1.4% and 2.5%; and expected lives of 3.8 years and 4.0 years, in each case for the nine months ended September 30, 2020 and 2019, respectively.

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

Other information pertaining to option activity during the three and nine months ended September 30, 2020 and 2019 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Weighted-average fair value of options granted	\$ 28.59	\$ —	\$ 23.24	\$ 18.27
Total intrinsic value of stock options exercised (\$000s)	\$ 1,517	\$ 3,021	\$ 7,888	\$ 4,320

Non-vested restricted stock activity for the nine months ended September 30, 2020 and 2019 is summarized below:

	Nine Months Ended September 30,			
	2020		2019	
	Shares (000s)	Weighted Average Grant Date Fair Value	Shares (000s)	Weighted Average Grant Date Fair Value
Non-vested balance as of December 31	138	\$ 80.03	79	\$ 72.75
Granted	38	109.95	67	84.44
Vested	(21)	67.60	(8)	58.52
Forfeited	(4)	93.35	(5)	85.49
Non-vested balance as of September 30	<u>151</u>	<u>\$ 89.45</u>	<u>133</u>	<u>\$ 79.07</u>

Non-vested performance share activity for the nine months ended September 30, 2020 and 2019 is summarized below:

	Nine Months Ended September 30,			
	2020		2019	
	Shares (000s)	Weighted Average Grant Date Fair Value	Shares (000s)	Weighted Average Grant Date Fair Value
Non-vested balance as of December 31	70	\$ 81.26	53	\$ 75.61
Granted	20	126.46	33	81.79
Vested	(8)	104.15	(9)	65.64
Forfeited	(11)	82.71	(7)	60.85
Non-vested balance as of September 30	<u>71</u>	<u>\$ 91.99</u>	<u>70</u>	<u>\$ 81.26</u>

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 1.4% and 2.5%; dividend yields of 0.5% and 0.5%; volatilities of 24% and 24%; and initial TSR’s of 10.9% and -5.9%, in each case for the nine months ended September 30, 2020 and 2019, 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 September 30, 2020 and 2019, there was \$14,876 and \$13,001, respectively, of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the plans. As of September 30, 2020, the



unrecognized compensation cost is expected to be recognized over a weighted-average period of approximately 1.6 years. The Company estimates that share-based compensation expense for the year ended December 31, 2020 will be approximately \$9,200.

**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 2,495,496 shares have been purchased, of which 108,813 shares remained in treasury at September 30, 2020. The Company repurchases shares from employees in connection with settlement of transactions under the Company's equity incentive plans. The Company also 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. During the nine months ended September 30, 2020 and 2019, the Company purchased 63,729 and 240,995 shares, respectively, from employees on a net-settlement basis to provide cash to employees to cover the associated employee payroll taxes and from open market purchases. These shares were purchased at an average cost of \$93.87 and \$88.47, respectively.

**NOTE 4 – INVENTORIES**

Inventories at September 30, 2020 and December 31, 2019 consisted of the following:

	<b>September 30, 2020</b>	<b>December 31, 2019</b>
Raw materials	\$ 28,802	\$ 26,783
Work in progress	2,430	2,758
Finished goods	46,198	54,352
Total inventories	<u>\$ 77,430</u>	<u>\$ 83,893</u>

**NOTE 5 – PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment at September 30, 2020 and December 31, 2019 are summarized as follows:

	<b>September 30, 2020</b>	<b>December 31, 2019</b>
Land	\$ 11,697	\$ 11,588
Building	85,812	79,261
Equipment	244,030	237,898
Construction in progress	21,921	14,594
	<u>363,460</u>	<u>343,341</u>
Less: accumulated depreciation	143,906	126,482
Property, plant and equipment, net	<u>\$ 219,554</u>	<u>\$ 216,859</u>

**NOTE 6 – INTANGIBLE ASSETS**

The Company had goodwill in the amount of \$526,257 and \$523,998 as of September 30, 2020 and December 31, 2019, respectively, subject to the provisions of ASC 350, "Intangibles-Goodwill and Other." The increase in goodwill is primarily due to foreign exchange translation adjustments and an adjustment related to the Zumbro acquisition, partially offset by an impairment of \$1,228 related to business formerly included in the Industrial Products segment.

Identifiable intangible assets with finite lives at September 30, 2020 and December 31, 2019 are summarized as follows:

	<b>Amortization Period (in years)</b>	<b>Gross Carrying Amount at 9/30/2020</b>	<b>Accumulated Amortization at 9/30/2020</b>	<b>Gross Carrying Amount at 12/31/2019</b>	<b>Accumulated Amortization at 12/31/2019</b>
Customer relationships & lists	10-20	\$ 241,505	\$ 153,361	\$ 239,578	\$ 139,863
Trademarks & trade names	2-17	43,154	23,821	43,102	20,477
Developed technology	5-12	21,394	13,011	20,206	11,008
Other	3-18	21,231	10,909	20,962	8,576
		<u>\$ 327,284</u>	<u>\$ 201,102</u>	<u>\$ 323,848</u>	<u>\$ 179,924</u>

Amortization of identifiable intangible assets was approximately \$6,911 and \$20,875 for the three and nine months ended September 30, 2020, respectively, and \$6,753 and \$18,723 for the three and nine months ended September 30, 2019, respectively. Assuming no change in the gross carrying value of identifiable intangible assets, estimated amortization expense is \$6,911 for the remainder of 2020, \$24,216 for 2021, \$22,266 for 2022, \$19,351 for 2023, \$10,658 for 2024 and \$6,412 for 2025. At September 30, 2020 and 2019, 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 nine months ended September 30, 2020 and 2019.

#### **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 all continued expansion and improvements are 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 receives 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 \$143 and \$423 for the three and nine months ended September 30, 2020, respectively, and \$84 and \$266 for the three and nine months ended September 30, 2019, respectively, relating to its portion of the joint venture's expenses in other expense. The carrying value of the joint venture at September 30, 2020 and December 31, 2019 is \$4,913 and \$4,513, respectively, and is recorded in other assets.

#### **NOTE 8 – REVOLVING LOAN**

On June 27, 2018, the Company and a bank syndicate entered into a credit agreement (the "Credit Agreement"), which replaced the existing credit facility that had provided for a senior secured term loan 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, which was due May 2019. As of September 30, 2020 and December 31, 2019, the total balance outstanding on the Credit Agreement amounted to \$193,569 and \$248,569, respectively. 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.

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 1.270% at September 30, 2020. 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% (0.175% at September 30, 2020). The unused portion of the revolving loan amounted to \$306,431 at September 30, 2020. 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, which is not materially different than the effective interest method. 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 \$774 and \$986 at September 30, 2020 and December 31, 2019, respectively, and are included in other assets on the condensed consolidated balance sheets. Amortization expense pertaining to these costs totaled \$71 and \$212, for both the three and nine months ended September 30, 2020 and 2019, 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 September 30, 2020, 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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net Earnings - Basic and Diluted	\$ 21,568	\$ 20,676	\$ 62,461	\$ 59,288
<i>Shares (000s)</i>				
Weighted Average Common Shares - Basic	32,206	32,094	32,174	32,164
Effect of Dilutive Securities – Stock Options, Restricted Stock, and Performance Shares	310	361	326	350
Weighted Average Common Shares - Diluted	32,516	32,455	32,500	32,514
Net Earnings Per Share - Basic	\$ 0.67	\$ 0.64	\$ 1.94	\$ 1.84
Net Earnings Per Share - Diluted	\$ 0.66	\$ 0.64	\$ 1.92	\$ 1.82

The number of anti-dilutive shares were 172,122 and 215,271 for the three and nine months ended September 30, 2020, respectively, and 183,822 and 196,382 for the three and nine months ended September 30, 2019, respectively. Anti-dilutive shares could potentially dilute basic earnings per share in future periods and therefore, were not included in diluted earnings per share.

**NOTE 10 – INCOME TAXES**

The Company's effective tax rate for the three months ended September 30, 2020 and 2019, was 22.7% and 15.4%, and 20.3% and 20.0% for the nine months ended September 30, 2020 and 2019, respectively. The increase in the effective tax rate for the three and nine months ended September 30, 2020 compared to the three and nine months ended September 30, 2019 was mainly attributable to a reduction in certain tax credits and lower tax benefits from stock-based compensation, partially offset by lower enacted state tax rates.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law making several significant changes to the Internal Revenue Code. The Company has reviewed the change in law and determined that the law change has no significant impact on the Company's tax provision or financial statements. In addition, 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 September 30, 2020, in the major jurisdictions where the Company operates, it is generally no longer subject to income tax examinations by tax authorities for years before 2015. As of September 30, 2020 and December 31, 2019, the Company had approximately \$5,192 and \$4,762, respectively, of unrecognized tax benefits, which are included in other long-term obligations on the Company's condensed

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 condensed consolidated statements of earnings. The total amount of accrued interest and penalties related to uncertain tax positions at September 30, 2020 and December 31, 2019 was approximately \$1,787 and \$1,612, respectively, and is included in other long-term obligations.

#### **NOTE 11 – SEGMENT INFORMATION**

Previously, the Company's four reportable segments were: Human Nutrition and Health, Animal Nutrition and Health, Specialty Products, and Industrial Products. However, effective in the first quarter of 2020, in order to align with the Company's strategic focus on health and nutrition, allocation of resources, and evaluation of operating performance, and given the 2019 reduction in portfolio scale of Industrial Products, the Company has revised its reporting segment structure to three reportable segments: Human Nutrition and Health, Animal Nutrition and Health, and Specialty Products. These reportable segments are strategic businesses that offer products and services to different markets. This realignment has been retrospectively applied. Sales and production of products outside of our reportable segments and other minor business activities are included in "Other and Unallocated" and applied retroactively to 2019. There was no change to the Consolidated Financial Statements as a result of the change to the reportable segments. The Company expects that the new reportable segment structure will provide investors greater understanding of and alignment with the Company's strategic focus. In order to ensure appropriate transparency and visibility into the financial performance of the Company, sufficient detail will continue to be provided relative to Other and Unallocated, including material contributions from oil and gas and other industrial market activities.

##### ***Human Nutrition & Health***

The Human Nutrition & Health ("HNNH") segment provides human grade choline nutrients and mineral amino acid chelated products through this segment for nutrition and health 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 customers' appreciation 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 its customers from ideation through commercialization to bring on-trend beverages, baked goods, confections, dairy and meat products to market. The Company has expertise in trends analysis and product development. When combined with its strong manufacturing capabilities in customized spray dried and emulsified powders, extrusion and agglomeration, blended lipid systems, liquid flavor delivery systems, juice and dairy bases, chocolate systems, as well as ice cream bases and variegates, the Company is 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, sports and protein bars, dietary plans, and nutritional supplements. The Company also creates cereal systems for ready-to-eat cereals, grain-based snacks, and cereal based ingredients.

##### ***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 and blended with carbon dioxide, 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 and blends are distributed worldwide in specially designed, reusable and recyclable drum and cylinder packaging, to assure compliance with safety, quality and environmental standards as outlined by the applicable regulatory agencies in the countries our products are shipped to. The Company's inventory of these specially built drums and cylinders, along with its five 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.

The Company also distributes a number of other gases for various uses, most notably propylene oxide and ammonia. Propylene oxide is marketed and sold in the U.S. 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 in the U.S. primarily in recyclable, single-walled, carbon steel cylinders according to standards outlined by the EPA and the DOT. Propylene oxide is also sold worldwide to customers in approved reusable and recyclable drum and cylinder packaging for various chemical synthesis applications, such as increasing paint durability and manufacturing specialty starches and textile coatings. Ammonia is used primarily as a refrigerant, and also for heat treatment of metals and various chemical synthesis applications, and is distributed in reusable and recyclable drum and cylinder drum and cylinder packaging approved for use in the countries these products are shipped to. The Company's inventory of cylinders for these products also represents a significant capital investment.

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.

The segment information is summarized as follows:

<b>Business Segment Assets</b>	<b>September 30,</b>		<b>December 31,</b>	
	<b>2020</b>		<b>2019</b>	
Human Nutrition & Health	\$	734,586	\$	737,951
Animal Nutrition & Health		143,600		140,806
Specialty Products		181,454		181,904
Other and Unallocated <sup>(1)</sup>		101,701		95,021
<b>Total</b>	<b>\$</b>	<b>1,161,341</b>	<b>\$</b>	<b>1,155,682</b>

<b>Business Segment Net Sales</b>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Human Nutrition & Health	\$ 103,589	\$ 86,142	\$ 296,525	\$ 257,163
Animal Nutrition & Health	46,354	42,286	141,339	129,127
Specialty Products	23,003	24,888	79,193	68,219
Other and Unallocated <sup>(2)</sup>	2,194	5,279	5,874	22,669
<b>Total</b>	<b>\$ 175,140</b>	<b>\$ 158,595</b>	<b>\$ 522,931</b>	<b>\$ 477,178</b>

<i>Business Segment Earnings Before Income Taxes</i>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Human Nutrition & Health	\$ 17,499	\$ 13,193	\$ 45,131	\$ 39,234
Animal Nutrition & Health	7,011	6,122	21,485	16,423
Specialty Products	5,348	6,699	21,342	22,275
Other and Unallocated <sup>(2)</sup>	(830)	16	(5,735)	980
Interest and other expense	(1,121)	(1,594)	(3,853)	(4,802)
Total	<u>\$ 27,907</u>	<u>\$ 24,436</u>	<u>\$ 78,370</u>	<u>\$ 74,110</u>

<i>Depreciation/Amortization</i>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Human Nutrition & Health	\$ 8,188	\$ 7,411	\$ 24,047	\$ 22,880
Animal Nutrition & Health	1,842	1,646	5,390	4,847
Specialty Products	2,461	2,372	7,225	4,983
Other and Unallocated <sup>(2)</sup>	564	324	1,687	775
Total	<u>\$ 13,055</u>	<u>\$ 11,753</u>	<u>\$ 38,349</u>	<u>\$ 33,485</u>

<i>Capital Expenditures</i>	<b>Nine Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>
Human Nutrition & Health	\$ 13,481	\$ 14,136
Animal Nutrition & Health	3,958	2,788
Specialty Products	1,542	2,050
Other and Unallocated <sup>(2)</sup>	298	583
Total	<u>\$ 19,279</u>	<u>\$ 19,557</u>

<sup>(1)</sup> Other and Unallocated assets consist of certain cash, capitalized loan issuance costs, other assets, investments, and income taxes, which the Company does not allocate to its individual business segments. It also includes assets associated with a few minor businesses which individually do not meet the quantitative thresholds for separate presentation.

<sup>(2)</sup> Other and Unallocated consists of a few minor businesses which individually do not meet the quantitative thresholds for separate presentation and corporate expenses that have not been allocated to a segment. Unallocated corporate expenses consist of: (i) Transaction and integration costs, ERP implementation costs, and unallocated legal fees totaling \$161 and \$2,179 for the three and nine months ended September 30, 2020, respectively, and \$688 and \$2,253 for the three and nine months ended September 30, 2019, respectively, and (ii) Unallocated amortization expense of \$399 and \$1,205 for the three and nine months ended September 30, 2020, respectively, and \$138 and \$157 for the three and nine months ended September 30, 2019, respectively, related to an intangible asset in connection with a company-wide ERP system implementation.

## **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.

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Product Sales	\$ 164,254	\$ 149,862	\$ 494,857	\$ 449,878
Co-manufacturing	8,427	5,911	21,803	19,112
Bill and Hold	763	1,056	1,158	3,182
Consignment	602	688	1,916	1,770
Product Sales Revenue	174,046	157,517	519,734	473,942
Royalty Revenue	1,094	1,078	3,197	3,236
Total Revenue	<u>\$ 175,140</u>	<u>\$ 158,595</u>	<u>\$ 522,931</u>	<u>\$ 477,178</u>

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
United States	\$ 131,305	\$ 112,811	\$ 380,450	\$ 353,111
Foreign Countries	43,835	45,784	142,481	124,067
Total Revenue	<u>\$ 175,140</u>	<u>\$ 158,595</u>	<u>\$ 522,931</u>	<u>\$ 477,178</u>

### ***Product Sales Revenues***

The Company's primary operation is the manufacturing and sale of health and nutrition ingredient products, in which the Company receives an order from a customer and fulfills that order. The Company's product sales are considered point-in-time revenue and consist of four sub-streams: 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 the majority 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. Royalties are considered over time revenue and are recorded in the HNH 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 nine months ended September 30, 2020 and 2019 for income taxes and interest is as follows:

	Nine Months Ended September 30,	
	2020	2019
Income taxes	\$ 15,167	\$ 18,226
Interest	\$ 4,069	\$ 4,567

**NOTE 14 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net foreign currency translation adjustment	\$ 4,313	\$ (2,209)	\$ 7,440	\$ (3,513)
Net change of cash flow hedge (see Note 20 for further information)				
Unrealized gain (loss) on cash flow hedge	299	(769)	(3,585)	(2,475)
Tax	(72)	112	926	519
Net of tax	227	(657)	(2,659)	(1,956)
Net change in postretirement benefit plan (see Note 15 for further information)				
Amortization of prior service cost	18	19	56	55
Amortization of gain	(12)	(12)	(38)	(34)
Total before tax	6	7	18	21
Tax	2	(2)	3	(5)
Adjustment <sup>(1)</sup>	129	—	(455)	—
Net of tax and adjustment	137	5	(434)	16
Total other comprehensive income (loss)	\$ 4,677	\$ (2,861)	\$ 4,347	\$ (5,453)

<sup>(1)</sup> One-time adjustment to the postretirement account.

Included in "Net foreign currency translation adjustment" were losses of \$3,891 and \$986, related to a net investment hedge, which were net of taxes of \$1,244 and \$330 for the three and nine months ended September 30, 2020, respectively. Included in "Net foreign currency translation adjustment" were gains of \$4,626 and \$1,715, related to a net investment hedge, which were net of taxes of \$456 for both the three and nine months ended September 30, 2019. See Note 20, "Derivative Instruments and Hedging Activities."

Accumulated other comprehensive income/(loss) at September 30, 2020 and December 31, 2019 consisted of the following:

	Foreign currency translation adjustment	Cash flow hedge	Postretirement benefit plan	Total
Balance December 31, 2019	\$ (5,176)	\$ (1,399)	\$ 1,011	\$ (5,564)
Other comprehensive income/(loss)	7,440	(2,659)	(434)	4,347
Balance September 30, 2020	\$ 2,264	\$ (4,058)	\$ 577	\$ (1,217)

**NOTE 15 – EMPLOYEE BENEFIT PLANS**

***Defined Contribution Plans***

The Company sponsored two 401(k) savings plans for eligible employees. The plans allow participants to make pretax contributions and the Company matches certain percentages of those pretax contributions. One of the plans has a discretionary profit sharing portion and matches 401(k) contributions with shares of the Company’s Common Stock. All amounts contributed to the plans are deposited into a trust fund administered by independent trustees.

***Postretirement Medical Plans***

The Company provides postretirement benefits in the form of two unfunded postretirement medical plans; one that is under a collective bargaining agreement and covers eligible retired employees of the Verona facility and a plan for those named as executive officers in the Company’s proxy statement.

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

	<b>Nine Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>
Service cost	\$ 51	\$ 47
Interest cost	19	29
Amortization of prior service cost	56	55
Amortization of gain	(38)	(34)
Net periodic benefit cost	<u>\$ 88</u>	<u>\$ 97</u>

The amount recorded for these obligations on the Company’s balance sheets as of September 30, 2020 and December 31, 2019 were \$1,146 and \$1,076, respectively, and are included in other long-term obligations. These plans are unfunded and approved claims are paid from Company funds. Historical cash payments made under such plans have typically been less than \$100 per year.

***Deferred Compensation Plan***

On June 1, 2018, the Company established an unfunded, nonqualified deferred compensation plan maintained for the benefit of a select group of management or highly compensated employees. Assets of the plan are held in a rabbi trust, which are subject to additional risk of loss in the event of bankruptcy or insolvency of the Company. The deferred compensation liability was \$3,314 and \$1,982 as of September 30, 2020 and December 31, 2019, respectively, and was included in other long-term obligations on the Company’s consolidated balance sheets. The related rabbi trust assets were \$3,314 and \$1,982 as of September 30, 2020 and December 31, 2019, respectively, and were included in other non-current assets on the Company's consolidated balance sheets.

***Defined Benefit Pension Plans***

On May 27, 2019, the Company acquired Chemogas, which has an unfunded defined benefit pension plan. The plan provides for the payment of a lump sum at retirement or payments in case of death of the covered employees. The amount recorded for these obligations on the Company's consolidated balance sheet as of September 30, 2020 and December 31, 2019 were \$623 and \$596, respectively, and were included in other long-term obligations.



**NOTE 16 – COMMITMENTS AND CONTINGENCIES**

Aggregate future minimum rental payments required under all non-cancelable operating leases at September 30, 2020 are as follows:

Year	
October 1, 2020 to December 31, 2020	\$ 775
2021	2,672
2022	2,100
2023	1,692
2024	932
2025	527
Thereafter	2,688
Total minimum lease payments	<u>\$ 11,386</u>

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 was conducted by the prior owner under the oversight of the EPA and the Missouri Department of Natural Resources. 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. In September 2020, BCP Ingredients, Inc. ("BCP"), the Company subsidiary that operates the site received a General Notice Letter from the EPA regarding BCP's potential liability for 1,4 dioxane contamination at the site. BCP currently believes that the 1,4 dioxane contamination is associated with the former owner's operations and has engaged experts to study site conditions and hydrogeology in connection with preparing its response to the notice.

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 September 30, 2020 and December 31, 2019 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying consolidated balance sheets. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. Considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value, and, accordingly, the estimates are not necessarily indicative of the amounts that the Company could realize in a current market exchange. The carrying value of debt approximates fair value as the interest rate is based on market and the Company's consolidated leverage ratio. The Company's financial instruments also include cash equivalents, accounts receivable, accounts payable, and accrued liabilities, which are carried at cost and approximate fair value due to the short-term maturity of these instruments. Cash and cash equivalents at September 30, 2020 and December 31, 2019 includes \$815 and \$808 in money market funds, respectively.

Non-current assets at September 30, 2020 and December 31, 2019 includes \$3,314 and \$1,982, respectively, of rabbi trust funds related to the Company's deferred compensation plan. The money market and rabbi trust funds are valued using level one inputs, as defined by ASC 820, "Fair Value Measurement."

The Company also has derivative financial instruments, consisting of a cross-currency swap and an interest rate swap, which are included in derivative assets or derivative liabilities, in the consolidated balance sheets (see Note 20, "Derivative Instruments and Hedging Activities"). The fair values of these derivative instruments are determined based on Level 2 inputs, using significant inputs that are observable either directly or indirectly, including interest rate curves and implied volatilities.

**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. These raw materials are used in the production of



finished goods that are, in turn, sold by Saint Gabriel CC Company, LLC to the Company for resale to unrelated parties. As such, the sale of these raw materials to St. Gabriel CC Company, LLC in this scenario lacks economic substance and therefore the Company does not include them in net sales within the consolidated statements of earnings.

The services the Company provided amounted to \$834 and \$2,544 for the three and nine months ended September 30, 2020, respectively, and \$955 and \$2,910 for the three and nine months ended September 30, 2019, respectively. The raw materials purchased and subsequently sold amounted to \$2,716 and \$10,330 for the three and nine months ended September 30, 2020, respectively, and \$5,893 and \$19,039 for the three and nine months ended September 30, 2019, respectively. These services and raw materials are primarily recorded in cost of goods sold net of the finished goods received from St. Gabriel CC Company, LLC of \$2,382 and \$9,123 for the three and nine months ended September 30, 2020, respectively, and \$4,538 and \$14,308 for the three and nine months ended September 30, 2019, respectively. At September 30, 2020 and December 31, 2019, the Company had receivables of \$2,508 and \$4,840, respectively, recorded in accounts receivable from St. Gabriel CC Company, LLC for services rendered and raw materials sold and payables of \$1,790 and \$3,230, respectively, for finished goods received recorded in accrued expenses. In addition, the Company had receivables in the amount of \$159, related to non-contractual monies owed from St. Gabriel CC Company, LLC, recorded in receivables as of September 30, 2020. There was no such receivable as of December 31, 2019. The Company had payables in the amount of \$296 and \$366, respectively, related to non-contractual monies owed to St. Gabriel CC Company, LLC, recorded in accrued expenses as of September 30, 2020 and December 31, 2019, respectively.

**NOTE 19 – LEASES**

The Company has both real estate leases and equipment leases. The main types of equipment leases include forklifts, trailers, printers and copiers, railcars, and trucks. Leases are categorized as both operating leases and finance leases. As a result of electing the practical expedient within ASU 2016-02, variable lease payments are combined and recognized on the balance sheet in the event that those charges and any related increases are explicitly stated in the lease. Such payments include common area maintenance charges, property taxes, and insurance charges and are recorded in the ROU asset and corresponding liability when the payments are stated in the lease with (a) fixed or in-substance fixed amounts, or (b) a variable payment based on an index or rate. Due to the acquisitive nature of the Company and the potential for synergies upon integration of acquired entities, the Company determined that the reasonably certain criterion could not be met for any renewal periods beginning two years from September 30, 2020. In addition, the Company has historically not been exercising purchase options with equipment leases as it does not make economic sense to buy the equipment. Instead, the Company has historically replaced the equipment with a new lease. Therefore, the Company determined that the reasonably certain criterion could not be met as it relates to purchase options. The Company has no residual value guarantees in lease transactions.

The Company did not identify any embedded leases. As indicated above, the Company elected the practical expedient to combine lease and non-lease components and recognizes the combined amount on the consolidated balance sheet. Management determined that since the Company has a centralized treasury function, the parent company would either fund or guarantee a subsidiary's loan for borrowing over a similar term. As such, the Company's management determined it is appropriate to utilize a corporate based borrowing rate for all locations. The Company developed four tranches of leases based on lease terms and these tranches reflect the composition of the current lease portfolio. The Company's borrowing history shows that interest rates of a term loan or a line of credit depend on the duration of the loan rather than the nature of the assets purchased by those funds. Based on this understanding, the Company elected to use a portfolio approach to discount rates, applying corporate rates to the tranches of leases based on lease terms. Based on the Company's risk rating, the company applied the following discount rates upon implementation: (1) 1-2 years, 3.45% (2) 3-4 years, 4.04% (3) 5-9 years, 4.38% and (4) 10+ years, 5.10%.

In connection with the acquisition of Zumbro, the Company assumed the finance lease commitment for a warehouse, with an expiration date of March 31, 2033. The warehouse can be purchased at a pre-determined price beginning in 2023. At September 30, 2020, the Company had a finance lease liability of \$2,682, which was recorded under lease liabilities (current and non-current) in the consolidated balance sheet.

ROU assets and lease liabilities at September 30, 2020 and December 31, 2019 are summarized as follows:

<b><i>Right of use assets</i></b>	<b>September 30, 2020</b>	<b>December 31, 2019</b>
Operating leases	\$ 5,546	\$ 7,338
Finance leases	2,642	—
<b>Total</b>	<b>\$ 8,188</b>	<b>\$ 7,338</b>

<i>Lease liabilities - current</i>	<b>September 30, 2020</b>	<b>December 31, 2019</b>
Operating leases	\$ 1,718	\$ 2,475
Finance leases	156	—
<b>Total</b>	<b>\$ 1,874</b>	<b>\$ 2,475</b>

<i>Lease liabilities - non-current</i>	<b>September 30, 2020</b>	<b>December 31, 2019</b>
Operating leases	\$ 3,500	\$ 4,827
Finance leases	2,526	—
<b>Total</b>	<b>\$ 6,026</b>	<b>\$ 4,827</b>

For the three and nine months ended September 30, 2020 and 2019, the Company's total lease costs were as follows, which included both amounts recognized in profits or losses during the period and amounts capitalized on the balance sheet, and the cash flows arising from lease transactions:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
<b>Lease Cost</b>				
Operating lease cost	\$ 702	\$ 817	\$ 2,179	\$ 2,381
Finance Lease cost				
Amortization of ROU asset	157	—	157	—
Interest on lease liabilities	104	—	104	—
<b>Total lease cost</b>	<b>\$ 963</b>	<b>\$ 817</b>	<b>\$ 2,440</b>	<b>\$ 2,381</b>

**Cash paid for amounts included in the measurement of lease liabilities**

Operating cash flows from operating leases	\$ 710	\$ 823	\$ 2,193	\$ 2,395
Operating cash flows from finance leases	104	—	104	—
Financing cash flows from finance leases	112	—	112	—
	<b>\$ 926</b>	<b>\$ 823</b>	<b>\$ 2,409</b>	<b>\$ 2,395</b>

ROU assets obtained in exchange for new operating lease liabilities, net of ROU assets disposals	\$ —	\$ (240)	\$ (98)	\$ 8,485
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ROU assets obtained in exchange for new finance lease liabilities, net of ROU assets disposals	\$ 2,782	\$ —	\$ 2,782	\$ —
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Weighted-average remaining lease term - operating leases	5.11 years	4.97 years	5.11 years	4.97 years
Weighted-average remaining lease term - finance leases	12.50 years	n/a	12.50 years	n/a

Weighted-average discount rate - operating leases	4.7 %	4.6 %	4.7 %	4.6 %
Weighted-average discount rate - finance leases	5.1 %	n/a	5.1 %	n/a

Rent expense charged to operations under operating lease agreements for the three and nine months ended September 30, 2020 aggregated to approximately \$702 and \$2,179, respectively, and \$817 and \$2,381 for the three and nine months ended September 30, 2019, respectively.

**NOTE 20 – DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES**

The Company is exposed to market fluctuations in interest rates as well as variability in foreign exchange rates. In May 2019, the Company entered into an interest rate swap (cash flow hedge) with the Swap Counterparty and a cross-currency swap (net

investment hedge) with the Bank Counterparty. The Company's primary objective for holding derivative financial instruments is to manage interest rate risk and foreign currency risk.

On May 28, 2019, the Company entered into a pay-fixed (2.05%), receive-floating interest rate swap with a notional amount of \$108,569 and a maturity date of June 27, 2023. The Company's risk management objective and strategy with respect to the interest rate swap is to protect the Company against adverse fluctuations in interest rates by reducing its exposure to variability in cash flows relating to interest payments on a portion of its outstanding debt. The Company is meeting its objective since changes in the cash flows of the interest rate swap are expected to exactly offset the changes in the cash flows attributable to fluctuations in the contractually specified interest rate on the interest payments associated with the Credit Agreement. The net interest expense related to the interest rate swap contract was \$515 and \$1,066, respectively, for the three and nine months ended September 30, 2020, and the net interest income related to the interest rate swap contract was \$60 and \$94, respectively, for the three and nine months ended September 30, 2019, which were recorded in the condensed consolidated statements of operations under interest expense, net.

At the same time, the Company also entered into a pay-fixed (0.00%), receive-fixed (2.05%) cross-currency swap to manage foreign exchange risk related to the Company's net investment in Chemogas. The derivative has a notional amount of \$108,569, an effective date of May 28, 2019, and a maturity date of June 27, 2023. The interest income related to the cross-currency swap contract was \$562 and \$1,706, respectively, for the three and nine months ended September 30, 2020, and \$569 and \$754, respectively, for the three and nine months ended September 30, 2019, which were recorded in the condensed consolidated statements of operations under interest expense, net.

The derivative instruments are with a single counterparty and are subject to a contractual agreement that provides for the net settlement of all contracts through a single payment in a single currency in the event of default on or termination of any one contract. As such, the derivative instruments are categorized as a master netting arrangement and presented as a net derivative asset or derivative liability on the consolidated balance sheets.

As of September 30, 2020 and December 31, 2019, the fair value of the derivative instruments is presented as follows in the Company's condensed consolidated balance sheets:

<i>Derivative assets (liabilities)</i>	<b>September 30, 2020</b>	<b>December 31, 2019</b>
Interest rate swap	\$ (5,356)	\$ (1,771)
Cross-currency swap	(1,648)	(332)
<b>Derivative liabilities</b>	<b>\$ (7,004)</b>	<b>\$ (2,103)</b>

On a quarterly basis, the Company assesses whether the hedging relationship related to the interest rate swap is highly effective at achieving offsetting changes in cash flow attributable to the risk being hedged based on the following factors: (1) the key features and terms as enumerated above for the interest rate swap and hedged transactions match during the period (2) it is probable that the Swap Counterparty will not default on its obligations under the swap, and (3) the Company performs a qualitative review each quarter to assess whether the relationship qualifies for hedge accounting.

In addition, on a quarterly basis the Company assesses whether the hedging relationship related to the cross-currency swap is highly effective based on the following evaluations: (1) the Company will always have a sufficient amount of non-functional currency (EUR) net investment balance to at least meet the cross-currency notional amount until the maturity date of the hedge (2) it is probable that the Swap Counterparty will not default on its obligations under the swap, and (3) the Company performs a qualitative review each quarter to assess whether the relationship qualifies for hedge accounting.

If any mismatches arise for either the interest rate swap or cross-currency swap, the Company will perform a regression analysis to determine if the hedged transaction is highly effective. If determined not to be highly effective, the Company will discontinue hedge accounting.

As of September 30, 2020, the Company assessed the hedging relationships for the interest rate swap and cross-currency swap and determined them to be highly effective. As such, the net change in fair values of the derivative instruments was recorded in accumulated other comprehensive income.

Losses and gains on our hedging instruments are recognized in accumulated other comprehensive income (loss) and categorized as follows for the three and nine months ended September 30, 2020 and 2019:

	Location within Statements of Comprehensive Income	Three Months Ended September 30,		Nine Months Ended September 30,	
		2020	2019	2020	2019
Cash flow hedge (interest rate swap), net of tax	Unrealized gain/(loss) on cash flow hedge, net	\$ 227	\$ (657)	\$ (2,659)	\$ (1,956)
Net investment hedge (cross-currency swap), net of tax	Net foreign currency translation adjustment	(3,891)	4,626	(986)	1,715
<b>Total</b>		<b>\$ (3,664)</b>	<b>\$ 3,969</b>	<b>\$ (3,645)</b>	<b>\$ (241)</b>

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations** *(All amounts in thousands, except share and per share data)*

This report contains forward-looking statements, within the meaning of Section 21E of the Exchange Act, which reflect our expectation or belief concerning future events that involve risks and uncertainties. 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 the Annual Report on Form 10-K for the year ended December 31, 2019 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 nutritional, food, pharmaceutical, animal health, medical device sterilization, plant nutrition and industrial markets. Previously, our four reportable segments were: Human Nutrition and Health, Animal Nutrition and Health, Specialty Products, and Industrial Products. However, effective in the first quarter of 2020, in order to align with our strategic focus on health and nutrition, allocation of resources, and evaluation of operating performance, and given the 2019 reduction in portfolio scale of Industrial Products, we have revised our reporting segment structure to three reportable segments: Human Nutrition and Health, Animal Nutrition and Health, and Specialty Products. These reportable segments are strategic businesses that offer products and services to different markets. This realignment has been retrospectively applied. Sales and production of products outside of our reportable segments and other minor business activities are included in "Other and Unallocated" and applied retroactively to 2019. There was no change to the Consolidated Financial Statements as a result of the change to the reportable segments. We expect that the new reportable segment structure will provide investors greater understanding of and alignment with our strategic focus. In order to ensure appropriate transparency and visibility into the financial performance of the Company, sufficient detail will continue to be provided relative to Other and Unallocated, including material contributions from oil and gas and other industrial market activities.

As of September 30, 2020, we had approximately 1,341 full time employees worldwide. We believe that we have been successful in attracting skilled and experienced personnel in a competitive environment. Management believes that our human capital resources are adequate to perform all business functions.

**COVID-19 Response**

The COVID-19 response effort has been a primary focus for us since early in the first quarter. Our focus has been on employee safety first, keeping our manufacturing sites operational, satisfying customer needs, preserving cash and ensuring strong liquidity, and responding to changes in this dynamic market environment as appropriate. To date, all of our manufacturing sites are operating at near normal conditions enabling us to supply our customers with the important products and services they need, our research and development teams are advancing our innovation efforts, and all of our other employees are effectively carrying on their responsibilities and functions remotely.

While impact on demand in the first three quarters was not material to our Company, we are continuing to watch the markets that we serve closely. We have stress tested our balance sheet under various significant downturn scenarios and, given our relatively low net debt position, cash on hand, access to our undrawn revolving credit facility, and expected free cash flows, we are pleased with the strength of our balance sheet as we continue through this uncertain market environment. Despite this relative strength, we are continuing to take actions to reduce capital expenditures and non-critical cash expenses wherever possible to preserve cash.

After a short pause in implementation of our new ERP system across the company due to the pandemic, we successfully resumed our implementation efforts this quarter, adding three additional sites onto the new system. We now have approximately 75% of our revenue on the new system and expect full conversion by the middle of next year.

### **Segment Results**

We sell products for all three segments through our own sales force, independent distributors, and sales agents.

The following tables summarize consolidated net sales by segment and business segment earnings from operations for the three and nine months ended September 30, 2020 and 2019:

<b>Business Segment Net Sales</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Human Nutrition & Health	\$ 103,589	\$ 86,142	\$ 296,525	\$ 257,163
Animal Nutrition & Health	46,354	42,286	141,339	129,127
Specialty Products	23,003	24,888	79,193	68,219
Other and Unallocated <sup>(1)</sup>	2,194	5,279	5,874	22,669
<b>Total</b>	<b>\$ 175,140</b>	<b>\$ 158,595</b>	<b>\$ 522,931</b>	<b>\$ 477,178</b>

<b>Business Segment Earnings From Operations</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Human Nutrition & Health	\$ 17,499	\$ 13,193	\$ 45,131	\$ 39,234
Animal Nutrition & Health	7,011	6,122	21,485	16,423
Specialty Products	5,348	6,699	21,342	22,275
Other and Unallocated <sup>(1)</sup>	(830)	16	(5,735)	980
<b>Total</b>	<b>\$ 29,028</b>	<b>\$ 26,030</b>	<b>\$ 82,223</b>	<b>\$ 78,912</b>

<sup>(1)</sup> Other and Unallocated consists of a few minor businesses which individually do not meet the quantitative thresholds for separate presentation and corporate expenses that have not been allocated to a segment. Unallocated corporate expenses consist of: (i) Transaction and integration costs, ERP implementation costs, and unallocated legal fees totaling \$161 and \$2,179 for the three and nine months ended September 30, 2020, respectively, and \$688 and \$2,253 for the three and nine months ended September 30, 2019, respectively, and (ii) Unallocated amortization expense of \$399 and \$1,205 for the three and nine months ended September 30, 2020, respectively, and \$138 and \$157 for the three and nine months ended September 30, 2019, respectively, related to an intangible asset in connection with a company-wide ERP system implementation.

### **Acquisitions**

On December 13, 2019, we acquired Zumbro. We made payments of \$51,842 on the acquisition date, amounting to \$46,497 to the former shareholders and \$5,345 to Zumbro's lenders to pay Zumbro debt. Considering the cash acquired of \$686, net payments made to the former shareholders were \$45,811. In May 2020, we received an adjustment for working capital acquired of \$561. Zumbro is integrated within the HNH Segment.

On May 27, 2019, we acquired Chemogas. We made payments of approximately €99,503 (translated to \$111,324) on the acquisition date, amounting to approximately €88,579 (translated to \$99,102) to the former shareholders and approximately €10,924 (translated to \$12,222) to Chemogas' lender to pay off all Chemogas bank debt. Considering the cash acquired of €3,943 (translated to \$4,412), net payments made to the former shareholders were €84,636 (translated to \$94,690). Chemogas is integrated within the Specialty Products Segment.

**RESULTS OF OPERATIONS**

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

Three months ended September 30, 2020 compared to three months ended September 30, 2019.

**Net Earnings**

<i>(in thousands)</i>	Three Months Ended September 30,		Increase (Decrease)	% Change
	2020	2019		
Net sales	\$ 175,140	\$ 158,595	\$ 16,545	10.4 %
Gross margin	56,368	54,008	2,360	4.4 %
Operating expenses	27,340	27,978	(638)	(2.3)%
Earnings from operations	29,028	26,030	2,998	11.5 %
Other expenses	1,121	1,594	(473)	(29.7)%
Income tax expense	6,339	3,760	2,579	68.6 %
Net earnings	\$ 21,568	\$ 20,676	\$ 892	4.3 %

**Net Sales**

<i>(in thousands)</i>	Three Months Ended September 30,		Increase (Decrease)	% Change
	2020	2019		
HNH	\$ 103,589	\$ 86,142	\$ 17,447	20.3 %
ANH	46,354	42,286	4,068	9.6 %
Specialty Products	23,003	24,888	(1,885)	(7.6)%
Other	2,194	5,279	(3,085)	(58.4)%
Total	\$ 175,140	\$ 158,595	\$ 16,545	10.4 %

- The increase in net sales within the HNH segment for the three months ended September 30, 2020 as compared to 2019 was primarily driven by higher sales within food and beverage markets, strong sales growth of chelated minerals, and beneficial impact from the Zumbro acquisition we closed in December 2019, partially offset by lower sales to food service-related markets and the elimination of sales associated with the Reading, Pennsylvania manufacturing site that we divested in 2019.
- The increase in net sales within the ANH segment for the three months ended September 30, 2020 compared to 2019 was primarily the result of higher sales and volumes in the ruminant species markets.
- The decrease in Specialty Products segment sales for the three months ended September 30, 2020 compared to 2019 was primarily due to lower sales of ethylene oxide for the medical device sterilization market which has been negatively impacted by reduced elective surgical procedures during the pandemic.
- Sales relating to business formerly included in the Industrial Products segment decreased from the prior year due to a decline in shale fracking activity.

**Gross Margin**

<i>(in thousands)</i>	Three Months Ended September 30,		Increase (Decrease)	% Change
	2020	2019		
Gross margin	\$ 56,368	\$ 54,008	\$ 2,360	4.4 %
% of net sales	32.2 %	34.1 %		

Gross margin as a percentage of sales decreased for the three months ended September 30, 2020 compared to 2019 primarily due to mix.



**Operating Expenses**

<i>(in thousands)</i>	<b>Three Months Ended September 30,</b>		<b>Increase (Decrease)</b>	<b>% Change</b>
	<b>2020</b>	<b>2019</b>		
Operating expenses	\$ 27,340	\$ 27,978	\$ (638)	(2.3)%
% of net sales	15.6 %	17.6 %		

The decrease in operating expenses was principally due to lower selling expenses driven by reduced travel and a decrease in bad debt expense, partially offset by certain higher compensation related costs.

**Earnings from Operations**

<i>(in thousands)</i>	<b>Three Months Ended September 30,</b>		<b>Increase (Decrease)</b>	<b>% Change</b>
	<b>2020</b>	<b>2019</b>		
HNH	\$ 17,499	\$ 13,193	\$ 4,306	32.6 %
ANH	7,011	6,122	889	14.5 %
Specialty Products	5,348	6,699	(1,351)	(20.2)%
Other and unallocated	(830)	16	(846)	(5287.5)%
Earnings from operations	<u>\$ 29,028</u>	<u>\$ 26,030</u>	<u>\$ 2,998</u>	11.5 %
% of net sales (operating margin)	16.6 %	16.4 %		

- Earnings from operations for the HNH segment increased primarily due to the aforementioned higher sales and lower selling expenses, as a result of reduced travel and a decrease in bad debt expense.
- ANH segment earnings from operations increased primarily due to the aforementioned higher sales, certain lower raw material costs, and reduced travel, partially offset by an increase in certain compensation related costs.
- The decrease in earnings from operations for the Specialty Products segment was primarily due to the aforementioned lower sales.
- The decrease in other and unallocated was driven primarily by lower earnings from the business formerly reported in the Industrial Products segment, as well as increased unallocated amortization related to a company-wide ERP implementation.

**Other Expenses (Income)**

<i>(in thousands)</i>	<b>Three Months Ended September 30,</b>		<b>Increase (Decrease)</b>	<b>% Change</b>
	<b>2020</b>	<b>2019</b>		
Interest expense	\$ 953	\$ 1,672	\$ (719)	(43.0)%
Other, net	168	(78)	246	(315.4)%
	<u>\$ 1,121</u>	<u>\$ 1,594</u>	<u>\$ (473)</u>	(29.7)%

Interest expense for the three months ended September 30, 2020 and 2019 was primarily related to outstanding borrowings under our credit facility.

**Income Tax Expense**

<i>(in thousands)</i>	<b>Three Months Ended September 30,</b>		<b>Increase (Decrease)</b>	<b>% Change</b>
	<b>2020</b>	<b>2019</b>		
Income tax expense	\$ 6,339	\$ 3,760	\$ 2,579	68.6 %
Effective tax rate	22.7 %	15.4 %		

The effective tax rate increase was mainly attributable to a reduction in certain tax credits and lower tax benefits from stock-based compensation, partially offset by lower enacted state tax rates.

**Nine months ended September 30, 2020 compared to nine months ended September 30, 2019.**

**Net Earnings**

<i>(in thousands)</i>	<b>Nine Months Ended September 30,</b>		<b>Increase (Decrease)</b>	<b>% Change</b>
	<b>2020</b>	<b>2019</b>		
Net sales	\$ 522,931	\$ 477,178	\$ 45,753	9.6 %
Gross margin	167,079	157,021	10,058	6.4 %
Operating expenses	84,856	78,109	6,747	8.6 %
Earnings from operations	82,223	78,912	3,311	4.2 %
Other expenses	3,853	4,802	(949)	(19.8)%
Income tax expense	15,909	14,822	1,087	7.3 %
Net earnings	\$ 62,461	\$ 59,288	\$ 3,173	5.4 %

**Net Sales**

<i>(in thousands)</i>	<b>Nine Months Ended September 30,</b>		<b>Increase (Decrease)</b>	<b>% Change</b>
	<b>2020</b>	<b>2019</b>		
HNH	\$ 296,525	\$ 257,163	\$ 39,362	15.3 %
ANH	141,339	129,127	12,212	9.5 %
Specialty Products	79,193	68,219	10,974	16.1 %
Other	5,874	22,669	(16,795)	(74.1)%
Total	\$ 522,931	\$ 477,178	\$ 45,753	9.6 %

- The increase in net sales within the HNH segment for the nine months ended September 30, 2020 as compared to 2019 was primarily driven by strong sales growth of chelated minerals and choline nutrients as well as increased sales into the food and beverage markets from both the legacy business and the Zumbro acquisition we closed in December 2019, partially offset by lower sales to food service-related markets and the elimination of sales associated with the Reading, PA manufacturing site that we divested in 2019.
- The increase in net sales within the ANH segment for the nine months ended September 30, 2020 compared to 2019 was primarily the result of higher volumes in both the ruminant species and monogastric species markets.
- The increase in Specialty Products segment sales for the nine months ended September 30, 2020 compared to 2019 was primarily driven by higher sales of ethylene oxide for the medical device sterilization market due to the incremental contribution of Chemogas and higher plant nutrition sales, partially offset by lower legacy ethylene oxides sales which were negatively impacted by reduced elective surgical procedures during the pandemic.
- Sales relating to business formerly included in the Industrial Products segment decreased from the prior year due to a decline in shale fracking activity.

**Gross Margin**

<i>(in thousands)</i>	<b>Nine Months Ended September 30,</b>		<b>Increase (Decrease)</b>	<b>% Change</b>
	<b>2020</b>	<b>2019</b>		
Gross margin	\$ 167,079	\$ 157,021	\$ 10,058	6.4 %
% of net sales	32.0 %	32.9 %		

Gross margin as a percentage of sales decreased for the nine months ended September 30, 2020 compared to 2019 primarily due to mix, partially offset by certain lower raw material costs.



**Operating Expenses**

<i>(in thousands)</i>	<b>Nine Months Ended September 30,</b>		<b>Increase (Decrease)</b>	<b>% Change</b>
	<b>2020</b>	<b>2019</b>		
Operating expenses	\$ 84,856	\$ 78,109	\$ 6,747	8.6 %
% of net sales	16.2 %	16.4 %		

The increase in operating expenses was primarily due to incremental operating expenses related to the Chemogas and Zumbro acquisitions, the prior year benefiting from the timing of an insurance recovery, and a goodwill impairment charge related to business formerly included in the Industrial Products segment, partially offset by lower selling expenses driven by reduced travel and lower bad debt expenses.

**Earnings from Operations**

<i>(in thousands)</i>	<b>Nine Months Ended September 30,</b>		<b>Increase (Decrease)</b>	<b>% Change</b>
	<b>2020</b>	<b>2019</b>		
HNH	\$ 45,131	\$ 39,234	\$ 5,897	15.0 %
ANH	21,485	16,423	5,062	30.8 %
Specialty Products	21,342	22,275	(933)	(4.2)%
Other and unallocated	(5,735)	980	(6,715)	(685.2)%
Earnings from operations	\$ 82,223	\$ 78,912	\$ 3,311	4.2 %
% of net sales (operating margin)	15.7 %	16.5 %		

- Earnings from operations for the HNH segment increased primarily due to the aforementioned higher sales and lower selling expenses due to reduced travel and lower bad debt expenses, partially offset by higher general and administrative expenses resulting from the prior year benefiting from the timing of an insurance recovery.
- ANH segment earnings from operations increased primarily due to the aforementioned higher sales, certain lower raw material costs, and lower selling expenses due to reduced travel.
- The decrease in earnings from operations for the Specialty Products segment was primarily due to lower legacy ethylene oxide sales, mix, and higher operating expenses, primarily due to the acquisition of Chemogas.
- The decrease in other and unallocated was driven primarily by lower earnings from the business formerly reported in the industrial products segment, as well as increased unallocated amortization related to a company-wide ERP implementation.

**Other Expenses (Income)**

<i>(in thousands)</i>	<b>Nine Months Ended September 30,</b>		<b>Increase (Decrease)</b>	<b>% Change</b>
	<b>2020</b>	<b>2019</b>		
Interest expense	\$ 3,609	\$ 4,749	\$ (1,140)	(24.0)%
Other, net	244	53	191	360.4 %
	\$ 3,853	\$ 4,802	\$ (949)	(19.8)%

Interest expense for the nine months ended September 30, 2020 and 2019 was primarily related to outstanding borrowings under our credit facility.

**Income Tax Expense**

<i>(in thousands)</i>	<b>Nine Months Ended September 30,</b>		<b>Increase (Decrease)</b>	<b>% Change</b>
	<b>2020</b>	<b>2019</b>		
Income tax expense	\$ 15,909	\$ 14,822	\$ 1,087	7.3 %
Effective tax rate	20.3 %	20.0 %		

The effective tax rate increase was primarily attributable to a reduction in certain tax credits and lower tax benefits from stock-based compensation, partially offset by lower enacted state tax rates.

**FINANCIAL CONDITION**

**LIQUIDITY AND CAPITAL RESOURCES**

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

We expect our operations to continue generating sufficient cash flow to fund working capital requirements and necessary capital investments. We are actively pursuing additional acquisition candidates. We could seek additional bank loans or access to financial markets to fund such acquisitions, our operations, working capital, necessary capital investments or other cash requirements should we deem it necessary to do so. During the nine months ended September 30, 2020, there were no material changes outside the ordinary course of business in the specified contractual obligations set forth in our Annual Report on Form 10-K for the year ended December 31, 2019, except as follows:

**Cash**

Cash and cash equivalents increased to \$78,967 at September 30, 2020 from \$65,672 at December 31, 2019. At September 30, 2020, the Company had \$49,012 of cash and cash equivalents held by foreign subsidiaries. It is our intention to permanently reinvest these funds in 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 U.S. operations or obligations. However, if these funds are needed for U.S. operations, we could be required to pay additional withholding taxes to repatriate these funds. Working capital was \$201,709 at September 30, 2020 as compared to \$162,688 at December 31, 2019, an increase of \$39,021. Working capital reflects the payment of the 2019 declared dividend in 2020 of \$16,704, net payments on the revolving debt of \$55,000, and capital expenditures and intangible assets acquired of \$20,552.

<i>(in thousands)</i>	<b>Nine Months Ended September 30,</b>		<b>Increase (Decrease)</b>	<b>% Change</b>
	<b>2020</b>	<b>2019</b>		
Cash flows provided by operating activities	\$ 102,540	\$ 91,494	\$ 11,046	12.1 %
Cash flows used in investing activities	(21,380)	(103,109)	81,729	79.3 %
Cash flows (used in) provided by financing activities	(69,619)	17,625	(87,244)	495.0 %

**Operating Activities**

Cash flows from operating activities provided \$102,540 for the nine months ended September 30, 2020 as compared to \$91,494 for the nine months ended September 30, 2019. The increase in cash flows from operating activities was primarily due to increased earnings.

**Investing Activities**

We continue to invest in corporate projects, improvements across all production facilities, and intangible assets. Total investments in property, plant and equipment and intangible assets were \$20,552 and \$21,669 for the nine months ended September 30, 2020 and 2019, respectively. Cash paid for the Chemogas acquisition, net of cash acquired, amounted to \$94,690 for the nine months ended September 30, 2019. There were no acquisitions during the nine months ended September 30, 2020.

**Financing Activities**

Net payments on the revolving loan amounted to \$55,000 during the nine months ended September 30, 2020 and we have \$306,431 available under the Credit Agreement as of September 30, 2020.

We have 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 2,495,496 shares have been purchased, and we had 108,813 shares remaining in treasury at September 30, 2020. The Company repurchases shares from employees in connection with settlement of transactions under the Company's equity incentive plans. We also intend to acquire shares from time to time at prevailing market prices if and to the extent we deem it is advisable to do so based on our assessment of corporate cash flow, market conditions and other factors.

Proceeds from stock options exercised were \$8,179 and \$3,734 for the nine months ended September 30, 2020 and 2019, respectively. Dividend payments were \$16,704 and \$15,135 for the nine months ended September 30, 2020 and 2019, respectively.

### **Other Matters Impacting Liquidity**

We currently provide postretirement benefits in the form of two retirement medical plans, as discussed in Note 15 – Employee Benefit Plans. The liability recorded in other long-term liabilities on the consolidated balance sheets as of September 30, 2020 and December 31, 2019 was \$1,146 and \$1,076, respectively, 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 for the plans.

On June 1, 2018, we established an unfunded, nonqualified deferred compensation plan maintained for the benefit of a select group of management or highly compensated employees. Assets of the plan are held in a rabbi trust, which are subject to additional risk of loss in the event of bankruptcy or insolvency of the Company. The deferred compensation liability as of September 30, 2020 and December 31, 2019 was \$3,314 and \$1,982, respectively, and was included in other long-term obligations on our balance sheet. The related rabbi trust assets were \$3,314 and \$1,982 as of September 30, 2020 and December 31, 2019, respectively, and were included in other non-current assets on the balance sheets.

Chemogas has an unfunded defined benefit plan. The plan provides for the payment of a lump sum at retirement or payments in case of death of the covered employees. The amount recorded for these obligations on our balance sheets as of September 30, 2020 and December 31, 2019 were \$623 and \$596, respectively, and were included in other long-term obligations.

### **Critical Accounting Policies**

There were no changes to the Company's Critical Accounting Policies, as described in its December 31, 2019 Annual Report on Form 10-K, during the nine months ended September 30, 2020.

### **Related Party Transactions**

We were engaged in related party transactions with St. Gabriel CC Company, LLC during the three and nine months ended September 30, 2020. Refer to Note 18, "Related Party Transactions".

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Our cash and cash equivalents are held primarily in certificates of deposit and money market investment funds. In the second quarter of 2019, we entered into an interest rate swap and cross-currency swap for hedging purposes. Refer to details noted above (see Note 20). Additionally, as of September 30, 2020, our borrowings were under a revolving loan bearing interest at a fluctuating rate as defined by the Credit Agreement plus an applicable rate. The applicable rate is based upon our consolidated net leverage ratio, as defined in the Credit Agreement. A 100 basis point increase or decrease in interest rates, applied to our borrowings at September 30, 2020, would result in an increase or decrease in annual interest expense and a corresponding reduction or increase in cash flow of approximately \$1,936. We are exposed 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 raw material pricing arising in our business activities. We manage these financial exposures, where possible, through pricing and operational means. Our practices may change as economic conditions change. Additionally, as disclosed below in Item 1A, we are monitoring market risks related to the current COVID-19 pandemic very closely.

#### **Interest Rate Risk**

We have exposure to market risk for changes in interest rates, including the interest rate relating to the Credit Agreement dated June 27, 2018. In the second quarter of 2019, we began to manage our interest rate exposure through the use of derivative instruments. All of our derivative instruments are utilized for risk management purposes, and are not used for trading or speculative purposes. We have hedged a portion of our floating interest rate exposure using an interest rate swap (see Note 20 to

our consolidated financial statements). As of September 30, 2020, the notional amount of our outstanding interest rate swap was \$108,569.

## **Foreign Currency Exchange Risk**

The financial condition and results of operations of our foreign subsidiaries are reported in Euros, Canadian Dollars, Malaysian Ringgits, Singapore Dollars, Australian Dollars, and Philippine Pesos and then translated into U.S. dollars at the applicable currency exchange rate for inclusion in our consolidated financial statements. Therefore, we are exposed to foreign currency exchange risk related to these currencies. Specifically, we are exposed to changes in exchange rates between the U.S. dollar and Euro. In the second quarter of 2019, we entered into a cross-currency swap, with a notional amount of \$108,569, which we designated as a hedge of our net investment in Chemogas.

## **Item 4. Controls and Procedures**

### **(a) Evaluation of Disclosure Controls and Procedures**

Prior to filing this report, we completed an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rule 13a-15(e) of the Exchange Act as of September 30, 2020. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of September 30, 2020.

### **(b) Changes in Internal Controls**

There have been no changes in the internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Act) during the fiscal quarter ended September 30, 2020, that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

## **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, 2019, except as follows:

*Our business, results of operations, financial condition, cash flows and stock price can be adversely affected by pandemics, epidemics or other public health emergencies, such as COVID-19.*

Our business, results of operations, financial condition, cash flows and stock price can be adversely affected by pandemics, epidemics or other public health emergencies, such as COVID-19. In March 2020, the World Health Organization characterized COVID-19 as a pandemic, and the President of the United States declared the COVID-19 outbreak a national emergency. The outbreak has resulted in governments around the world implementing increasingly stringent measures to help control the spread of the virus, including quarantines, "shelter in place" and "stay at home" orders, travel restrictions, business curtailments, school closures, and other measures. In addition, government and central banks in several parts of the world have enacted fiscal and monetary stimulus measures to counteract the impacts of COVID-19.

Our businesses have been deemed "essential" under the orders issued by federal, state and local governments. Although we have continued to operate our facilities to date consistent with federal guidelines and state and local orders, the outbreak of COVID-19 or similar viruses and any preventive or protective actions taken by governmental authorities may have a material adverse effect on our operations, supply chain, customers, and transportation networks, including business shutdowns or disruptions. The extent to which viruses such as COVID-19 may adversely impact our business depends on future developments, which are highly uncertain and unpredictable, depending upon the severity and duration of the outbreak and the effectiveness of actions taken globally to contain or mitigate their effects. Any resulting financial impact cannot be estimated reasonably at this time, but may materially adversely affect our business, results of operations, financial condition and cash flows. Additionally, concerns over the economic impact of COVID-19 have caused extreme volatility in financial and other capital markets which has and may continue to adversely impact our stock price and may affect our ability to access capital markets. To the extent the COVID-19 pandemic adversely affects our business and financial results, it may also have the effect of heightening many of the other risks described in our 2019 Annual Report. We will continue to implement mitigation strategies as needed to protect the long-term sustainability of our company.

**Item 2C. Issuer Purchase of Equity Securities**

The following table summarizes the share repurchase activity for the three months ended September 30, 2020:

	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid Per Share <sup>(2)</sup>	Total Number of Shares Purchased as Part of Publicly Announced Programs <sup>(1)</sup>	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
July 1-31, 2020	—	\$ —	—	\$ 116,619,193
August 1-31, 2020	—	\$ —	—	\$ 116,619,193
September 1-30, 2020	31,224	\$ 94.72	31,224	\$ 120,063,231
	<u>31,224</u>		<u>31,224</u>	

<sup>(1)</sup> We have 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 2,495,496 shares have been purchased, of which 108,813 shares remained in treasury at September 30, 2020. There is no expiration for this program.

<sup>(2)</sup> Average price paid per share includes costs associated with the repurchases

**Item 6. Exhibits**

**Exhibit Number Description**

<a href="#">Exhibit 31.1</a>	<a href="#">Certification of Chief Executive Officer pursuant to Rule 13a-14(a).</a>
<a href="#">Exhibit 31.2</a>	<a href="#">Certification of Chief Financial Officer pursuant to Rule 13a-14(a).</a>
<a href="#">Exhibit 32.1</a>	<a href="#">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.</a>
<a href="#">Exhibit 32.2</a>	<a href="#">Certification of Chief Financial Officer pursuant to Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code.</a>
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

**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/ Martin Bengtsson

Martin Bengtsson, Chief Financial Officer and Treasurer

Date: October 28, 2020