**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, 2023

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) |

5 Paragon Drive, Montvale, NJ 07645
(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 | The Nasdaq Stock Market LLC |

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 19, 2023, the registrant had 32,241,056 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)*

| Assets | September 30, 2023 | December 31, 2022 |
|---|---|---|
| **Current assets:** | (unaudited) | |
| Cash and cash equivalents | $ 76,952 | $ 66,560 |
| Accounts receivable, net of allowance for doubtful accounts of $842 and $1,226 at September 30, 2023 and December 31, 2022 respectively | 129,009 | 131,578 |
| Inventories, net | 116,346 | 119,668 |
| Prepaid expenses | 7,236 | 4,903 |
| Prepaid income taxes | 5,085 | — |
| Derivative assets | — | 5,993 |
| Other current assets | 6,594 | 7,101 |
| **Total current assets** | **341,222** | **335,803** |
| Property, plant and equipment, net | 268,834 | 271,355 |
| Goodwill | 766,545 | 769,509 |
| Intangible assets with finite lives, net | 192,168 | 213,295 |
| Right of use assets - operating leases | 16,066 | 17,094 |
| Right of use assets - finance lease | 2,155 | 2,338 |
| Other assets | 16,494 | 15,118 |
| **Total assets** | **$ 1,603,484** | **$ 1,624,512** |
| **Liabilities and Stockholders' Equity** | | |
| **Current liabilities:** | | |
| Trade accounts payable | $ 49,698 | $ 57,322 |
| Accrued expenses | 42,528 | 36,745 |
| Accrued compensation and other benefits | 11,771 | 16,544 |
| Dividends payable | 183 | 23,129 |
| Income taxes payable | — | 2,280 |
| Operating lease liabilities - current | 3,584 | 3,796 |
| Finance lease liabilities - current | 274 | 226 |
| **Total current liabilities** | **108,038** | **140,042** |
| Revolving loan | 380,569 | 440,569 |
| Deferred income taxes | 59,014 | 62,784 |
| Operating lease liabilities - non-current | 13,244 | 13,806 |
| Finance lease liabilities - non-current | 1,995 | 2,213 |
| Other long-term obligations | 15,357 | 26,814 |
| **Total liabilities** | **578,217** | **686,228** |
| Commitments and contingencies (Note 16) | | |
| **Stockholders' equity:** | | |
| Preferred stock, $25 par value. Authorized 2,000,000 shares; none issued and outstanding | — | — |
| Common stock, $0.0667 par value. Authorized 120,000,000 shares; 32,240,144 and 32,152,787 shares issued and outstanding at September 30, 2023 and December 31, 2022, respectively | 2,151 | 2,145 |
| Additional paid-in capital | 140,966 | 128,806 |
| Retained earnings | 896,382 | 814,487 |
| Accumulated other comprehensive loss | (14,232) | (7,154) |
| **Total stockholders' equity** | **1,025,267** | **938,284** |
| **Total liabilities and stockholders' equity** | **$ 1,603,484** | **$ 1,624,512** |

*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, | |
|---|---|---|---|---|
| | **2023** | **2022** | **2023** | **2022** |
| **Net sales** | **$ 229,948** | **$ 244,267** | **$ 693,740** | **$ 709,827** |
| **Cost of sales** | **153,404** | **175,837** | **466,677** | **498,015** |
| **Gross margin** | **76,544** | **68,430** | **227,063** | **211,812** |
| **Operating expenses:** | | | | |
| Selling expenses | 18,258 | 16,590 | 55,125 | 49,566 |
| Research and development expenses | 3,868 | 2,996 | 11,113 | 9,149 |
| General and administrative expenses | 10,804 | 15,219 | 39,967 | 41,216 |
| | 32,930 | 34,805 | 106,205 | 99,931 |
| **Earnings from operations** | **43,614** | **33,625** | **120,858** | **111,881** |
| **Other expenses, net:** | | | | |
| Interest expense, net | 6,594 | 3,642 | 17,322 | 5,147 |
| Other expense (income), net | 545 | (1,102) | (458) | (1,239) |
| | 7,139 | 2,540 | 16,864 | 3,908 |
| **Earnings before income tax expense** | **36,475** | **31,085** | **103,994** | **107,973** |
| Income tax expense | 7,400 | 5,836 | 22,099 | 24,012 |
| **Net earnings** | **$ 29,075** | **$ 25,249** | **$ 81,895** | **$ 83,961** |
| **Net earnings per common share - basic** | **$ 0.91** | **$ 0.79** | **$ 2.55** | **$ 2.62** |
| **Net earnings per common share - diluted** | **$ 0.90** | **$ 0.78** | **$ 2.52** | **$ 2.59** |

*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, | |
|---|---|---|---|---|
| | **2023** | **2022** | **2023** | **2022** |
| **Net earnings** | **$ 29,075** | **$ 25,249** | **$ 81,895** | **$ 83,961** |
| Other comprehensive loss, net of tax: | | | | |
| Foreign currency translation adjustment | (14,425) | (34,874) | (6,117) | (44,667) |
| Unrealized gain (loss) on cash flow hedge | — | 427 | (1,065) | 2,850 |
| Change in postretirement benefit plans | 2 | 2 | 104 | (59) |
| **Other comprehensive loss** | **(14,423)** | **(34,445)** | **(7,078)** | **(41,876)** |
| **Comprehensive income (loss)** | **$ 14,652** | **$ (9,196)** | **$ 74,817** | **$ 42,085** |

*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, 2023 and 2022**
*(Dollars in thousands, except share and per share data)*

| | Total Stockholders' Equity | Retained Earnings | Accumulated Other Comprehensive (Loss) Income | Common Stock | | Additional Paid-in Capital |
|---|---|---|---|---|---|---|
| | | | | Shares | Amount | |
| **Balance - December 31, 2022** | **$ 938,284** | **$ 814,487** | **$ (7,154)** | **32,152,787** | **$ 2,145** | **$ 128,806** |
| Net earnings | 22,710 | 22,710 | — | — | — | — |
| Other comprehensive income | 9,013 | — | 9,013 | — | — | — |
| Repurchases of common stock | (3,849) | — | — | (28,109) | (2) | (3,847) |
| Shares and options issued under stock plans | 7,258 | — | — | 100,949 | 7 | 7,251 |
| **Balance - March 31, 2023** | **973,416** | **837,197** | **1,859** | **32,225,627** | **2,150** | **132,210** |
| Net earnings | 30,110 | 30,110 | — | — | — | — |
| Other comprehensive loss | (1,668) | — | (1,668) | — | — | — |
| Repurchases of common stock | (75) | — | — | (567) | — | (75) |
| Shares and options issued under stock plans | 5,120 | — | — | 14,142 | 1 | 5,119 |
| **Balance - June 30, 2023** | **1,006,903** | **867,307** | **191** | **32,239,202** | **2,151** | **137,254** |
| Net earnings | 29,075 | 29,075 | — | — | — | — |
| Other comprehensive loss | (14,423) | — | (14,423) | — | — | — |
| Repurchases of common stock | (101) | — | — | (775) | — | (101) |
| Shares and options issued under stock plans | 3,813 | — | — | 1,717 | — | 3,813 |
| **Balance - September 30, 2023** | **$ 1,025,267** | **$ 896,382** | **$ (14,232)** | **32,240,144** | **$ 2,151** | **$ 140,966** |

*See accompanying notes to condensed consolidated financial statements.*

**BALCHEM CORPORATION**
**Condensed Consolidated Statements of Changes in Stockholders' Equity *(continued)***
**For the Three and Nine Months Ended September 30, 2023 and 2022**
*(Dollars in thousands, except share and per share data)*

| | Total Stockholders' Equity | Retained Earnings | Accumulated Other Comprehensive (Loss) Income | Common Stock | | Additional Paid-in Capital |
|---|---|---|---|---|---|---|
| | | | | Shares | Amount | |
| **Balance - December 31, 2021** | **$ 877,015** | **$ 732,138** | **$ (4,993)** | **32,287,150** | **$ 2,154** | **$ 147,716** |
| Net earnings | 28,930 | 28,930 | — | — | — | — |
| Other comprehensive loss | (1,296) | — | (1,296) | — | — | — |
| Repurchases of common stock | (34,599) | — | — | (245,685) | (16) | (34,583) |
| Dividends | (10) | (10) | — | — | — | — |
| Shares and options issued under stock plans | 3,642 | — | — | 74,604 | 4 | 3,638 |
| **Balance - March 31, 2022** | **873,682** | **761,058** | **(6,289)** | **32,116,069** | **2,142** | **116,771** |
| Net earnings | 29,782 | 29,782 | — | — | — | — |
| Other comprehensive loss | (6,135) | — | (6,135) | — | — | — |
| Repurchases of common stock | (600) | — | — | (4,976) | — | (600) |
| Shares and options issued under stock plans | 4,641 | — | — | 9,500 | 1 | 4,640 |
| **Balance - June 30, 2022** | **901,370** | **790,840** | **(12,424)** | **32,120,593** | **2,143** | **120,811** |
| Net earnings | 25,249 | 25,249 | — | — | — | — |
| Other comprehensive loss | (34,445) | — | (34,445) | — | — | — |
| Repurchases of common stock | (46) | — | — | (361) | — | (46) |
| Shares and options issued under stock plans | 3,794 | — | — | 14,670 | 1 | 3,793 |
| **Balance - September 30, 2022** | **$ 895,922** | **$ 816,089** | **$ (46,869)** | **32,134,902** | **$ 2,144** | **$ 124,558** |

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

| | Nine Months Ended September 30, | |
|---|---|---|
| | **2023** | **2022** |
| **Cash flows from operating activities:** | | |
| **Net earnings** | **$ 81,895** | **$ 83,961** |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation and amortization | 40,878 | 37,958 |
| Stock compensation expense | 12,267 | 9,838 |
| Deferred income taxes | (2,422) | 1,513 |
| Provision for doubtful accounts | 1 | 379 |
| Unrealized gain on foreign currency transactions and deferred compensation | (778) | (1,262) |
| Asset impairment and loss on disposal of assets | 6,858 | 282 |
| Change in fair value of contingent consideration liability | (9,900) | — |
| Changes in assets and liabilities | | |
| Accounts receivable | 2,606 | (14,678) |
| Inventories | 2,545 | (30,370) |
| Prepaid expenses and other current assets | (2,703) | (690) |
| Accounts payable and accrued expenses | (6,429) | 14,358 |
| Income taxes | (7,742) | (5,732) |
| Other | (721) | 1,324 |
| **Net cash provided by operating activities** | **116,355** | **96,881** |
| **Cash flows from investing activities:** | | |
| Cash paid for acquisitions, net of cash acquired | (1,252) | (365,780) |
| Capital expenditures and intangible assets acquired | (26,317) | (35,793) |
| Proceeds from sale of assets | 1,881 | 198 |
| Proceeds from settlement of net investment hedge | 2,740 | — |
| Investment in affiliates | — | (150) |
| **Net cash used in investing activities** | **(22,948)** | **(401,525)** |
| **Cash flows from financing activities:** | | |
| Proceeds from revolving loan | 18,000 | 435,000 |
| Principal payments on revolving loan | (78,000) | (81,000) |
| Principal payments on acquired debt | — | (30,782) |
| Cash paid for financing costs | — | (1,232) |
| Principal payments on finance lease | (166) | (125) |
| Proceeds from stock options exercised | 3,888 | 2,172 |
| Dividends paid | (22,872) | (20,708) |
| Purchase of common stock | (4,025) | (35,245) |
| **Net cash (used in) provided by financing activities** | **(83,175)** | **268,080** |
| Effect of exchange rate changes on cash | 160 | (10,186) |
| **Increase (decrease) in cash and cash equivalents** | **10,392** | **(46,750)** |
| **Cash and cash equivalents beginning of period** | **66,560** | **103,239** |
| **Cash and cash equivalents end of period** | **$ 76,952** | **$ 56,489** |

*See accompanying notes to condensed consolidated financial statements.*

**BALCHEM CORPORATION**
**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 the December 31, 2022 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, 2022. The condensed consolidated financial statements reflect the operations of Balchem Corporation and its subsidiaries (the "Company" or "Balchem"). 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, 2023 are not necessarily indicative of the operating results expected for the full year or any interim period.

### *Recently Adopted Accounting Pronouncements*

In August 2023, the FASB issued Accounting Standards Update ("ASU") 2023-05, "Business Combinations - Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement." The new guidance applies to the formation of a joint venture and requires a joint venture to initially measure all contributions received upon its formation at fair value. The guidance is intended to reduce diversity in practice and is applicable to joint venture entities with a formation date on or after January 1, 2025 on a prospective basis. While ASU 2023-05 is not currently applicable to Balchem, the Company will apply this guidance in future reporting periods after the guidance is effective to any future arrangements meeting the definition of a joint venture.

In March 2020, the FASB issued ASU 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting", and in December 2022 subsequently issued ASU 2022-06, “Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848.” These ASU’s provide temporary optional guidance to ease the potential burden in accounting for reference rate reform. The Standards Updates provide optional expedients and exceptions for applying accounting principles generally accepted in the United States to contract modifications and hedging relationships that reference LIBOR or another reference rate that are expected to be discontinued. The Standards Updates were effective upon issuance and can generally be applied through December 31, 2024. Due to the discontinuation of LIBOR and under the relief provided by Topic 848, during the third quarter of 2022, the Company modified its interest rate swap and replaced LIBOR with 1-month CME Term SOFR. The modification of the agreement did not have a significant impact on the Company's consolidated financial statements and disclosures. The interest rate swap matured on June 27, 2023.

## NOTE 2 – SIGNIFICANT ACQUISITIONS

### *Cardinal Associates Inc. ("Bergstrom")*

On August 30, 2022, the Company's wholly-owned subsidiary Albion Laboratories, Inc. ("Albion") entered into a Stock Purchase Agreement, and closed on such transaction with Cardinal Associates Inc. ("Cardinal"), a corporation organized under the laws of the State of Washington, pursuant to which Albion acquired 100% of the voting equity interests of Cardinal and its Bergstrom Nutrition business (collectively, "Bergstrom"). Bergstrom Nutrition is a leading science-based manufacturer of MSM, based in Vancouver, Washington. MSM is a widely used nutritional ingredient with strong scientific evidence supporting its benefits for joint health, sports nutrition, skin and beauty, healthy aging, and pet health. The addition of OptiMSM®, Bergstrom Nutrition's MSM brand, to the Company's portfolio within the Human Nutrition and Health and Animal Nutrition and Health segments provides a synergistic scientific advantage in Balchem's key strategic therapeutic focus areas such as longevity and performance and is a strong fit with Balchem's specialty, science-backed mineral products.

The Company made payments of $72,143 for the acquisition, amounting to $71,937 to the former shareholders or on behalf of the former shareholders and $206 to pay off Bergstrom's bank debt. Net of cash acquired of $773, total payments made to the former shareholders or on behalf of the former shareholders of Bergstrom were $71,164. The acquisition was primarily financed through the 2022 Credit Agreement (see Note 8, *Revolving Loan*). In connection with this transaction, the former shareholders of Bergstrom have an opportunity to receive an additional payment in the second quarter of 2024 if certain financial performance targets and other metrics are met, and therefore, the Company recorded a contingent consideration liability, which was valued at $1,500 as of September 30, 2023 and was included in "Accrued expenses" on the condensed consolidated balance sheets. The Company also made an additional post-closing payment of $910 in the third quarter of 2023 that was negotiated as a deduction of the cash consideration at closing. As a result, total payments related to the transaction are expected to be $73,643, comprised of the cash consideration at closing of $70,892, a working capital adjustment of $341, an additional post-closing payment of $910, and the fair value of the earn-out payment of $1,500.

The goodwill of $31,550 that arose on the acquisition date consists largely of expected synergies, including the combined entities' experience and technical problem-solving capabilities, and acquired workforce. 80% of the goodwill is assigned to the Human Nutrition and Health business segment and 20% of the goodwill is assigned to the Animal Nutrition and Health business segment. For tax purposes, a joint election under 338(h)(10) was made to treat the stock acquisition as a deemed asset acquisition, therefore generating tax amortizable goodwill.

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

| | |
|---|---|
| Cash and cash equivalents | $ 773 |
| Accounts receivable | 4,699 |
| Inventories | 3,972 |
| Property, plant and equipment | 2,243 |
| Right of use assets | 866 |
| Customer relationships | 29,900 |
| Developed technology | 4,600 |
| Trademarks | 2,300 |
| Other assets | 197 |
| Accounts payable | (699) |
| Bank debt | (206) |
| Lease liabilities | (871) |
| Other liabilities | (462) |
| Goodwill | 31,550 |
| Total consideration on acquisition date and working capital adjustment | 78,862 |
| Net decrease to contingent consideration liability and other post-closing payments | (5,425) |
| Total expected consideration | 73,437 |
| To pay off bank debt | 206 |
| Total expected payments | $ 73,643 |

The fair value of tangible and intangible assets acquired and liabilities assumed is 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 include net realizable value for inventory, multi-period excess earnings method for customer relationships, the relief from royalty method for other intangible assets, and a scenario-based approach for the contingent consideration.

Customer relationships are amortized over a 15-year period utilizing a percentage of excess earnings over economic life method. The corporate trademark and product trademarks are amortized over 2 years and 10 years, respectively, and developed technology is amortized over 12 years, utilizing the straight-line method as the consumption pattern of the related economic benefits cannot be reliably determined.

Transaction and integration costs related to the Bergstrom acquisition are included in general and administrative expenses and were $(3,342) and $(9,222) for the three and nine months ended September 30, 2023, respectively. These amounts included favorable adjustments to transaction costs of $3,500 and $9,900 for the three and nine months ended September 30, 2023, respectively. Transaction and integration costs related to the Bergstrom acquisition were $593 and $668 for the three and nine months ended September 30, 2022.

***Kechu BidCo AS and Its Subsidiary Companies ("Kappa")***

On June 21, 2022, Balchem Corporation and its wholly-owned subsidiary, Balchem B.V., completed the acquisition of Kechu BidCo AS and its subsidiary companies, including Kappa Bioscience AS, a leading science-based manufacturer of specialty vitamin K2 for the human nutrition industry, headquartered in Oslo, Norway (all acquired companies collectively referred to as "Kappa"). Kappa manufactures specialty vitamin K2, a fast-growing specialty vitamin that plays a crucial role in the human body for bone health, heart health and immunity. Primarily, vitamin K2 supports the transport and distribution of calcium in the body. Vitamin K2 is important at all life stages, from pregnancy and early life to healthy aging. The acquisition strengthens the Company's scientific and technical expertise, geographic reach, and marketplace leadership, which should ultimately lead to accelerated growth for the Company's portfolios within the Human Nutrition and Health segment.

The Company made payments of approximately kr3,305,653 ("kr" indicates the Norwegian krone), amounting to approximately kr3,001,981 to the former shareholders and approximately kr303,672 to Kappa's lenders to pay off all Kappa bank debt. Net of cash acquired of kr63,064, total payments to the former shareholders were kr2,938,917. Net of gains on foreign currency forward contracts of $512, these payments translated to approximately $333,112, amounting to approximately $302,464 paid to the former shareholders and approximately $30,648 to Kappa's lenders. Net of cash acquired of $6,365, total payments made to the former shareholders of Kappa were approximately $296,099. The acquisition was primarily financed through the 2018 Credit Agreement (see Note 8, *Revolving Loan*). In connection with this transaction, the former shareholders of Kappa have an opportunity to receive an additional payment in the second quarter of 2024 if certain financial performance targets and other metrics are met. There was no contingent consideration liability recorded as of September 30, 2023.

The goodwill of $216,383 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 Human Nutrition and Health business segment and is not deductible for income tax purposes.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed. The transactions were completed in Norwegian kroner ("NOK") and the amounts were translated to U.S. dollars ("USD") using the foreign currency exchange rate as of June 21, 2022.

| | |
|---|---|
| Cash and cash equivalents | $ 6,365 |
| Accounts receivable | 8,036 |
| Inventories | 17,600 |
| Property, plant and equipment | 9,854 |
| Right of use assets | 3,349 |
| Customer relationships | 88,813 |
| Developed technology | 15,643 |
| Trademarks | 5,046 |
| Other assets | 2,399 |
| Accounts payable | (3,301) |
| Bank debt | (30,648) |
| Lease liabilities | (3,349) |
| Other liabilities | (4,461) |
| Deferred income taxes, net | (24,716) |
| Goodwill | 216,383 |
| Total consideration on acquisition date | 307,013 |
| Decrease to contingent consideration liability | (4,037) |
| Net gain on foreign currency exchange forward contracts | (512) |
| Total expected consideration | 302,464 |
| Kappa bank debt paid on acquisition date | 30,648 |
| Total expected payments | $ 333,112 |

The fair value of tangible and intangible assets acquired and liabilities assumed is 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 include net realizable value for inventory, multi-period excess earnings method for customer relationships, the relief from royalty method for other intangible assets, and a scenario-based approach for the contingent consideration.

Customer relationships are amortized over a 15-year period utilizing a percentage of excess earnings over economic life method. The corporate trademark and product trademarks are amortized over 2 years and 10 years, respectively, and developed technology is amortized over 12 years, utilizing the straight-line method as the consumption pattern of the related economic benefits cannot be reliably determined.

Transaction and integration costs related to the Kappa acquisition are included in general and administrative expenses and were $46 and $525 for the three and nine months ended September 30, 2023, respectively, and $989 and $1,440 for the three and nine months ended September 30, 2022. The following selected unaudited pro forma information presents the consolidated results of operations as if the business combinations in 2022 had occurred as of January 1, 2021.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | Net Sales | Net Earnings | Net Sales | Net Earnings |
| Kappa & Bergstrom actual results included in the Company's consolidated income statement in three and nine months ended September 30, 2023 | $ 16,568 | $ 4,732 | $ 44,313 | $ 3,517 |
| 2023 Supplemental pro forma combined financial | $ 229,948 | $ 30,937 | $ 693,740 | $ 88,155 |
| 2022 Supplemental pro forma combined financial | $ 247,614 | $ 26,831 | $ 749,489 | $ 86,275 |

The above selected unaudited pro forma information includes the following acquisition-related adjustments: (1) additional amortization of intangible assets and depreciation of fixed assets; (2) adjustments related to the fair value of the acquired inventory, (3) adjustments to interest expense on borrowings at rates in effect during the related period, factoring in estimated payments based on free cash flow, and (4) other one-time adjustments.

The pro forma information presented does not purport to be indicative of the results that actually would have been attained if these acquisitions had occurred at the beginning of the periods presented and is not intended to be a projection of future results.

## NOTE 3 - STOCKHOLDERS' EQUITY

***Stock-Based Compensation***

The Company's results for the three and nine months ended September 30, 2023 and 2022 reflected the following stock-based compensation cost, and such compensation cost had the following effects on net earnings:

| | Increase/(Decrease) for the Three Months Ended September 30, | | Increase/(Decrease) for the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| Cost of sales | $ 477 | $ 386 | $ 1,436 | $ 1,062 |
| Operating expenses | 3,272 | 2,563 | 10,831 | 8,776 |
| Net earnings | (2,884) | (2,251) | (9,447) | (7,563) |

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 omnibus incentive plan allows 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 plan. 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, 2023, the plan had 1,035,010 shares available for future awards, which included an additional 800,000 shares approved by the Company's shareholders during its annual meeting of shareholders held on June 22, 2023. Compensation expense for stock options and stock awards is recognized on a straight-line basis over the vesting period, generally three to five years for stock options, three years for employee restricted stock awards, three years for employee performance share awards, and three 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, 2023 and 2022 is summarized below:

| For the Nine Months Ended September 30, 2023 | Shares (000s) | Weighted Average Exercise Price | Aggregate Intrinsic Value | Weighted Average Remaining Contractual Term |
|---|---|---|---|---|
| Outstanding as of December 31, 2022 | 1,045 | $ 99.82 | $ 27,221 | |
| Granted | 109 | 138.09 | | |
| Exercised | (47) | 82.70 | | |
| Forfeited | (11) | 131.79 | | |
| Canceled | (1) | 138.07 | | |
| Outstanding as of September 30, 2023 | 1,095 | $ 104.00 | $ 26,825 | 5.9 |
| | | | | |
| Exercisable as of September 30, 2023 | 728 | $ 88.01 | $ 26,512 | 4.6 |

| For the Nine Months Ended September 30, 2022 | Shares (000s) | Weighted Average Exercise Price | Aggregate Intrinsic Value | Weighted Average Remaining Contractual Term |
|---|---|---|---|---|
| Outstanding as of December 31, 2021 | 867 | $ 88.19 | $ 69,711 | |
| Granted | 239 | 139.04 | | |
| Exercised | (31) | 70.06 | | |
| Forfeited | (12) | 125.05 | | |
| Canceled | — | — | | |
| Outstanding as of September 30, 2022 | 1,063 | $ 99.74 | $ 27,308 | 6.6 |
| | | | | |
| Exercisable as of September 30, 2022 | 656 | $ 81.45 | $ 26,312 | 5.2 |

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 weighted average fair values of the stock options granted under the Plans were calculated using either the Black-Scholes model or the Binomial model, whichever was deemed to be most appropriate. For the nine months ended September 30, 2023, the fair value of each option grant was estimated on the date of the grant using the following weighted average assumptions: dividend yields of 0.5%; expected volatilities of 28%; risk-free interest rates of 3.9%; and expected lives of 4.8 years. For the nine months ended September 30, 2022, the fair value of each option grant was estimated on the date of the grant using the following weighted average assumptions: dividend yields of 0.5%; expected volatilities of 30%; risk-free interest rates of 2.8%; and expected lives of 7.3 years.

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, 2023 and 2022 is as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| Weighted-average fair value of options granted | $ — | $ 48.55 | $ 40.91 | $ 44.77 |
| Total intrinsic value of stock options exercised ($000s) | $ 100 | $ 815 | $ 2,280 | $ 1,964 |

Non-vested restricted stock activity for the nine months ended September 30, 2023 and 2022 is summarized below:

| | Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2023 | | 2022 | |
| | Shares (000s) | Weighted Average Grant Date Fair Value | Shares (000s) | Weighted Average Grant Date Fair Value |
| Non-vested balance as of December 31 | 122 | $ 124.42 | 166 | $ 99.70 |
| Granted | 39 | 137.48 | 40 | 137.03 |
| Vested | (34) | 111.48 | (78) | 81.11 |
| Forfeited | (4) | 128.06 | (7) | 116.72 |
| Non-vested balance as of September 30 | 123 | $ 132.01 | 121 | $ 122.96 |

Non-vested performance share activity for the nine months ended September 30, 2023 and 2022 is summarized below:

| | Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2023 | | 2022 | |
| | Shares (000s) | Weighted Average Grant Date Fair Value | Shares (000s) | Weighted Average Grant Date Fair Value |
| Non-vested balance as of December 31 | 70 | $ 127.69 | 69 | $ 110.72 |
| Granted | 42 | 139.66 | 39 | 114.22 |
| Vested | (36) | 98.84 | (35) | 53.17 |
| Forfeited | — | — | (3) | 84.09 |
| Non-vested balance as of September 30 | 76 | $ 135.25 | 70 | $ 127.69 |

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 4.2% and 1.8%; dividend yields of 0.5% and 0.5%; volatilities of 32% and 32%; and initial TSR's of 4.2% and -15.7%, in each case for the nine months ended September 30, 2023 and 2022, 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, 2023 and 2022, there were $22,470 and $23,665, respectively, of total unrecognized compensation costs related to non-vested share-based compensation arrangements granted under the plans. As of September 30, 2023, the unrecognized compensation cost is expected to be recognized over a weighted-average period of approximately 1.8 years. The Company estimates that share-based compensation expense for the year ended December 31, 2023 will be approximately $16,000.

***Repurchase of Common Stock***

The Company's Board of Directors has approved a 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 3,099,999 shares have been purchased. The Company intends to acquire shares from time to time at prevailing market prices if and to the extent it deems it is advisable to do so based on its assessment of corporate cash flow, market conditions and other factors. Open market repurchases of common stock could be made pursuant to trading plan established pursuant to Rule 10b5-1 under the Securities Exchange Act of 1934, as amended, which would permit common stock to be repurchased at a time that the Company might otherwise be precluded from doing so under insider trading laws or self-imposed trading restrictions. The Company also repurchases (withholds) shares from employees in connection with the tax settlement of vested shares and/or exercised stock options under the Company's omnibus incentive plan. Such repurchases of shares from employees are funded with existing cash on hand. During the nine months ended September 30, 2023, the Company purchased 29,451 shares from employees in connection with the tax settlement of vested shares and/or exercised stock options under the Company's omnibus incentive plan at an average cost of $136.69. During the nine months ended September 30, 2022, the Company purchased 251,022 shares from open market purchases and from employees in connection with the tax settlement of vested shares and/or exercised stock options under the Company's omnibus incentive plan at an average cost of $140.41.

## NOTE 4 – INVENTORIES

Inventories, net of reserves at September 30, 2023 and December 31, 2022 consisted of the following:

| | September 30, 2023 | December 31, 2022 |
|---|---|---|
| Raw materials | $ 35,592 | $ 44,477 |
| Work in progress | 10,904 | 3,143 |
| Finished goods | 69,850 | 72,048 |
| Total inventories | $ 116,346 | $ 119,668 |

## NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at September 30, 2023 and December 31, 2022 are summarized as follows:

| | September 30, 2023 | December 31, 2022 |
|---|---|---|
| Land | $ 11,535 | $ 11,415 |
| Building | 103,125 | 90,644 |
| Equipment | 306,222 | 278,851 |
| Construction in progress | 53,643 | 79,928 |
| | 474,525 | 460,838 |
| Less: accumulated depreciation | 205,691 | 189,483 |
| Property, plant and equipment, net | $ 268,834 | $ 271,355 |

In accordance with Topic 360, the Company reviews long-lived assets for impairment on an annual basis and also whenever events indicate that the carrying amount of the assets may not be fully recoverable. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset, which is generally based on discounted cash flows. Included in “General and administrative expenses” were $1,618 and $7,764 of restructuring-related impairment and asset disposal charges for the three and nine months ended September 30, 2023. There were no such charges for the three and nine months ended September 30, 2022.

## NOTE 6 - INTANGIBLE ASSETS

The Company had goodwill in the amount of $766,545 and $769,509 as of September 30, 2023 and December 31, 2022, respectively, subject to the provisions of ASC 350, “Intangibles-Goodwill and Other.” The decrease in goodwill is primarily due to foreign currency translation adjustments.

Identifiable intangible assets with finite lives at September 30, 2023 and December 31, 2022 are summarized as follows:

| | Amortization Period (in years) | Gross Carrying Amount at September 30, 2023 | Accumulated Amortization at September 30, 2023 | Gross Carrying Amount at December 31, 2022 | Accumulated Amortization at December 31, 2022 |
|---|---|---|---|---|---|
| Customer relationships & lists | 10-20 | $ 356,329 | $ 204,001 | $ 357,131 | $ 190,576 |
| Trademarks & trade names | 2-17 | 50,034 | 36,453 | 50,058 | 33,416 |
| Developed technology | 5-12 | 40,395 | 16,883 | 40,473 | 16,171 |
| Other | 2-18 | 25,325 | 22,578 | 25,041 | 19,245 |
| | | $ 472,083 | $ 279,915 | $ 472,703 | $ 259,408 |

Amortization of identifiable intangible assets was approximately $6,947 and $21,132 for the three and nine months ended September 30, 2023, respectively, and $7,922 and $19,683 for the three and nine months ended September 30, 2022, respectively. Assuming no change in the gross carrying value of identifiable intangible assets, estimated amortization expense is $6,931 for the remainder of 2023, $18,967 for 2024, $15,513 for 2025, $15,342 for 2026, $14,852 for 2027 and $14,454 for 2028. At September 30, 2023 and December 31, 2022, 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, 2023 and 2022.

## 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 $118 and $396 for the three and nine months ended September 30, 2023, respectively, and $140 and $420 for the three and nine months ended September 30, 2022, respectively, relating to its portion of the joint venture's expenses in other expense. The Company made capital contributions to the investment totaling $69 and $141 for the three and nine months ended September 30, 2023, respectively, and $89 and $222 for the three and nine months ended September 30, 2022. The carrying value of the joint venture at September 30, 2023 and December 31, 2022 was $4,039 and $4,295, 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 "2018 Credit Agreement"), which provided for revolving loans up to $500,000, due on June 27, 2023. During the second quarter of 2022, the Company borrowed $345,000 under the 2018 Credit Agreement to fund the Kappa acquisition (see Note 2, *Significant Acquisitions*). On July 27, 2022, the Company entered into an Amended and Restated Credit Agreement (the "2022 Credit Agreement") with certain lenders in the form of a senior secured revolving credit facility, due on July 27, 2027. The 2022 Credit Agreement allows for up to $550,000 of borrowing. 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 Company used initial proceeds from the 2022 Credit Agreement to repay the outstanding balance of $433,569 due in June 2023 under the 2018 Credit Agreement. During the third quarter of 2022, the Company borrowed another $70,000 to fund the Bergstrom acquisition (see Note 2, *Significant Acquisitions*). As of September 30, 2023 and December 31, 2022, the total balance outstanding on the 2022 Credit Agreement amounted to $380,569 and $440,569. 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 2022 Credit Agreement are subject to an interest rate equal to a fluctuating rate as defined by the 2022 Credit Agreement plus an applicable rate. The applicable rate is based upon the Company's consolidated net leverage ratio, as defined in the 2022 Credit Agreement, and the interest rate was 6.545% at September 30, 2023. 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 2022 Credit Agreement and ranges from 0.150% to 0.225% (0.175% at September 30, 2023). The unused portion of the revolving loan amounted to $169,431 at September 30, 2023. 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 2022 Credit Agreement, which is not materially different than the effective interest method. Capitalized costs net of accumulated amortization were $1,102 and $1,317 at September 30, 2023 and December 31, 2022, respectively, and are included in "Other Assets" on the condensed consolidated balance sheets. Amortization expense pertaining to these costs totaled $71 and $215 for the three and nine months ended September 30, 2023, respectively, and $121 and $262 for the three and nine months ended September 30, 2022, respectively, and are included in "Interest expense, net" in the accompanying condensed consolidated statements of earnings.

The 2022 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, 2023, the Company was in compliance with these covenants. Indebtedness under the Company's loan agreements is 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, | |
|---|---|---|---|---|
| | **2023** | **2022** | **2023** | **2022** |
| Net Earnings - Basic and Diluted | $ 29,075 | $ 25,249 | $ 81,895 | $ 83,961 |
| *Shares (000s)* | | | | |
| Weighted Average Common Shares - Basic | 32,116 | 32,010 | 32,102 | 32,017 |
| Effect of Dilutive Securities – Stock Options, Restricted Stock, and Performance Shares | 360 | 357 | 338 | 375 |
| Weighted Average Common Shares - Diluted | 32,476 | 32,367 | 32,440 | 32,392 |
| Net Earnings Per Share - Basic | $ 0.91 | $ 0.79 | $ 2.55 | $ 2.62 |
| Net Earnings Per Share - Diluted | $ 0.90 | $ 0.78 | $ 2.52 | $ 2.59 |

The number of anti-dilutive shares were 332,339 and 355,419 for the three and nine months ended September 30, 2023, respectively, and 362,203 and 369,183 for the three and nine months ended September 30, 2022, 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, 2023 and 2022, was 20.3% and 18.8%, respectively, and 21.3% and 22.2% for the nine months ended September 30, 2023 and 2022, respectively. The increase in the quarter to date rate was primarily due to certain higher state taxes and lower tax benefits from stock-based compensation. The decrease in the year to date rate was primarily due to certain lower state taxes and higher tax benefits from stock-based compensation.

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, 2023, in the major jurisdictions where the Company operates, it is generally no longer subject to income tax examinations by tax authorities for years before 2018. The Company had approximately $4,572 and $5,815 of unrecognized tax benefits, which are included in "Other long-term obligations" on the Company's condensed consolidated balance sheets, as of September 30, 2023 and December 31, 2022, respectively. 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. Total accrued interest and penalties related to uncertain tax positions at September 30, 2023 and December 31, 2022 was approximately $1,622 and $1,735, respectively, and are included in "Other long-term obligations".

## NOTE 11 – SEGMENT INFORMATION

Balchem Corporation reports three reportable segments: Human Nutrition and Health, Animal Nutrition and Health, and Specialty Products. Sales and production of products outside of our reportable segments and other minor business activities are included in "Other and Unallocated".

The segment information is summarized as follows:

| ***Business Segment Assets*** | **September 30, 2023** | **December 31, 2022** |
|---|---|---|
| Human Nutrition and Health | $ 1,177,021 | $ 1,170,238 |
| Animal Nutrition and Health | 163,272 | 175,972 |
| Specialty Products | 164,924 | 177,187 |
| Other and Unallocated (1) | 98,267 | 101,115 |
| Total | $ 1,603,484 | $ 1,624,512 |

| *Business Segment Net Sales* | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| Human Nutrition and Health | $ 144,455 | $ 142,655 | $ 412,777 | $ 396,728 |
| Animal Nutrition and Health | 53,944 | 65,604 | 180,162 | 197,546 |
| Specialty Products | 30,004 | 29,641 | 94,961 | 99,622 |
| Other and Unallocated [(2)] | 1,545 | 6,367 | 5,840 | 15,931 |
| Total | $ 229,948 | $ 244,267 | $ 693,740 | $ 709,827 |

| *Business Segment Earnings Before Income Taxes* | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| Human Nutrition and Health | $ 31,275 | $ 20,584 | $ 77,209 | $ 64,592 |
| Animal Nutrition and Health | 5,070 | 8,036 | 22,230 | 26,943 |
| Specialty Products | 8,740 | 7,105 | 25,984 | 24,785 |
| Other and Unallocated [(2)] | (1,471) | (2,100) | (4,565) | (4,439) |
| Interest and other expense | (7,139) | (2,540) | (16,864) | (3,908) |
| Total | $ 36,475 | $ 31,085 | $ 103,994 | $ 107,973 |

| *Depreciation/Amortization* | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| Human Nutrition and Health | $ 9,640 | $ 9,569 | $ 28,567 | $ 24,316 |
| Animal Nutrition and Health | 2,117 | 1,681 | 5,885 | 5,010 |
| Specialty Products | 1,831 | 1,839 | 5,440 | 5,670 |
| Other and Unallocated [(2)] | 216 | 1,008 | 986 | 2,962 |
| Total | $ 13,804 | $ 14,097 | $ 40,878 | $ 37,958 |

| *Capital Expenditures* | Nine Months Ended September 30, | |
|---|---|---|
| | 2023 | 2022 |
| Human Nutrition and Health | $ 18,745 | $ 22,513 |
| Animal Nutrition and Health | 4,247 | 8,748 |
| Specialty Products | 2,663 | 3,139 |
| Other and Unallocated [(2)] | 178 | 550 |
| Total | $ 25,833 | $ 34,950 |

[(1)] 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.

[(2)] 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 and unallocated legal fees totaling $384 and $1,600 for the three and nine months ended September 30, 2023, respectively, and $1,640 and $2,816 for the three and nine months ended September 30, 2022, respectively, and (ii) Unallocated amortization expense of $0 and $312 for the three and nine months ended September 30, 2023, and $734 and $2,213 for the three and nine months ended September 30, 2022, 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.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| Product Sales | $ 218,033 | $ 233,823 | $ 660,773 | $ 677,136 |
| Co-manufacturing | 6,917 | 8,109 | 21,437 | 26,235 |
| Consignment | 4,324 | 1,484 | 9,297 | 4,064 |
| Product Sales Revenue | 229,274 | 243,416 | 691,507 | 707,435 |
| Royalty Revenue | 674 | 851 | 2,233 | 2,392 |
| Total Revenue | $ 229,948 | $ 244,267 | $ 693,740 | $ 709,827 |

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| United States | $ 176,765 | $ 174,564 | $ 515,099 | $ 518,131 |
| Foreign Countries | 53,183 | 69,703 | 178,641 | 191,696 |
| Total Revenue | $ 229,948 | $ 244,267 | $ 693,740 | $ 709,827 |

### *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 three sub-streams: product sales, co-manufacturing, 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 to 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, 2023 and 2022 for income taxes and interest is as follows:

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2023 | 2022 |
| Income taxes | $ 30,899 | $ 29,846 |
| Interest | $ 20,085 | $ 6,169 |

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

The changes in accumulated other comprehensive loss were as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| Net foreign currency translation adjustment | $ (14,425) | $ (34,874) | $ (6,117) | $ (44,667) |
| Net change of cash flow hedge (see Note 20 for further information) | | | | |
| Unrealized gain (loss) on cash flow hedge | — | 564 | (1,406) | 3,770 |
| Tax | — | (137) | 341 | (920) |
| Net of tax | — | 427 | (1,065) | 2,850 |
| Net change in postretirement benefit plan (see Note 15 for further information) | | | | |
| Amortization of prior service cost | — | 2 | — | 6 |
| Amortization of loss | 2 | — | 6 | — |
| Prior service credit and gain arising during the period | — | — | 132 | (41) |
| Total before tax | 2 | 2 | 138 | (35) |
| Tax | — | — | (34) | (24) |
| Net of tax | 2 | 2 | 104 | (59) |
| Total other comprehensive loss | $ (14,423) | $ (34,445) | $ (7,078) | $ (41,876) |

Included in "Net foreign currency translation adjustment" were losses of $0 and $1,455 related to a net investment hedge, which were net of tax benefit of $0 and $1,114 for the three and nine months ended September 30, 2023, respectively. Included in "Net foreign currency translation adjustment" were gains of $5,065 and $10,151 related to a net investment hedge, which were net of tax expense of $1,635 and $3,277 for the three and nine months ended September 30, 2022, respectively. The Company settled its derivative instruments on their maturity date of June 27, 2023. See Note 20, *Derivative Instruments and Hedging Activities*.

Accumulated other comprehensive (loss) income at September 30, 2023 and December 31, 2022 consisted of the following:

| | Foreign currency translation adjustment | Cash flow hedge | Postretirement benefit plan | Total |
|---|---|---|---|---|
| Balance December 31, 2022 | $ (8,401) | $ 1,065 | $ 182 | $ (7,154) |
| Other comprehensive income (loss) | (6,117) | (1,065) | 104 | (7,078) |
| Balance September 30, 2023 | $ (14,518) | $ — | $ 286 | $ (14,232) |

## NOTE 15 – EMPLOYEE BENEFIT PLANS

### *Defined Contribution Plans*

The Company sponsors one 401(k) savings plan for eligible employees, which allows participants to make pretax contributions and the Company matches certain percentages of those pretax contributions. The remaining plan also has a discretionary profit sharing portion and matches 401(k) contributions with shares of the Company's Common Stock. All amounts contributed to the plan are deposited into a trust fund administered by independent trustees. On June 21, 2022, the Company completed the acquisition of Kappa, which sponsors one defined contribution plan for its employees. In addition, on August 30, 2022, the Company completed the acquisition of Bergstrom, which sponsored one defined contribution plan for its employees. The Bergstrom plan was merged into the Company sponsored 401(k) savings plan on January 1, 2023.

### *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 one for officers of the Company pursuant to the Balchem Corporation Officer Retiree Program.

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

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2023 | 2022 |
| Service cost | $ 81 | $ 59 |
| Interest cost | 46 | 20 |
| Amortization of prior service cost | — | 6 |
| Amortization of loss | 6 | — |
| Net periodic benefit cost | $ 133 | $ 85 |

The amounts recorded for these obligations on the Company's condensed consolidated balance sheets as of September 30, 2023 and December 31, 2022 are $1,462 and $1,465, 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 $200 per year.

### *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 amounts recorded for these obligations on the Company's condensed consolidated balance sheets as of September 30, 2023 and December 31, 2022 were $379 and $393, respectively, and were included in "Other long-term obligations".

Net periodic benefit costs for such benefit pensions plans were as follows:

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2023 | 2022 |
| Service cost with interest to end of year | $ 46 | $ 30 |
| Interest cost | 47 | 12 |
| Expected return on plan assets | (30) | (26) |
| Total net periodic benefit cost | $ 63 | $ 16 |

***Deferred Compensation Plan***

The Company provides 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, and are subject to additional risk of loss in the event of bankruptcy or insolvency of the Company. The deferred compensation liability was $9,611 as of September 30, 2023, of which $9,594 was included in "Other long-term obligations" and $17 was included in "Accrued compensation and other benefits" on the Company's condensed consolidated balance sheets. The deferred compensation liability was $8,543 as of December 31, 2022, of which $8,527 was included in "Other long-term obligations" and $16 was included in "Accrued compensation and other benefits" on the Company’s condensed consolidated balance sheets. The related rabbi trust assets were $9,613 and $8,547 as of September 30, 2023 and December 31, 2022, respectively, and were included in "Other non-current assets" on the Company's condensed consolidated balance sheets.

## NOTE 16 – COMMITMENTS AND CONTINGENCIES

The Company is obligated to make rental payments under non-cancelable operating and finance leases. Aggregate future minimum rental payments required under these leases at September 30, 2023 are disclosed in Note 19, Leases.

The Company’s Verona, Missouri facility, while held by a prior owner, Syntex Agribusiness, Inc. (“Syntex”), was designated by the U.S. Environmental Protection Agency (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 Syntex under the oversight of the EPA and the Missouri Department of Natural Resources. 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. One of the sellers, in turn, has the benefit of certain contractual indemnification by Syntex in relation to the implementation of the above-described Superfund remedy. In February 2022, BCP Ingredients, Inc. ("BCP"), the Company's subsidiary that operates the site, and Syntex received a Special Notice Letter from the EPA to initiate negotiations regarding the performance of a focused remedial investigation/feasibility study ("RI/FS") at the site with regard to the presence of certain contaminants, including 1,4-dioxane and chlorobenzene. In June 2023, BCP, Syntex, EPA, and the State of Missouri entered into an Administrative Settlement Agreement and Order on Consent (“ASAOC”) for RI/FS under which (a) BCP will conduct a source investigation of potential source(s) of releases of 1,4-dioxane and chlorobenzene at a portion of the site and (b) BCP and Syntex will complete a RI/FS to determine a potential remedy, if any is required. Activities under the ASAOC are underway and expected to continue for some period of time.

Separately, in June 2022, the EPA conducted an inspection of BCP’s Verona, Missouri facility which was followed by BCP entering into an Administrative Order for Compliance on Consent (“AOC”) with the EPA in relation to its risk management program at the Verona facility. Further, in January 2023, BCP entered into an Amended AOC with the EPA whereby the parties agreed to the extension of certain timelines. BCP has timely completed all requirements under the Amended AOC as of June 30, 2023. In connection with the EPA’s inspection from June 2022, the Company believes that a loss contingency in this matter is probable and reasonably estimable and has recorded a loss contingency in an amount that is not material to its financial performance or operations.

In addition to the above, from time to time, the Company is a party to various legal proceedings, litigation, claims and assessments. While it is not possible to predict the ultimate disposition of each of these matters, 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, liquidity or cash flows.

**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, 2023 and December 31, 2022 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying condensed consolidated balance sheets. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. Considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value, and, accordingly, the estimates are not necessarily indicative of the amounts that the Company could realize in a current market exchange. The carrying value of debt approximates fair value as the interest rate is based on market and the Company's consolidated leverage ratio. The Company's financial instruments also include cash equivalents, accounts receivable, accounts payable, and accrued liabilities, which are carried at cost and approximate fair value due to the short-term maturity of these instruments. Cash and cash equivalents at September 30, 2023 and December 31, 2022 includes $24,746 and $934 in money market funds and other interest-bearing deposit accounts, respectively.

Non-current assets at September 30, 2023 and December 31, 2022 includes $9,613 and $8,547, 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 contingent consideration liabilities included on the balance sheet as of September 30, 2023 and December 31, 2022 amount to $1,500 and $11,400, respectively, and were valued using level three inputs, as defined by ASC 820, "Fair Value Measurement".

The Company also had derivative financial instruments, consisting of a cross-currency swap and an interest rate swap, which were included in "Derivative assets" in the Company's condensed consolidated balance sheets. The fair values of these derivative instruments were determined based on Level 2 inputs, using significant inputs that are observable either directly or indirectly, including interest rate curves and implied volatilities. The Company settled its cross-currency swap and interest rate swap on June 27, 2023 and had no other derivatives outstanding as of September 30, 2023. The derivative assets related to the cross-currency swap and the interest rate swap were $4,587 and $1,406 at December 31, 2022, respectively.

**NOTE 18 – RELATED PARTY TRANSACTIONS**

The Company provides services under 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 condensed consolidated statements of earnings.

Payments for the services the Company provided amounted to $1,094 and $3,294 for the three and nine months ended September 30, 2023, respectively and $1,188 and $3,185 for the three and nine months ended September 30, 2022, respectively. The raw materials purchased and subsequently sold amounted to $7,274 and $27,069 for the three and nine months ended September 30, 2023, respectively, and $11,937 and $32,158 for the three and nine months ended September 30, 2022, 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 $5,903 and $22,198 during the three and nine months ended September 30, 2023, respectively, and $9,249 and $23,971 for the three and nine months ended September 30, 2022, respectively. At September 30, 2023 and December 31, 2022, the Company had receivables of $8,369 and $8,820, respectively, recorded in accounts receivable from St. Gabriel CC Company, LLC for services rendered and raw materials sold. At September 30, 2023 and December 31, 2022, the Company had payables of $5,972 and $5,224, respectively, recorded in accounts payable for finished goods received from St. Gabriel CC Company, LLC. The Company had payables in the amount of $296 related to non-contractual monies owed to St. Gabriel CC Company, LLC, recorded in accounts payable at both September 30, 2023 and December 31, 2022.

**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. The Company elected the practical expedient to combine lease and non-lease components and recognizes the combined amount on the condensed 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 for new leases entered into during the third quarter of 2023: (1) 1-2 years, 6.50% (2) 3-4 years, 7.09% (3) 5-9 years, 7.43% and (4) 10+ years, 8.15%.

Right of use assets and lease liabilities at September 30, 2023 and December 31, 2022 are summarized as follows:

| ***Right of use assets*** | **September 30, 2023** | **December 31, 2022** |
|---|---|---|
| Operating leases | $ 16,066 | $ 17,094 |
| Finance leases | 2,155 | 2,338 |
| **Total** | $ 18,221 | $ 19,432 |

| ***Lease liabilities - current*** | **September 30, 2023** | **December 31, 2022** |
|---|---|---|
| Operating leases | $ 3,584 | $ 3,796 |
| Finance leases | 274 | 226 |
| **Total** | $ 3,858 | $ 4,022 |

| ***Lease liabilities - non-current*** | **September 30, 2023** | **December 31, 2022** |
|---|---|---|
| Operating leases | $ 13,244 | $ 13,806 |
| Finance leases | 1,995 | 2,213 |
| **Total** | $ 15,239 | $ 16,019 |

For the three and nine months ended September 30, 2023 and 2022, the Company's total lease costs were as follows, which included amounts recognized in earnings, amounts capitalized on the balance sheets, and the cash flows arising from lease transactions:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| **Lease Cost** | | | | |
| Operating lease cost | $ 1,326 | $ 1,190 | $ 3,972 | $ 2,782 |
| | | | | |
| Finance lease cost | | | | |
| Amortization of ROU asset | 61 | 53 | 181 | 157 |
| Interest on lease liabilities | 29 | 30 | 87 | 91 |
| Total finance lease | 90 | 83 | 268 | 248 |
| | | | | |
| **Total lease cost** | $ 1,416 | $ 1,273 | $ 4,240 | $ 3,030 |
| | | | | |
| **Cash paid for amounts included in the measurement of lease liabilities** | | | | |
| Operating cash flows from operating leases | $ 1,232 | $ 1,164 | $ 3,441 | $ 2,772 |
| Operating cash flows from finance leases | 29 | 30 | 87 | 91 |
| Financing cash flows from finance leases | 56 | 42 | 166 | 125 |
| | $ 1,317 | $ 1,236 | $ 3,694 | $ 2,988 |
| | | | | |
| Right-of-use assets obtained in exchange for new operating lease liabilities, net of right-of-use assets disposed | $ 1,110 | $ 2,275 | $ 3,715 | $ 7,552 |
| | | | | |
| Weighted-average remaining lease term - operating leases | 5.49 years | 3.83 years | 5.49 years | 3.83 years |
| Weighted-average remaining lease term - finance leases | 9.29 years | 10.65 years | 9.29 years | 10.65 years |
| | | | | |
| Weighted-average discount rate - operating leases | 4.3 % | 2.9 % | 4.3 % | 2.9 % |
| Weighted-average discount rate - finance leases | 5.0 % | 5.1 % | 5.0 % | 5.1 % |

Rent expense charged to operations under operating lease agreements for the three and nine months ended September 30, 2023 aggregated to approximately $1,326 and $3,972, respectively, and $1,190 and $2,782 for the three and nine months ended September 30, 2022, respectively.

Aggregate future minimum rental payments required under all non-cancelable operating and finance leases at September 30, 2023 are as follows:

| **Year** | |
|---|---|
| October 1, 2023 to December 31, 2023 | $ 1,301 |
| 2024 | 4,648 |
| 2025 | 3,635 |
| 2026 | 3,120 |
| 2027 | 2,651 |
| 2028 | 2,151 |
| Thereafter | 5,304 |
| Total minimum lease payments | $ 22,810 |

## NOTE 20 – DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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, which was designated as cash flow hedge. The net interest income related to the interest rate swap contract was $0 and $1,518 for the three and nine months ended September 30, 2023, respectively, and $35 for the three months ended September 30, 2022. The net interest expense related to the interest rate swap contract was $842 for the nine months ended September 30, 2022. The net interest income and expense were recorded in the condensed consolidated statements of earnings under "Interest expense, net."

On May 28, 2019, 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, which was designated as net investment hedge. The derivative had 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 $0 and $1,119 for the three and nine months ended September 30, 2023, respectively, and $569 and $1,682 for the three and nine months ended September 30, 2022, respectively. The interest income was recorded in the condensed consolidated statements of earnings under "Interest expense, net."

The Company settled its derivative instruments on their maturity date of June 27, 2023 and had no other derivatives outstanding as of September 30, 2023. The proceeds from the settlement of the cross-currency swap in the amount of $2,740 were classified as investing activities in the Consolidated Statements of Cash Flows.

As of December 31, 2022, the fair value of the derivative instruments is presented as follows in the Company's condensed consolidated balance sheets:

| ***Derivative assets*** | **December 31, 2022** |
|---|---|
| Interest rate swap | $ 1,406 |
| Cross-currency swap | 4,587 |
| **Derivative assets** | $ 5,993 |

Gains and losses on our hedging instruments were recognized in accumulated other comprehensive income (loss) and categorized as follows for the three and nine months ended September 30, 2023 and 2022:

| | **Location within Statements of Comprehensive Income** | **Three Months Ended September 30,** | | **Nine Months Ended September 30,** | |
|---|---|---|---|---|---|
| | | **2023** | **2022** | **2023** | **2022** |
| Cash flow hedge (interest rate swap), net of tax | Unrealized gain (loss) on cash flow hedge, net | $ — | $ 427 | $ (1,065) | $ 2,850 |
| Net investment hedge (cross-currency swap), net of tax | Net foreign currency translation adjustment | — | 5,065 | (1,455) | 10,151 |
| Total | | $ — | $ 5,492 | $ (2,520) | $ 13,001 |

In connection with the Kappa acquisition (see Note 2, *Significant Acquisitions*), the Company entered into four short-term foreign currency exchange forward contracts to manage fluctuations in foreign currency exchange rates. The Company did not designate these contracts as hedged transactions under the applicable sections of ASC Topic 815, "Derivatives and Hedging". For the nine months ended September 30, 2022, the net gains on these forward contracts of $512 were recorded in other income or loss in the condensed consolidated statements of earnings. As of September 30, 2023, the Company did not maintain any open foreign currency exchange forward contracts as all four contracts expired during 2022.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

### Forward-Looking Statements

This report contains forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended, which reflect our expectation or belief concerning future events that involve risks and uncertainties. These forward-looking statements generally are identified by the words "believe," "project," "expect," "anticipate," "estimate," "forecast," "outlook," "intend," "strategy," "future," "opportunity," "plan," "may," "should," "will," "would," "will be," "will continue," "will likely result," or the negative thereof or variations thereon or similar expressions generally intended to identify forward-looking statements. 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, 2022 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. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Factors that may affect our forward-looking statements include, among other things: (1) adverse impacts to our business operations due to pandemics, epidemics or other public health emergencies; (2) our ability to manage risks associated with our sales to customers and manufacturing operations outside the United States; (3) supply chain disruptions due to political unrest, terrorist acts, and national and international conflicts; (4) reliability and sufficiency of our manufacturing facilities; (5) our ability to recruit and retain a highly qualified and diverse workforce; (6) our ability to effectively manage labor relations; (7) the effects of global climate change or other unexpected events, including global health crises, that may disrupt our operations; (8) our ability to manage risks related to our information technology and operational technology systems and cybersecurity; (9) our reliance on third-party vendors for many of the critical elements of our global information and operational technology infrastructure and their failure to provide effective support for such infrastructure; (10) disruption and breaches of our information systems; (11) increased competition and our ability to anticipate evolving trends in the market; (12) global economic conditions, including inflation, recession, changes in tariffs and trade relations; (13) raw material shortages or price increases; (14) currency translation and currency transaction risks; (15) interest rate risks; (16) our ability to successfully consummate and manage acquisitions, joint ventures and divestitures; (17) our ability to effectively manage and implement restructuring initiatives or other organizational changes; (18) changes in our relationships with our vendors, changes in tax or trade policy, interruptions in our operations or supply chain; (19) adverse publicity or consumer concern regarding the safety or quality of food products containing our products; (20) the outcome of any litigation, governmental investigations or proceedings; (21) product liability claims and recalls; (22) our ability to protect our brand reputation and trademarks; (23) claims of infringement of intellectual property rights by third parties; (24) risks related to corporate social responsibility and reputational matters; (25) improper conduct by any of our employees, agents or business partners; (26) changes to, or changes in interpretations of, current laws and regulations, and loss of governmental permits and approvals; and (27) ability of our customers to use the ethylene oxide process to sterilize medical devices.

### 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. Our three reportable segments are strategic businesses that offer products and services to different markets: Human Nutrition & Health, Animal Nutrition & Health, and Specialty Products. Sales and production of products outside of our reportable segments and other minor business activities are included in "Other and Unallocated".

Balchem is committed to solving today's challenges to shape a healthier tomorrow by operating responsibly and providing innovative solutions for the health and nutritional needs of the world. Sustainability is at the heart of our company's vision to make the world a healthier place, and we proudly support the Ten Principles of the United Nations Global Compact on human rights, labor, environment and anti-corruption. Our Sustainability Framework focuses on the most critical ESG topics relevant to our business and stakeholders. We are very proud of our ESG accomplishments to date and will continue to foster these fundamental principles broadly along our entire value chain, develop new ideas and technologies that help us work smarter, and help build a world that is a better place to live.

As of September 30, 2023, we employed approximately 1,297 full time employees worldwide. Although we are facing challenging labor markets, we believe that we have been successful in attracting skilled, experienced, and diverse personnel in a competitive environment and that our human capital resources are adequate to perform all business functions. In addition, we continue to enhance technology in order to optimize productivity and performance.

***Acquisitions***

On August 30, 2022, we completed the acquisition of Bergstrom, a leading science-based manufacturer of methylsulfonylmethane ("MSM"), based in Vancouver, Washington, and on June 21, 2022, we completed the acquisition of Kappa, a leading science-based manufacturer of specialty vitamin K2 for the human nutrition industry, headquartered in Oslo, Norway. Details related to both acquisitions are disclosed in Note 2, *Significant Acquisitions*.

**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, 2023 and 2022:

| ***Business Segment Net Sales*** | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2023** | **2022** | **2023** | **2022** |
| Human Nutrition & Health | $ 144,455 | $ 142,655 | $ 412,777 | $ 396,728 |
| Animal Nutrition & Health | 53,944 | 65,604 | 180,162 | 197,546 |
| Specialty Products | 30,004 | 29,641 | 94,961 | 99,622 |
| Other and Unallocated [1] | 1,545 | 6,367 | 5,840 | 15,931 |
| Total | $ 229,948 | $ 244,267 | $ 693,740 | $ 709,827 |

| ***Business Segment Earnings From Operations*** | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2023** | **2022** | **2023** | **2022** |
| Human Nutrition & Health | $ 31,275 | $ 20,584 | $ 77,209 | $ 64,592 |
| Animal Nutrition & Health | 5,070 | 8,036 | 22,230 | 26,943 |
| Specialty Products | 8,740 | 7,105 | 25,984 | 24,785 |
| Other and Unallocated [1] | (1,471) | (2,100) | (4,565) | (4,439) |
| Total | $ 43,614 | $ 33,625 | $ 120,858 | $ 111,881 |

[1] 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 and unallocated legal fees totaling $384 and $1,600 for the three and nine months ended September 30, 2023, respectively, and $1,640 and $2,816 for the three and nine months ended September 30, 2022, respectively, and (ii) Unallocated amortization expense of $0 and $312 for the three and nine months ended September 30, 2023, and $734 and $2,213 for the three and nine months ended September 30, 2022, respectively, related to an intangible asset in connection with a company-wide ERP system implementation.

**Results of Operations - Three Months Ended September 30, 2023 and 2022**

***Net Earnings***

| *(in thousands)* | Three Months Ended September 30, 2023 | Three Months Ended September 30, 2022 | Increase (Decrease) | % Change |
|---|---|---|---|---|
| Net sales | $ 229,948 | $ 244,267 | $ (14,319) | (5.9)% |
| Gross margin | 76,544 | 68,430 | 8,114 | 11.9 % |
| Operating expenses | 32,930 | 34,805 | (1,875) | (5.4)% |
| Earnings from operations | 43,614 | 33,625 | 9,989 | 29.7 % |
| Other expenses | 7,139 | 2,540 | 4,599 | 181.1 % |
| Income tax expense | 7,400 | 5,836 | 1,564 | 26.8 % |
| Net earnings | $ 29,075 | $ 25,249 | $ 3,826 | 15.2 % |

***Net Sales***

| *(in thousands)* | Three Months Ended September 30, 2023 | Three Months Ended September 30, 2022 | Increase (Decrease) | % Change |
|---|---|---|---|---|
| Human Nutrition & Health | $ 144,455 | $ 142,655 | $ 1,800 | 1.3 % |
| Animal Nutrition & Health | 53,944 | 65,604 | (11,660) | (17.8)% |
| Specialty Products | 30,004 | 29,641 | 363 | 1.2 % |
| Other | 1,545 | 6,367 | (4,822) | (75.7)% |
| Total | $ 229,948 | $ 244,267 | $ (14,319) | (5.9)% |

- The increase in net sales within the Human Nutrition & Health segment for the third quarter of 2023 as compared to the third quarter of 2022 was primarily driven by higher sales within the minerals and nutrients business, the incremental contribution of the Bergstrom acquisition, and a favorable impact related to changes in foreign currency exchange rates, partially offset by lower sales within food and beverage markets. Total sales for this segment grew 1.3%, with volume and mix contributing 2.6%, the change in foreign currency exchange rates contributing 0.6%, and average selling prices contributing -2.0%.

- The decrease in net sales within the Animal Nutrition & Health segment for the third quarter of 2023 compared to the third quarter of 2022 was driven by lower sales in both the ruminant and monogastric species markets, partially offset by a favorable impact related to changes in foreign currency exchange rates. Total sales for this segment decreased by 17.8%, with volume and mix contributing -15.2%, average selling prices contributing -4.8%, and the change in foreign currency exchange rates contributing 2.2%.

- The increase in net sales within the Specialty Products segment for the third quarter of 2023 compared to the third quarter of 2022 was due to higher sales in the plant nutrition business and a favorable impact related to changes in foreign currency exchange rates, partially offset by lower sales in the performance gases business. Total sales for this segment increased by 1.2%, with average selling prices contributing 3.4%, the change in foreign currency exchange rates contributing 2.4%, and volume and mix contributing -4.5%.

- Sales relating to Other decreased from the prior year due to lower demand.

- Sales may fluctuate in future periods based on macroeconomic conditions, competitive dynamics, changes in customer preferences, and our ability to successfully introduce new products to the market.

***Gross Margin***

| *(in thousands)* | Three Months Ended September 30, 2023 | 2022 | Increase (Decrease) | % Change |
|---|---|---|---|---|
| Gross margin | $ 76,544 | $ 68,430 | $ 8,114 | 11.9 % |
| % of net sales | 33.3 % | 28.0 % | | |

Gross margin dollars increased in the third quarter of 2023 compared to the third quarter of 2022 due to higher average selling prices and a decrease in cost of goods sold of $22,433. The 12.8% decrease in cost of goods sold was mainly driven by certain lower manufacturing input costs.

***Operating Expenses***

| *(in thousands)* | Three Months Ended September 30, 2023 | 2022 | Increase (Decrease) | % Change |
|---|---|---|---|---|
| Operating expenses | $ 32,930 | $ 34,805 | $ (1,875) | (5.4)% |
| % of net sales | 14.3 % | 14.2 % | | |

The decrease in operating expenses in the third quarter of 2023 compared to the third quarter of 2022 was primarily due to reduced transaction and integration-related costs of $4,708, partially offset by a restructuring-related impairment charge of $1,618 and higher compensation-related expenses of $1,576.

***Earnings from Operations***

| *(in thousands)* | Three Months Ended September 30, 2023 | 2022 | Increase (Decrease) | % Change |
|---|---|---|---|---|
| Human Nutrition & Health | $ 31,275 | $ 20,584 | $ 10,691 | 51.9 % |
| Animal Nutrition & Health | 5,070 | 8,036 | (2,966) | (36.9)% |
| Specialty Products | 8,740 | 7,105 | 1,635 | 23.0 % |
| Other and unallocated | (1,471) | (2,100) | 629 | 30.0 % |
| Earnings from operations | $ 43,614 | $ 33,625 | $ 9,989 | 29.7 % |
| | | | | |
| % of net sales (operating margin) | 19.0 % | 13.8 % | | |

- Human Nutrition & Health segment earnings from operations increased $10,691 and the gross margin contribution was $10,110. In addition, operating expenses decreased by $578, primarily due to a favorable adjustment to transaction costs of $2,800, partially offset by a restructuring-related impairment charge of $1,262 and increased compensation-related expenses of $625.

- Animal Nutrition & Health segment earnings from operations decreased $2,966. Gross margin decreased $2,367. In addition, operating expenses increased by $598, primarily due to increased compensation-related expenses of $586 and a restructuring-related impairment charge of $356, partially offset by a favorable adjustment to transaction costs of $700.

- Specialty Products segment earnings from operations increased $1,635, primarily driven by higher average selling prices and lower manufacturing input costs.

- The increase in Other and unallocated was primarily driven by lower unallocated corporate expenses, partially offset by the aforementioned lower sales.

***Other Expenses***

| *(in thousands)* | Three Months Ended September 30, 2023 | 2022 | Increase (Decrease) | % Change |
|---|---|---|---|---|
| Interest expense | $ 6,594 | $ 3,642 | $ 2,952 | 81.1 % |
| Other (income) expense, net | 545 | (1,102) | 1,647 | (149.5)% |
| | $ 7,139 | $ 2,540 | $ 4,599 | 181.1 % |

Interest expense for the three months ended September 30, 2023 and 2022 was primarily related to outstanding borrowings under the 2022 Credit Agreement. The increase of $2,952 in interest expense is due to higher interest rates.

***Income Tax Expense***

| *(in thousands)* | Three Months Ended September 30, 2023 | 2022 | Increase (Decrease) | % Change |
|---|---|---|---|---|
| Income tax expense | $ 7,400 | $ 5,836 | $ 1,564 | 26.8 % |
| Effective tax rate | 20.3 % | 18.8 % | | |

The increase in the effective tax rate was primarily due to certain higher state taxes and lower tax benefits from stock-based compensation.

**Results of Operations - Nine Months Ended September 30, 2023 and 2022**

***Net Earnings***

| *(in thousands)* | Nine Months Ended September 30, 2023 | 2022 | Increase (Decrease) | % Change |
|---|---|---|---|---|
| Net sales | $ 693,740 | $ 709,827 | $ (16,087) | (2.3)% |
| Gross margin | 227,063 | 211,812 | 15,251 | 7.2 % |
| Operating expenses | 106,205 | 99,931 | 6,274 | 6.3 % |
| Earnings from operations | 120,858 | 111,881 | 8,977 | 8.0 % |
| Other expenses | 16,864 | 3,908 | 12,956 | 331.5 % |
| Income tax expense | 22,099 | 24,012 | (1,913) | (8.0)% |
| Net earnings | $ 81,895 | $ 83,961 | $ (2,066) | (2.5)% |

***Net Sales***

| *(in thousands)* | Nine Months Ended September 30, 2023 | 2022 | Increase (Decrease) | % Change |
|---|---|---|---|---|
| Human Nutrition & Health | $ 412,777 | $ 396,728 | $ 16,049 | 4.0 % |
| Animal Nutrition & Health | 180,162 | 197,546 | (17,384) | (8.8)% |
| Specialty Products | 94,961 | 99,622 | (4,661) | (4.7)% |
| Other | 5,840 | 15,931 | (10,091) | (63.3)% |
| Total | $ 693,740 | $ 709,827 | $ (16,087) | (2.3)% |

- The increase in net sales within the Human Nutrition & Health segment for the nine months ended September 30, 2023 as compared to 2022 was primarily driven by the contribution from recent acquisitions and a favorable impact related to changes in foreign currency exchange rates, partially offset by lower sales within food and beverage markets and the minerals and nutrients business. Total sales for this segment grew 4.0%, with average selling prices contributing 4.8%, the change in foreign currency exchange rates contributing 0.2%, and volume and mix contributing -1.0%.

- The decrease in net sales within the Animal Nutrition & Health segment for the nine months ended September 30, 2023 as compared to 2022 was primarily driven by lower sales in the monogastric market, partially offset by incremental sales related to the Bergstrom acquisition, and a favorable impact related to changes in foreign currency exchange rates. Total sales for this segment decreased by 8.8%, with volume and mix contributing -8.8%, average selling prices contributing -0.4%, and the change in foreign currency exchange rates contributing 0.5%.

- The decrease in net sales within the Specialty Products segment for the nine months ended September 30, 2023 as compared to 2022 was primarily due to lower sales in both the plant nutrition and performance gases businesses, partially offset by a favorable impact related to changes in foreign currency exchange rates. Total sales for this segment decreased by 4.7%, with volume and mix contributing -11.1%, the change in foreign currency exchange rates contributing 0.4%, and average selling prices contributing 6.0%.

- Sales relating to Other decreased from the prior year primarily due to lower demand.

- Sales may fluctuate in future periods based on macroeconomic conditions, competitive dynamics, changes in customer preferences, and our ability to successfully introduce new products to the market.

***Gross Margin***

| | Nine Months Ended September 30, | | | | | | |
|---|---|---|---|---|---|---|---|
| *(in thousands)* | | 2023 | | 2022 | | Increase (Decrease) | % Change |
| Gross margin | $ | 227,063 | $ | 211,812 | $ | 15,251 | 7.2 % |
| % of net sales | | 32.7 % | | 29.8 % | | | |

Gross margin dollars increased in the nine months ended September 30, 2023 as compared to 2022 due to higher average selling prices and a decrease in cost of goods sold of $31,338. The 6.3% decrease in cost of goods sold was mainly driven by certain lower manufacturing input costs.

***Operating Expenses***

| | Nine Months Ended September 30, | | | | | | |
|---|---|---|---|---|---|---|---|
| *(in thousands)* | | 2023 | | 2022 | | Increase (Decrease) | % Change |
| Operating expenses | $ | 106,205 | $ | 99,931 | $ | 6,274 | 6.3 % |
| % of net sales | | 15.3 % | | 14.1 % | | | |

The increase in operating expenses in the nine months ended September 30, 2023 as compared to 2022 was primarily due to restructuring-related impairment and asset disposal charges of $7,764, incremental operating expenses related to the Kappa and Bergstrom acquisitions of $7,099, and higher compensation-related expenses of $1,306, partially offset by reduced transaction and integration-related costs of $10,625.

***Earnings from Operations***

| | Nine Months Ended September 30, | | | | | | |
|---|---|---|---|---|---|---|---|
| *(in thousands)* | | 2023 | | 2022 | | Increase (Decrease) | % Change |
| Human Nutrition & Health | $ | 77,209 | $ | 64,592 | $ | 12,617 | 19.5 % |
| Animal Nutrition & Health | | 22,230 | | 26,943 | | (4,713) | (17.5)% |
| Specialty Products | | 25,984 | | 24,785 | | 1,199 | 4.8 % |
| Other and unallocated | | (4,565) | | (4,439) | | (126) | (2.8)% |
| Earnings from operations | $ | 120,858 | $ | 111,881 | $ | 8,977 | 8.0 % |
| | | | | | | | |
| % of net sales (operating margin) | | 17.4 % | | 15.8 % | | | |

- Human Nutrition & Health segment earnings from operations increased $12,617 and the gross margin contribution was $19,709. This was partially offset by an increase in operating expenses of $7,093, primarily due to the incremental operating expenses related to the Kappa and Bergstrom acquisitions of $6,902 and restructuring-related impairment and asset disposal charges of $6,031, partially offset by favorable adjustments to transaction costs of $7,920.

- Animal Nutrition & Health segment earnings from operations decreased $4,713. Gross margin decreased $3,576 primarily due to lower sales. Additionally, operating expenses for this segment increased by $1,136, which was largely related to restructuring-related impairment charges of $1,444, higher compensation-related costs of $529, an increase in amortization of $363, and incremental operating expenses related to the Bergstrom acquisition of $197, partially offset by favorable adjustments to transaction costs of $1,980.

- Specialty Products segment earnings from operations increased $1,199, which was primarily driven by a 434 basis point increase in gross margin as a percent of sales. The increase in gross margin was due to higher average selling prices and decreases in certain manufacturing input costs. The increase was partially offset by an increase in operating expenses of $776, primarily driven by higher compensation-related expenses of $1,114.

- The decrease in Other and unallocated was primarily driven by the aforementioned lower sales, partially offset by decreases of unallocated corporate expenses.

***Other Expenses***

| | Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| *(in thousands)* | **2023** | **2022** | **Increase (Decrease)** | **% Change** |
| Interest expense | $ 17,322 | $ 5,147 | $ 12,175 | 236.5 % |
| Other (income) expense, net | (458) | (1,239) | 781 | (63.0)% |
| | $ 16,864 | $ 3,908 | $ 12,956 | 331.5 % |

Interest expense for the nine months ended September 30, 2023 and 2022 was primarily related to outstanding borrowings under the 2022 Credit Agreement. The increase of $12,175 in interest expense is due to the additional borrowings in connection with the acquisitions and higher interest rates.

***Income Tax Expense***

| | Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| *(in thousands)* | **2023** | **2022** | **Increase (Decrease)** | **% Change** |
| Income tax expense | $ 22,099 | $ 24,012 | $ (1,913) | (8.0)% |
| Effective tax rate | 21.3 % | 22.2 % | | |

The decrease in the effective tax rate was primarily due to certain lower state taxes and higher tax benefits from stock-based compensation.

## Liquidity and Capital Resources

During the nine months ended September 30, 2023, 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, 2022. 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.

***Cash***

Cash and cash equivalents increased to $76,952 at September 30, 2023 from $66,560 at December 31, 2022. At September 30, 2023, the Company had $65,475 of cash and cash equivalents held by foreign subsidiaries. We presently intend 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 $233,184 at September 30, 2023 as compared to $195,761 at December 31, 2022, an increase of $37,423. Cash at September 30, 2023 reflects net repayments on the revolving loan of $60,000, capital expenditures and intangible assets acquired of $26,317, and payment of declared dividends in 2023 of $22,872.

| *(in thousands)* | Nine Months Ended September 30, 2023 | | Nine Months Ended September 30, 2022 | | Increase (Decrease) | % Change |
|---|---|---|---|---|---|---|
| Cash flows provided by operating activities | $ | 116,355 | $ | 96,881 | $ 19,474 | 20.1 % |
| Cash flows used in investing activities | | (22,948) | | (401,525) | 378,577 | 94.3 % |
| Cash flows (used in) provided by financing activities | | (83,175) | | 268,080 | (351,255) | 131.0 % |

***Operating Activities***

The increase in cash flows from operating activities was primarily driven by the impact from changes in working capital.

***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 $26,317 and $35,793 for the nine months ended September 30, 2023 and 2022, respectively. In 2022, we completed the acquisitions of Kappa and Bergstrom. Cash paid for these acquisitions, net of cash acquired, amounted to $1,252 and $365,780, for the nine months ended September 30, 2023 and 2022, respectively.

***Financing Activities***

During 2023, we borrowed $18,000 under the 2022 Credit Agreement and made total loan payments of $78,000, resulting in $169,431 available under the 2022 Credit Agreement as of September 30, 2023.

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 3,099,999 shares have been purchased. We 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. Open market repurchases of common stock could be made pursuant to a trading plan established pursuant to Rule 10b5-1 under the Securities Exchange Act of 1934, as amended, which would permit common stock to be repurchased at a time that we might otherwise be precluded from doing so under insider trading laws or self-imposed trading restrictions. We also repurchase (withhold) shares from employees in connection with the tax settlement of vested shares and/or exercised stock options under the Company's omnibus incentive plan. Share repurchases are funded with existing cash on hand.

Proceeds from stock options exercised were $3,888 and $2,172 for the nine months ended September 30, 2023 and 2022, respectively. Dividend payments were $22,872 and $20,708 for the nine months ended September 30, 2023 and 2022, 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 condensed consolidated balance sheets as of September 30, 2023 and December 31, 2022 was $1,462 and $1,465, respectively, and the plans are not funded. Historical cash payments made under these plans have typically been less than $200 per year. We do not anticipate any changes to the payments made in the current year for the plans.

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, 2023 and December 31, 2022 were $379 and $393, respectively, and were included in "Other long-term obligations."

We provide 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 included in "Non-current assets" on the Company's condensed consolidated balance sheet. They 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, 2023 and December 31, 2022 was $9,594 and $8,527, respectively, and is included in "Other long-term obligations" on the condensed consolidated balance sheets. The related rabbi trust assets were $9,613 and $8,547 as of September 30, 2023 and December 31, 2022, respectively, and were included in "Other non-current assets" on the condensed consolidated balance sheets.

***Significant Accounting Policies***

There were no changes to our Significant Accounting Policies, as described in its December 31, 2022 Annual Report on Form 10-K, during the nine months ended September 30, 2023.

***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, 2023. 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 checking accounts, certificates of deposit, and money market investment funds. In 2019, we entered into an interest rate swap and cross-currency swap for hedging purposes. This derivative settled on its maturity date of June 27, 2023. Refer to details noted above (see Note 20, *Derivative Instruments and Hedging Activities*). Additionally, as of September 30, 2023, our borrowings were under a revolving loan bearing interest at a fluctuating rate as defined by the 2022 Credit Agreement plus an applicable rate (See Note 8, *Revolving Loan*). The applicable rate is based upon our consolidated net leverage ratio, as defined in the 2022 Credit Agreement. A 100 basis point increase or decrease in interest rates, applied to our borrowings at September 30, 2023, would result in an increase or decrease in annual interest expense and a corresponding reduction or increase in cash flow of approximately $3,806. 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.

***Interest Rate Risk***

We have exposure to market risk for changes in interest rates, including the interest rate relating to the 2022 Credit Agreement. In the second quarter of 2019, we began to manage our interest rate exposure through the use of derivative instruments. These derivatives were utilized for risk management purposes, and were not used for trading or speculative purposes. We hedged a portion of our floating interest rate exposure using an interest rate swap (see Note 20, *Derivative Instruments and Hedging Activities*), which settled on its maturity date of June 27, 2023.

***Foreign Currency Exchange Risk***

The financial condition and results of operations of our foreign subsidiaries are reported in local currencies 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. In 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 (see Note 20, *Derivative Instruments and Hedging Activities*). This derivative settled on its maturity date of June 27, 2023.

## 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, 2023. 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, 2023.

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

On August 30, 2022, we acquired Bergstrom. As of September 30, 2023, management's assessment of and conclusion of the effectiveness of our internal controls over financial reporting of Bergstrom have been completed. Therefore, management's assessment of and conclusion of the effectiveness of our internal control over financial reporting also includes the internal controls over financial reporting of Bergstrom.

Other than the changes mentioned above, 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, 2023, that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

## Part II. Other Information

### Item 1. Legal Proceedings

In the normal course of business, we are involved in a variety of lawsuits, claims and legal proceedings, from time to time, including commercial and contract disputes, labor and employment matters, product liability claims, environmental liabilities, trade regulation matters, intellectual property disputes and tax-related matters. Further, in connection with normal operations at our plant facilities, our manufacturing sites may, from time to time, be subject to inspections or inquiries by the EPA and other agencies. To the extent any consent orders or other agreements are entered into as a result of findings from such inspections or inquiries, the Company is committed to ensuring compliance with such orders or agreements.

Information with respect to certain legal proceedings is included in Note 16, "*Commitments and Contingencies",* to our consolidated financial statements for the quarter ended September 30, 2023 contained in this Quarterly Report on Form 10-Q, and is incorporated herein by reference

In our opinion, we do not expect pending legal matters to have a material adverse effect on our consolidated financial position, results of operations, liquidity or cash flows.

### 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, 2022. For a further discussion of our Risk Factors, refer to the "Risk Factors" discussion contained in our Annual Report on Form 10-K for the year ended December 31, 2022.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The following table summarizes the share repurchase activity for the nine months ended September 30, 2023:

| | Total Number of Shares Purchased [1] | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [2] | Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs [2][3] |
|---|---|---|---|---|
| January 1-31, 2023 | 1,343 | $ 130.96 | 1,343 | $ 90,512,611 |
| February 1-28, 2023 | 26,766 | $ 137.24 | 26,766 | $ 91,178,224 |
| March 1-31, 2023 | — | $ — | — | $ 91,178,224 |
| First Quarter | 28,109 | | 28,109 | |
| | | | | |
| April 1-30, 2023 | — | $ — | — | $ 91,178,224 |
| May 1-31, 2023 | 504 | $ 132.26 | 504 | $ 83,654,563 |
| June 1-30, 2023 | 63 | $ 134.81 | 63 | $ 89,485,395 |
| Second Quarter | 567 | | 567 | |
| | | | | |
| July 1-31, 2023 | 482 | $ 128.54 | 482 | $ 85,264,695 |
| August 1-31, 2023 | — | $ — | — | $ 85,264,695 |
| September 1-30, 2023 | 293 | $ 134.00 | 293 | $ 88,847,226 |
| Third Quarter | 775 | | 775 | |
| | | | | |
| Total | 29,451 | | 29,451 | |

[1] The Company repurchased (withheld) shares from employees solely in connection with the tax settlement of vested shares and/or exercised stock options under the Company's omnibus incentive plan.

[2] Our Board of Directors has approved a 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 3,099,999 shares have been purchased. Other than shares withheld for tax purpose, as described in footnote 1 above, no share repurchases were made under the Company's stock repurchase program during the nine months ended September 30, 2023. There is no expiration for this program.

[3] Dollar amounts in this column equal the number of shares remaining available for repurchase under the stock repurchase program as of the last date of the applicable month multiplied by the monthly average price paid per share.

## Item 5. Other Information

No directors or officers adopted, modified or terminated a Rule 10b5-1 trading arrangement during the fiscal quarter ended September 30, 2023.

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**Item 6. Exhibits**

| Exhibit Number | Description |
|---|---|
| Exhibit 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a). |
| Exhibit 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a). |
| Exhibit 32.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code. |
| Exhibit 32.2 | 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. |
| 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, Executive Vice President and
Chief Financial Officer

Date: October 27, 2023