

SENSIENT TECHNOLOGIES CORP
Form 10-Q
November 07, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 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, 2016

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 7626

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

Wisconsin 39 0561070
(State or other (I.R.S.
jurisdiction of Employer
incorporation Identification
or Number)
organization)

777 East Wisconsin Avenue, Milwaukee, Wisconsin 53202-5304
(Address of principal executive offices)

Registrant's telephone number, including area code: (414) 271 6755

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 for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for at least the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated filer Accelerated filer Non-accelerated filer

Smaller reporting company

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

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at October 31, 2016
Common Stock, par value \$0.10 per share	44,542,816

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SENSIENT TECHNOLOGIES CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS

(In thousands except per share amounts)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue	\$ 349,662	\$ 344,533	\$ 1,052,966	\$ 1,036,768
Cost of products sold	227,099	231,761	690,126	688,408
Selling and administrative expenses	71,412	69,552	220,505	213,627
Operating income	51,151	43,220	142,335	134,733
Interest expense	4,584	4,295	14,021	12,316
Earnings before income taxes	46,567	38,925	128,314	122,417
Income taxes	10,948	11,287	36,751	34,502
Earnings from continuing operations	35,619	27,638	91,563	87,915
Gain (Loss) from discontinued operations, net of tax	-	(47)	3,343	(348)
Net earnings	\$ 35,619	\$ 27,591	\$ 94,906	\$ 87,567
Weighted average number of shares outstanding:				
Basic	44,532	45,392	44,604	46,239
Diluted	44,816	45,675	44,873	46,543
Earnings per common share:				
Basic:				
Continuing operations	\$ 0.80	\$ 0.61	\$ 2.05	\$ 1.90
Discontinued operations	-	-	0.07	(0.01)
Earnings per common share	\$ 0.80	\$ 0.61	\$ 2.13	\$ 1.89
Diluted:				
Continuing operations	\$ 0.79	\$ 0.61	\$ 2.04	\$ 1.89
Discontinued operations	-	-	0.07	(0.01)
Earnings per common share	\$ 0.79	\$ 0.60	\$ 2.11	\$ 1.88
Dividends declared per common share	\$ 0.27	\$ 0.27	\$ 0.81	\$ 0.77

See accompanying notes to consolidated condensed financial statements.

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SENSIENT TECHNOLOGIES CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2016	2015	2016	2015
Comprehensive Income	\$ 32,784	\$ 7,077	\$ 86,708	\$ 24,922

See accompanying notes to consolidated condensed financial statements.

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CONSOLIDATED CONDENSED BALANCE SHEETS

(In thousands)

<u>ASSETS</u>	September 30, 2016 (Unaudited)	December 31, 2015
CURRENT ASSETS:		
Cash and cash equivalents	\$ 23,505	\$ 11,997
Trade accounts receivable, net	244,157	232,047
Inventories	406,957	409,159
Prepaid expenses and other current assets	37,792	44,673
Assets held for sale	48,796	31,029
TOTAL CURRENT ASSETS	761,207	728,905
OTHER ASSETS	72,416	71,117
DEFERRED TAX ASSETS	17,323	25,177
INTANGIBLE ASSETS, NET	8,480	9,209
GOODWILL	397,764	399,646
PROPERTY, PLANT AND EQUIPMENT:		
Land	35,118	33,975
Buildings	271,566	274,318
Machinery and equipment	651,446	664,917
Construction in progress	85,251	62,515
	1,043,381	1,035,725
Less accumulated depreciation	(564,952)	(566,047)
	478,429	469,678
TOTAL ASSETS	\$ 1,735,619	\$ 1,703,732
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
CURRENT LIABILITIES:		
Trade accounts payable	\$ 99,468	\$ 95,442
Accrued salaries, wages and withholdings from employees	25,766	23,530
Other accrued expenses	68,756	61,701
Income taxes	2,848	7,504
Short-term borrowings	21,417	20,655
Liabilities held for sale	6,192	4,090
TOTAL CURRENT LIABILITIES	224,447	212,922
DEFERRED INCOME TAXES	7,225	5,640
OTHER LIABILITIES	7,792	7,534
ACCRUED EMPLOYEE AND RETIREE BENEFITS	20,919	19,007
LONG TERM DEBT	596,840	613,502

SHAREHOLDERS' EQUITY:

Common stock	5,396	5,396
Additional paid in capital	114,642	109,974
Earnings reinvested in the business	1,360,851	1,302,302
Treasury stock, at cost	(424,233)	(402,483)
Accumulated other comprehensive loss	(178,260)	(170,062)
TOTAL SHAREHOLDERS' EQUITY	878,396	845,127
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 1,735,619	\$ 1,703,732

See accompanying notes to consolidated condensed financial statements.

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CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net earnings	\$ 94,906	\$ 87,567
Adjustments to arrive at net cash provided by operating activities:		
Depreciation and amortization	35,176	36,374
Share-based compensation	6,743	14
Loss on assets	7,893	8,725
Deferred income taxes	8,454	4,466
Liquidation of foreign entity	(3,257) -
Changes in operating assets and liabilities	679	(43,672)
Net cash provided by operating activities	150,594	93,474
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(58,004) (55,508)
Proceeds from sale of assets	3,597	12,826
Acquisition of new business	-	(8,393)
Other investing activity	(82) (168)
Net cash used in investing activities	(54,489) (51,243)
Cash flows from financing activities:		
Proceeds from additional borrowings	163,370	198,857
Debt payments	(185,697) (31,850)
Purchase of treasury stock	(27,728) (160,990)
Dividends paid	(36,357) (35,901)
Proceeds from options exercised and other equity transactions	409	554
Net cash used in financing activities	(86,003) (29,330)
Effect of exchange rate changes on cash and cash equivalents	1,406	(9,050)
Net increase in cash and cash equivalents	11,508	3,851
Cash and cash equivalents at beginning of period	11,997	20,329
Cash and cash equivalents at end of period	\$ 23,505	\$ 24,180

See accompanying notes to consolidated condensed financial statements.

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SENSIENT TECHNOLOGIES CORPORATION
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)

1. Accounting Policies

In the opinion of Sensient Technologies Corporation (the “Company”), the accompanying unaudited consolidated condensed financial statements contain all adjustments (consisting of only normal recurring adjustments) that are necessary to present fairly the financial position of the Company as of September 30, 2016; the results of operations and comprehensive income for the three and nine months ended September 30, 2016 and 2015; and cash flows for the nine months ended September 30, 2016 and 2015. The results of operations for any interim period are not necessarily indicative of the results to be expected for the full year.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Expenses are charged to operations in the period incurred.

In November 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2015-17, Balance Sheet Classification of Deferred Taxes, which requires entities to present deferred tax assets and deferred tax liabilities as noncurrent in a classified balance sheet. The ASU simplifies current guidance, which requires entities to separately present deferred tax assets and deferred tax liabilities as current and noncurrent in a classified balance sheet. This guidance is effective for interim and annual periods beginning after December 15, 2016, with early adoption permitted. The guidance can be applied retrospectively or prospectively. The Company retrospectively applied this guidance to all prior periods. The Company adopted this ASU in the first quarter of 2016. As a result, the Company reclassified \$17.1 million of current deferred tax assets to Deferred Tax Asset Noncurrent as of December 31, 2015. The Company also reclassified \$7.3 million of current deferred tax assets to Deferred Tax Liability Noncurrent as of December 31, 2015.

In April 2015, the FASB issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying amount of the associated debt liability. Also in August 2015, the FASB issued ASU 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements, to clarify that the Securities and Exchange Commission staff would not object to deferring and presenting debt issuance costs as an asset and subsequently amortizing deferred debt issuance costs ratably over a term of the line-of-credit arrangement. This guidance is effective for interim and annual periods beginning after December 15, 2015. The guidance is required to be retrospectively applied to all prior periods. The Company adopted these ASUs in the first quarter of 2016. As a result, the Company reclassified \$0.4 million of debt fees from Other Assets to Long Term Debt as of December 31, 2015. The Company’s debt fees associated with the Company’s revolving loan agreement remain classified in Other Assets.

In July 2015, the FASB affirmed its proposed one-year deferral of the effective date for ASU No. 2014-09, Revenue from Contracts with Customers. Under this proposal, the requirements of the new standard are effective for interim and annual periods beginning after December 15, 2017. The proposal also permits entities to adopt the standard for interim and annual reporting periods beginning after December 15, 2016. The Company is currently evaluating the expected impact of this standard.

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory. Under this guidance, inventory that is accounted for using first-in-first-out or average cost method, shall be measured at the lower of cost or net realizable value, as opposed to the lower of cost or market measurement under current guidance. This guidance is

effective for interim and annual periods beginning after December 15, 2016, with early adoption permitted. This new guidance is required to be retrospectively applied to all prior periods. The Company is currently evaluating the expected impact of this standard.

In February 2016, the FASB issued ASU No. 2016-02, Leases, which requires lessees to recognize the lease assets and lease liabilities that arise from leases on the balance sheet and to disclose qualitative and quantitative information about lease transactions. This guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the expected impact of this standard.

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In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting, which simplifies several aspects of the accounting for employee share-based payment transactions, primarily the accounting for the associated income taxes. This guidance is effective for annual and interim periods beginning after December 15, 2016, with early adoption permitted. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

Please refer to the notes in the Company's annual consolidated financial statements for the year ended December 31, 2015, for additional details of the Company's financial condition and a description of the Company's accounting policies, which have been continued without change.

2. Fair Value

Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, defines fair value for financial assets and liabilities, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. As of September 30, 2016, and December 31, 2015, the Company's assets and liabilities subject to this standard are forward exchange contracts and investments in a money market fund and municipal investments. The fair value of the forward exchange contracts based on current pricing obtained for comparable derivative products (Level 2 inputs) was a liability of \$0.2 million as of September 30, 2016, and December 31, 2015. The fair value of the investments based on September 30, 2016, and December 31, 2015, market quotes (Level 1 inputs) was an asset of \$4.2 million and \$1.5 million, respectively, and is reported in Other Assets in the Consolidated Condensed Balance Sheets.

The carrying values of the Company's cash and cash equivalents, trade accounts receivable, accounts payable, accrued expenses and short-term borrowings approximated fair values as of September 30, 2016. The fair value of the Company's long-term debt, including current maturities, is estimated using discounted cash flows based on the Company's current incremental borrowing rates for similar types of borrowing arrangements (Level 2 inputs). The carrying value of the long-term debt at September 30, 2016, was \$596.8 million. The fair value of the long-term debt at September 30, 2016, was \$619.4 million.

3. Segment Information

Operating results by segment for the periods presented are as follows:

(In thousands)	Flavors & Fragrances	Color	Asia Pacific	Corporate & Other	Consolidated
<u>Three months ended September 30, 2016:</u>					
Revenue from external customers	\$ 194,845	\$ 121,424	\$ 33,393	\$ -	\$ 349,662
Intersegment revenue	5,818	4,021	51	-	9,890
Total revenue	\$ 200,663	\$ 125,445	\$ 33,444	\$ -	\$ 359,552
Operating income (loss)	\$ 32,280	\$ 26,295	\$ 6,584	\$ (14,008)	\$ 51,151
Interest expense	-	-	-	4,584	4,584
Earnings (loss) before income taxes	\$ 32,280	\$ 26,295	\$ 6,584	\$ (18,592)	\$ 46,567
<u>Three months ended September 30, 2015:</u>					
Revenue from external customers	\$ 201,049	\$ 115,146	\$ 28,338	\$ -	\$ 344,533
Intersegment revenue	6,324	3,322	35	-	9,681
Total revenue	\$ 207,373	\$ 118,468	\$ 28,373	\$ -	\$ 354,214
Operating income (loss)	\$ 31,369	\$ 23,181	\$ 5,703	\$ (17,033)	\$ 43,220

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Interest expense	-	-	-	4,295	4,295
Earnings (loss) before income taxes	\$ 31,369	\$ 23,181	\$ 5,703	\$ (21,328)	\$ 38,925

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(In thousands)	Flavors & Fragrances	Color	Asia Pacific	Corporate & Other	Consolidated
<u>Nine months ended September 30, 2016:</u>					
Revenue from external customers	\$ 586,955	\$ 371,166	\$ 94,845	\$ -	\$ 1,052,966
Intersegment revenue	21,374	11,909	129	-	33,412
Total revenue	\$ 608,329	\$ 383,075	\$ 94,974	\$ -	\$ 1,086,378
Operating income (loss)	\$ 95,097	\$ 82,143	\$ 18,701	\$ (53,606)	\$ 142,335
Interest expense	-	-	-	14,021	14,021
Earnings (loss) before income taxes	\$ 95,097	\$ 82,143	\$ 18,701	\$ (67,627)	\$ 128,314
<u>Nine months ended September 30, 2015:</u>					
Revenue from external customers	\$ 598,226	\$ 351,737	\$ 86,805	\$ -	\$ 1,036,768
Intersegment revenue	19,757	10,779	120	-	30,656
Total revenue	\$ 617,983	\$ 362,516	\$ 86,925	\$ -	\$ 1,067,424
Operating income (loss)	\$ 94,354	\$ 74,972	\$ 17,448	\$ (52,041)	\$ 134,733
Interest expense	-	-	-	12,316	12,316
Earnings (loss) before income taxes	\$ 94,354	\$ 74,972	\$ 17,448	\$ (64,357)	\$ 122,417

Beginning in the first quarter of 2016, the results of operations for the Company's color business in China, South Korea and Japan, previously reported in the Asia Pacific segment, are now reported in the Color segment. The results for 2015 have been restated to reflect these changes.

The Company evaluates performance based on operating income of the respective segments before restructuring and other costs, interest expense and income taxes. The 2016 and 2015 restructuring and other costs related to continuing operations are reported in the Corporate & Other segment. See Note 10, Restructuring, for more information on the Company's restructuring activities. The other costs in 2016 pertain to the costs associated with the Company's anticipated divestiture, see Note 12, Anticipated Divestiture, and the other costs in 2015 are acquisition related costs.

4. Inventories

At September 30, 2016, and December 31, 2015, inventories included finished and in-process products totaling \$277.1 million and \$291.9 million, respectively, and raw materials and supplies of \$129.8 million and \$117.3 million, respectively.

5. Retirement Plans

The Company's components of annual benefit cost for the defined benefit plans for the periods presented are as follows:

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Service cost	\$ 502	\$ 654	\$ 1,508	\$ 1,977
Interest cost	414	467	1,259	1,412
Expected return on plan assets	(286)	(321)	(883)	(967)
Amortization of actuarial loss	54	72	162	219
Settlement expense	-	506	-	506

Total defined benefit expense \$ 684 \$ 1,378 \$ 2,046 \$ 3,147

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6. Shareholders' Equity

The Company repurchased 89,251 and 400,477 shares of its common stock for an aggregate cost of \$6.7 million and \$25.2 million, respectively, during the three and nine months ended September 30, 2016, and 0.6 million and 2.5 million shares of its common stock for an aggregate cost of \$38.2 million and \$165.4 million, respectively, during the three and nine months ended September 30, 2015. The amount of treasury stock purchases reported in the Company's Consolidated Condensed Statements of Cash Flow represent purchases that have settled within each respective nine-month period.

7. Derivative Instruments and Hedging Activity

The Company may use forward exchange contracts and foreign currency denominated debt to manage its exposure to foreign exchange risk by reducing the effect of fluctuating foreign currencies on short-term foreign currency denominated intercompany transactions, non-functional currency raw material purchases, non-functional currency sales and other known foreign currency exposures. These forward exchange contracts generally have maturities of less than 18 months. The Company's primary hedging activities and their accounting treatment are summarized below:

Forward exchange contracts – Certain forward exchange contracts have been designated as cash flow hedges. The Company had \$16.4 million and \$35.2 million of forward exchange contracts, designated as hedges, outstanding as of September 30, 2016, and December 31, 2015, respectively. For the three months ended September 30, 2016 and 2015, losses of \$0.2 million and \$0.5 million, respectively, were reclassified into net earnings in the Company's Consolidated Statement of Earnings that offset the earnings impact of the related non-functional asset or liability hedged in the same period. For the nine months ended September 30, 2016 and 2015, losses of \$0.9 million and \$0.8 million, respectively, were reclassified into net earnings in the Company's Consolidated Statement of Earnings that offset the earnings impact of the related non-functional asset or liability hedged in the same period. In addition, the Company utilizes forward exchange contracts that are not designated as cash flow hedges, the results of these transactions are not material to the financial statements.

Net investment hedges – The Company has certain debt denominated in Euros and Swiss Francs. These debt instruments have been designated as partial hedges of the Company's Euro and Swiss Franc net asset positions. Changes in the fair value of this debt attributable to changes in the spot foreign exchange rate are recorded in foreign currency translation in other comprehensive income ("OCI"). As of September 30, 2016, and December 31, 2015, the total value of the Company's Euro and Swiss Franc debt was \$208.5 million and \$162.5 million, respectively. For the three and nine months ended September 30, 2016, the impact of foreign exchange rates on these debt instruments increased debt by \$2.2 million and \$5.8 million, respectively, which has been recorded as foreign currency translation in OCI.

8. Income Taxes

The effective income tax rates for continuing operations for the quarters ended September 30, 2016 and 2015, were 23.5% and 29.0%, respectively. For the nine-month periods ended September 30, 2016 and 2015, the effective income tax rates for continuing operations were 28.6% and 28.2%, respectively. The effective tax rates in both 2016 and 2015 were impacted by restructuring activities, changes in estimates associated with the finalization of prior year foreign and domestic tax items, audit settlements, adjustments to valuation allowances and mix of foreign earnings. The rate in 2016 was also impacted by the deferred tax adjustments related to the anticipated divestiture discussed in Note 12, Anticipated Divestiture.

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9. Accumulated Other Comprehensive Income

The following table summarizes the changes in OCI during the three- and nine-month periods ended September 30, 2016:

(In thousands)	Cash Flow Hedges (a)	Pension Items (a)	Foreign Currency Items	Total
Balance as of June 30, 2016	\$ (30)	\$ (4,320)	\$ (171,075)	\$ (175,425)
Other comprehensive income before reclassifications	(322)	-	(2,691)	(3,013)
Amounts reclassified from OCI	142	36	-	178
Balance as of September 30, 2016	\$ (210)	\$ (4,284)	\$ (173,766)	\$ (178,260)

(In thousands)	Cash Flow Hedges (a)	Pension Items (a)	Foreign Currency Items	Total
Balance as of December 31, 2015	\$ 164	\$ (4,393)	\$ (165,833)	\$ (170,062)
Other comprehensive income before reclassifications	(1,065)	-	(4,676)	(5,741)
Amounts reclassified from OCI	691	109	(3,257)	(2,457)
Balance as of September 30, 2016	\$ (210)	\$ (4,284)	\$ (173,766)	\$ (178,260)

(a) Cash Flow Hedges and Pension Items are net of tax.

During the three months ended June 30, 2016, the Company completed the liquidation of a business unit within the Color segment, resulting in the reclassification of the cumulative translation adjustment into net earnings. See Note 11, Discontinued Operations, for additional information.

10. Restructuring

The Company incurred restructuring costs in both continuing and discontinued operations. The discussion in this note relates to the combination of both continuing and discontinued operations unless otherwise noted. Restructuring costs related to discontinued operations are recorded in discontinued operations within the Company's Consolidated Condensed Statements of Earnings and are discussed in Note 11, Discontinued Operations, in more detail.

In March 2014, the Company announced that it was initiating a restructuring plan ("2014 Restructuring Plan" or "Plan") to eliminate underperforming operations, consolidate manufacturing facilities and improve efficiencies within the Company. The Company determined that it had redundant manufacturing capabilities in both North America and Europe and that it could lower costs and operate more efficiently by consolidating into fewer facilities. Eight facilities were identified for consolidation in the Flavors & Fragrances segment, four in North America and four in Europe. To date, closures have been announced in Indianapolis, Indiana, United States; Cornwall, Mississauga and Halton Hills, Canada; Bremen, Germany; and Milan, Italy. The Company also plans to sell its two European Natural Ingredients facilities, as discussed below. In addition, the Company discontinued one of the businesses in the Color segment, located near Leipzig, Germany, because it did not fit with the Company's long-term strategic plan and it had generated losses for several years. In 2015, the Company identified additional opportunities to consolidate manufacturing operations at one of the Color segment's facilities in Europe and eliminate additional positions in the European Flavors & Fragrances businesses.

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Based on this Plan, the Company determined that certain long-lived assets associated with the underperforming operations were impaired. The Company reduced the carrying amounts of these assets to their aggregate respective fair values, which were determined based on independent market valuations. The fair values of the remaining long-lived assets are estimated to be approximately \$19 million, which includes certain of the land, buildings and equipment in the assets held for sale, as noted below. Also, certain machinery and equipment has been identified to be disposed of at the time of the facility closures and the associated depreciation for these assets has been accelerated. The Company recorded long-lived asset impairments, including the impairment charges and accelerated depreciation, of \$0.2 million and \$2.6 million, during the three months ended September 30, 2016 and 2015, respectively, and \$0.9 million and \$10.1 million during the nine months ended September 30, 2016 and 2015, respectively. Since initiating the Plan, the Company has recorded \$85.6 million of long-lived asset impairments, including the impairment charges and accelerated depreciation. In addition, certain intangible assets, inventory and other current assets were also determined to be impaired and were written down.

The Company has also incurred employee separation and other restructuring costs as a result of this Plan. The Company anticipates that it will reduce headcount by approximately 400 positions at the affected facilities, primarily in the Flavors & Fragrances segment, related to direct and indirect labor at manufacturing sites. As of September 30, 2016, 256 positions had been eliminated as a result of this Plan.

As mentioned above, the Company plans to sell its European Natural Ingredients business, a business in the Flavors & Fragrances segment. This business has two facilities, located in Marchais, France, and Elburg, the Netherlands. The European Natural Ingredients business has not generated significant profits for several years and it does not fit with the Company's long-term strategic plan. The Company is currently working to sell this business and anticipates selling the business within the next year. Upon the completion of a sale of this business, the Company anticipates recognizing an additional non-cash loss of approximately \$15 million.

As of September 30, 2016, the Company has recorded assets held for sale of land, buildings and equipment of \$9.7 million related to the 2014 Restructuring Plan. In addition, \$20 million of inventory, receivables and other assets are included in assets held for sale related to the anticipated sale of the European Natural Ingredients business. The Company also has \$4.6 million of liabilities held for sale related to the anticipated sale of the European Natural Ingredients business.

The Company recorded total restructuring costs of \$2.8 million for the three months ended September 30, 2016, and \$10.9 million for the three months ended September 30, 2015, in accordance with GAAP and based on an internal review of the affected facilities and consultation with legal and other advisors, and restructuring costs of \$5.9 million and \$27.7 million for the nine months ended September 30, 2016 and 2015, respectively. Since initiating the 2014 Restructuring Plan, the Company has incurred \$147.3 million of restructuring costs through September 30, 2016. The Company expects to incur approximately \$4 million of additional restructuring costs by the end of 2016 and approximately \$16 million of restructuring costs in 2017.

The Company expects that the closure and sale of these operations will significantly lower the Company's operating costs over the next few years. Upon initiating the Plan, the Company estimated the annual cost reductions to be approximately \$30 million, when fully implemented. The U.S. dollar has strengthened considerably since the initiation of the Plan, and as a result the dollar value of the cost savings has been reduced. In 2015, the Company identified additional cost savings opportunities, and as a result of these actions, the current estimate of annual cost savings is approximately \$27 million. The Company has also implemented price increases to further mitigate the impact of foreign currency movements. Since initiating the Plan, the Company has realized total savings of approximately \$22 million as of September 30, 2016. During the three months ended September 30, 2016, the Company realized approximately \$3 million of savings and expects to realize approximately \$1 million of additional savings by the end of 2016. The remaining savings are expected to be realized in 2017. The Company intends to continue to optimize production at the consolidating sites after the completion of the restructuring activities.

In connection with the 2014 Restructuring Plan, the Company approved a plan to dispose of a certain business, located near Leipzig, Germany, within the Color segment. Production ceased in 2014 and the business met the criteria to be reported as a discontinued operation. During the three months ended June 30, 2016, the facility and remaining assets were sold for a gain of \$0.2 million. In addition, the entity was liquidated resulting in a reclassification of the cumulative translation adjustment related to that entity of \$3.3 million into net earnings.

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The Company evaluates performance based on operating income of each segment before restructuring and other costs. All restructuring and other costs related to continuing operations are recorded in the Corporate & Other segment. The following table summarizes the restructuring expense by segment and discontinued operations for the three and nine months ended September 30, 2016 and 2015, respectively:

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Flavors & Fragrances	\$ 2,763	\$ 10,035	\$ 8,630	\$ 23,055
Color	(67)	245	65	1,828
Asia Pacific	-	-	-	58
Corporate & Other	85	672	703	2,748
Total Continuing Operations	2,781	10,952	9,398	27,689
Discontinued Operations	-	(71)	(3,485)	43
Total Restructuring	\$ 2,781	\$ 10,881	\$ 5,913	\$ 27,732

The Company recorded restructuring costs in continuing operations for the three and nine months ended September 30, 2016, as follows:

Three Months Ended September 30, 2016

(In thousands)	Selling & Administrative	Cost of Products Sold	Total
Employee separation	\$ 288	\$ -	\$288
Long-lived asset impairment (gain)	(231)	-	(231)
Write-down of inventory	-	-	-
Other restructuring costs ⁽¹⁾	2,724	-	2,724
Total	\$ 2,781	\$ -	\$2,781

Nine Months Ended September 30, 2016

(In thousands)	Selling & Administrative	Cost of Products Sold	Total
Employee separation	\$ 738	\$ -	\$738
Long-lived asset impairment	502	-	502
Write-down of inventory	-	810	810
Other restructuring costs ⁽¹⁾	7,348	-	7,348
Total	\$ 8,588	\$ 810	\$9,398

⁽¹⁾ Other costs include decommissioning costs, professional services, temporary labor, moving costs and other related costs.

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The Company recorded restructuring costs in continuing operations for the three and nine months ended September 30, 2015, as follows:

Three Months Ended September 30, 2015

(In thousands)	Selling & Administrative	Cost of Products Sold	Total
Employee separation	\$ 745	\$ -	\$745
Long-lived asset impairment	2,610	-	2,610
Write-down of inventory	-	2,814	2,814
Other restructuring costs ⁽¹⁾	4,783	-	4,783
Total	\$ 8,138	\$ 2,814	\$10,952

Nine Months Ended September 30, 2015

(In thousands)	Selling & Administrative	Cost of Products Sold	Total
Employee separation	\$ 4,449	\$ -	\$4,449
Long-lived asset impairment	10,090	-	10,090
Gain on asset sales	(1,301)	-	(1,301)
Write-down of inventory	-	3,095	3,095
Other restructuring costs ⁽¹⁾	11,356	-	11,356
Total	\$ 24,594	\$ 3,095	\$27,689

⁽¹⁾ Other costs include decommissioning costs, professional services, temporary labor, moving costs and other related costs.

The following table summarizes the accrual activities for the restructuring activities for the nine months ended September 30, 2016:

(In thousands)	Employee Separations	Other	Total
Balance as of December 31, 2015	\$ 10,260	\$912	\$11,172
Expense activity	738	7,348	8,086
Cash spent	(3,216)	(7,620)	(10,836)
Translation adjustment	209	-	209
Balance as of September 30, 2016	\$ 7,991	\$640	\$8,631

11. Discontinued Operations

In connection with the 2014 Restructuring Plan, the Company approved a plan to dispose of a business unit within the Color segment, located near Leipzig, Germany. Since 2014, the business has met the criteria to be presented as a discontinued operation as established in ASC Subtopic 205-20, Discontinued Operations. The results of this business have been reported as a discontinued operation in the Consolidated Condensed Statements of Earnings for all periods presented. During the three months ended June 30, 2016, the facility and remaining assets were sold for a gain of \$0.2 million. In addition, the entity was liquidated resulting in a reclassification of the cumulative translation adjustment of \$3.3 million into net earnings.

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The following table summarizes the discontinued operation's results for the three and nine months ended September 30, 2016 and 2015:

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue	\$ -	\$ -	\$ -	\$ 187
Gain (Loss) from discontinued operations before income taxes	-	(11)	3,410	(439)
Income tax (expense) benefit	-	(36)	(67)	91
Gain (Loss) from discontinued operations, net of tax	\$ -	\$ (47)	\$ 3,343	\$ (348)

12. Anticipated Divestiture

During the three months ended June 30, 2016, the Board of Directors authorized management to explore strategic alternatives for a facility and certain related business lines within the Flavors & Fragrances segment in Europe. The Company anticipates a sale within the next year and has recorded assets held for sale of inventory and other assets of \$19.1 million and \$1.6 million of liabilities held for sale related to the anticipated sale as of September 30, 2016. In addition, the Company recorded an impairment charge of \$10.3 million during the second quarter of 2016, in selling and administrative expense, reducing the carrying value of the long-lived assets for this facility to zero. An estimate of the fair value of this business less cost to sell was determined to be lower than its carrying value. The difference between the fair value and its carrying value exceeded the existing net book value of the long-lived assets. If a sale is completed, the Company expects to recognize an additional non-cash loss of approximately \$7 million. During the three months ended September 30, 2016, the Company incurred \$0.2 million of outside professional fees related to the anticipated divestiture.

13. Subsequent Events

On October 3, 2016, the Company entered into an accounts receivable securitization program with a commitment size of \$40 million, whereby transactions under the program are accounted for as sales of trade receivables in accordance with Accounting Standards Codification Topic 860, Transfers and Servicing. Trade receivables were sold to the third-party financial institution, Wells Fargo, for which \$40 million in proceeds was received.

14. Commitments and Contingencies

U.S. Equal Employment Opportunity Commission Civil Complaint

On September 21, 2015, the U.S. Equal Employment Opportunity Commission (EEOC) filed a civil complaint against Sensient Natural Ingredients LLC (SNI) in the U.S. District Court for the Eastern District of California. SNI is a wholly owned subsidiary of the Company. The EEOC's complaint alleges that SNI failed to comply with the Americans with Disabilities Act (ADA), as amended, when it terminated five employees in 2011. The EEOC seeks to enjoin SNI from engaging in employment practices that discriminate on the basis of disability; asks the Court to order SNI to implement policies, practices, and programs to ensure it does not violate the ADA; and requests back pay with prejudgment interest, reinstatement, front pay, compensation for past and future pecuniary and non-pecuniary losses, and punitive damages on behalf of the five named former employees and any similarly aggrieved individuals. Recoverable compensatory and punitive damages are subject to statutory caps. The complaint does not request a specific damages amount. To date, the EEOC has provided the Company with a list of 13 additional potentially aggrieved former employees not listed in the complaint who may have been terminated in violation of the ADA during the relevant time period. In its discovery responses, the EEOC has identified 3 of those 13 former employees as additional claimants for whom the Agency seeks relief. The Parties are currently engaged in the discovery process.

On September 20, 2016, the Company and the EEOC engaged in a mediation session in which the parties worked to settle this matter. The parties are still negotiating and attempting to finalize the terms of a settlement agreement, but the Company accrued \$0.6 million for the settlement of this matter, during the three months ended September 30, 2016.

Other Claims and Litigation

The Company is subject to various claims and litigation arising in the normal course of business. The Company establishes reserves for claims and proceedings when it is probable that liabilities exist and reasonable estimates of loss can be made. While it is not possible to predict the outcome of these matters, based on our assessment of the facts and circumstances now known, we do not believe that these matters, individually or in the aggregate, will have a material adverse effect on our financial position. However, actual outcomes may be different from those expected and could have a material effect on our results of operations or cash flows in a particular period.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The following discussion of the financial condition and results of operations excludes the results of discontinued operations unless otherwise indicated.

Revenue

Revenue was \$349.7 million and \$344.5 million for the three months ended September 30, 2016 and 2015, respectively, an increase of 1.5%. Revenue was \$1.1 billion and \$1.0 billion for the nine months ended September 30, 2016 and 2015, respectively, an increase of 1.6%. The impact of foreign exchange rates decreased consolidated revenue by approximately 1.0% and 2.1% for the three and nine months ended September 30, 2016, respectively.

Gross Profit

The Company's gross margin was 35.1% and 32.7% for the three months ended September 30, 2016 and 2015, respectively. Included in the cost of sales are \$2.8 million of restructuring costs for the three months ended September 30, 2015. The increase in gross margin for the three months ended September 30, 2016, is primarily a result of higher selling prices, higher volumes, mainly in the Color segment, and savings associated with the 2014 Restructuring Plan (\$2.5 million). Restructuring costs did not have an impact on gross margin for the three months ended September 30, 2016, and restructuring costs reduced gross margin by 80 basis points for the three months ended September 30, 2015.

Gross margin was 34.5% and 33.6% for the nine months ended September 30, 2016 and 2015, respectively, an increase of 90 basis points. Included in the cost of sales are \$0.8 million and \$3.1 million of restructuring costs for the nine months ended September 30, 2016 and 2015, respectively. The increase in gross margin for the nine months ended September 30, 2016, is primarily a result of higher selling prices and higher volumes, mainly in the Color segment, and savings associated with the 2014 Restructuring Plan (\$8.1 million). Restructuring costs did not have a significant impact on gross margin for the nine months ended September 30, 2016, and restructuring costs reduced gross margin by 30 basis points for the nine months ended September 30, 2015.

Selling and Administrative Expense

Selling and administrative expenses as a percent of revenue were 20.4% and 20.2% for the three months ended September 30, 2016 and 2015, respectively. Restructuring and other costs (see the discussions below regarding Restructuring, Anticipated Divestiture and Non-GAAP Financial Measures) of \$3.0 million and \$8.2 million were included in selling and administrative expenses for the three months ended September 30, 2016 and 2015, respectively. For the three months ended September 30, 2016, the increase in selling and administrative expenses as a percent of revenue is primarily due to an increase in performance based executive compensation of \$3.9 million and outside professional fees of \$1.8 million. Restructuring and other costs increased selling and administrative expense as a percent of revenue by 80 basis points and 240 basis points for the three months ended September 30, 2016 and 2015, respectively.

Selling and administrative expense as a percent of revenue were 20.9% and 20.6% for the nine months ended September 30, 2016 and 2015, respectively. Restructuring and other costs of \$19.1 million and \$25.5 million were included in selling and administrative expenses for the nine months ended September 30, 2016 and 2015, respectively. For the nine months ended September 30, 2016, the increase in selling and administrative expenses as a percent of revenue is primarily due to an increase in performance based executive compensation of \$7.1 million and outside professional fees of \$5.6 million partially offset by a sale of an import right in the Flavors & Fragrances segment of \$2.2 million. Restructuring and other costs increased selling and administrative expenses as a percent of revenue by 180 basis points and 250 basis points for the nine months ended September 30, 2016 and 2015, respectively.

Operating Income

Operating income was \$51.2 million and \$43.2 million for the three months ended September 30, 2016 and 2015, respectively. Operating margins were 14.6% and 12.5% for the three months ended September 30, 2016 and 2015, respectively. Restructuring and other costs reduced operating margins by 90 basis points and 320 basis points during the three months ended September 30, 2016 and 2015, respectively.

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Operating income was \$142.3 million and \$134.7 million for the nine months ended September 30, 2016 and 2015, respectively. Operating margins were 13.5% and 13.0% for the nine months ended September 30, 2016 and 2015, respectively. Restructuring and other costs reduced operating margins by 190 basis points and 280 basis points during the nine months ended September 30, 2016 and 2015, respectively.

Interest Expense

Interest expense was \$4.6 million and \$4.3 million for the three months ended September 30, 2016 and 2015, respectively, and \$14.0 million and \$12.3 million for the nine months ended September 30, 2016 and 2015, respectively. The increase in the expense in both the three- and nine-month periods is primarily due to the increase in the average debt outstanding which is partially offset by the lower average interest rates.

Income Taxes

The effective income tax rates for continuing operations for the three months ended September 30, 2016 and 2015, were 23.5% and 29.0%, respectively. For the nine-month periods ended September 30, 2016 and 2015, the effective income tax rates were 28.6% and 28.2%, respectively. The effective tax rates in both 2016 and 2015 were impacted by restructuring activities, changes in estimates associated with the finalization of prior year foreign and domestic tax items, audit settlements, adjustments to valuation allowances and mix of foreign earnings. The rate in 2016 was also impacted by the deferred tax adjustments related to the anticipated divestiture discussed below.

Restructuring

The Company incurred restructuring costs in both continuing and discontinued operations. The discussion in this note relates to the combination of both continuing and discontinued operations unless otherwise noted. Restructuring costs related to discontinued operations are recorded in discontinued operations within the Company's Consolidated Condensed Statements of Earnings and are discussed in Note 11, Discontinued Operations, in more detail.

In March 2014, the Company announced that it was initiating a restructuring plan ("2014 Restructuring Plan" or "Plan") to eliminate underperforming operations, consolidate manufacturing facilities and improve efficiencies within the Company. The Company determined that it had redundant manufacturing capabilities in both North America and Europe and that it could lower costs and operate more efficiently by consolidating into fewer facilities. Eight facilities were identified for consolidation in the Flavors & Fragrances segment, four in North America and four in Europe. To date, closures have been announced in Indianapolis, Indiana, United States; Cornwall, Mississauga and Halton Hills, Canada; Bremen, Germany; and Milan, Italy. The Company also plans to sell its two European Natural Ingredients facilities, as discussed below. In addition, the Company discontinued one of the businesses in the Color segment, located near Leipzig, Germany, because it did not fit with the Company's long-term strategic plan and it had generated losses for several years. In 2015, the Company identified additional opportunities to consolidate manufacturing operations at one of the Color segment's facilities in Europe and eliminate additional positions in the European Flavors & Fragrances businesses.

Based on this Plan, the Company determined that certain long-lived assets associated with the underperforming operations were impaired. The Company reduced the carrying amounts of these assets to their aggregate respective fair values, which were determined based on independent market valuations. The fair values of the remaining long-lived assets are estimated to be approximately \$19 million, which includes certain of the land, buildings and equipment in the assets held for sale, as noted below. Also, certain machinery and equipment has been identified to be disposed of at the time of the facility closures and the associated depreciation for these assets has been accelerated. The Company recorded long-lived asset impairments, including the impairment charges and accelerated depreciation, of \$0.2 million and \$2.6 million, during the three months ended September 30, 2016 and 2015, respectively, and \$0.9 million and \$10.1 million during the nine months ended September 30, 2016 and 2015, respectively. Since initiating the Plan, the Company has recorded \$85.6 million of long-lived asset impairments, including the impairment charges and accelerated depreciation. In addition, certain intangible assets, inventory and other current assets were also determined to be impaired and were written down.

The Company has also incurred employee separation and other restructuring costs as a result of this Plan. The Company anticipates that it will reduce headcount by approximately 400 positions at the affected facilities, primarily in the Flavors & Fragrances segment, related to direct and indirect labor at manufacturing sites. As of September 30, 2016, 256 positions had been eliminated as a result of this Plan.

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As mentioned above, the Company plans to sell its European Natural Ingredients business, a business in the Flavors & Fragrances segment. This business has two facilities, located in Marchais, France, and Elburg, the Netherlands. The European Natural Ingredients business has not generated significant profits for several years and it does not fit with the Company's long-term strategic plan. The Company is currently working to sell this business and anticipates selling the business within the next year. Upon the completion of a sale of this business, the Company anticipates recognizing an additional non-cash loss of approximately \$15 million.

As of September 30, 2016, the Company has recorded assets held for sale of land, buildings and equipment of \$9.7 million related to the 2014 Restructuring Plan. In addition, \$20 million of inventory, receivables and other assets are included in assets held for sale related to the anticipated sale of the European Natural Ingredients business. The Company also has \$4.6 million of liabilities held for sale related to the anticipated sale of the European Natural Ingredients business.

The Company recorded total restructuring costs of \$2.8 million for the three months ended September 30, 2016, and \$10.9 million for the three months ended September 30, 2015, in accordance with GAAP and based on an internal review of the affected facilities and consultation with legal and other advisors, and restructuring costs of \$5.9 million and \$27.7 million for the nine months ended September 30, 2016 and 2015, respectively. Since initiating the 2014 Restructuring Plan, the Company has incurred \$147.3 million of restructuring costs through September 30, 2016. The Company expects to incur approximately \$4 million of additional restructuring costs by the end of 2016 and approximately \$16 million of restructuring costs in 2017.

The Company expects that the closure and sale of these operations will significantly lower the Company's operating costs over the next few years. Upon initiating the Plan, the Company estimated the annual cost reductions to be approximately \$30 million, when fully implemented. The U.S. dollar has strengthened considerably since the initiation of the Plan, and as a result the dollar value of the cost savings has been reduced. In 2015, the Company identified additional cost savings opportunities, and as a result of these actions, the current estimate of annual cost savings is approximately \$27 million. The Company has also implemented price increases to further mitigate the impact of foreign currency movements. Since initiating the Plan, the Company has realized total savings of approximately \$22 million as of September 30, 2016. During the three months ended September 30, 2016, the Company realized approximately \$3 million of savings and expects to realize approximately \$1 million of additional savings by the end of 2016. The remaining savings are expected to be realized in 2017. The Company intends to continue to optimize production at the consolidating sites after the completion of the restructuring activities.

In connection with the 2014 Restructuring Plan, the Company approved a plan to dispose of a certain business, located near Leipzig, Germany, within the Color segment. Production ceased in 2014 and the business met the criteria to be reported as a discontinued operation. During the three months ended June 30, 2016, the facility and remaining assets were sold for a gain of \$0.2 million. In addition, the entity was liquidated resulting in a reclassification of the cumulative translation adjustment related to that entity of \$3.3 million into net earnings.

Anticipated Divestiture

During the three months ended June 30, 2016, the Board of Directors authorized management to explore strategic alternatives for a facility and certain related business lines within the Flavors & Fragrances segment in Europe. The Company anticipates a sale within the next year and has recorded assets held for sale of inventory and other assets of \$19.1 million and \$1.6 million of liabilities held for sale related to the anticipated sale as of September 30, 2016. In addition, the Company recorded an impairment charge of \$10.3 million during the second quarter of 2016, in selling and administrative expense, reducing the carrying value of the long-lived assets for this facility to zero. An estimate of the fair value of this business less cost to sell was determined to be lower than its carrying value. The difference between the fair value and its carrying value exceeded the existing net book value of the long-lived assets. If a sale is completed, the Company expects to recognize an additional non-cash loss of approximately \$7 million. During the three months ended September 30, 2016, the Company incurred \$0.2 million of outside professional fees related to the

anticipated divestiture.

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NON-GAAP FINANCIAL MEASURES

Within the following tables, the Company reports certain non-GAAP financial measures, including: (1) adjusted operating income, adjusted net earnings and adjusted diluted EPS from continuing operations (which exclude restructuring and other costs) and (2) percentage changes in revenue, operating income, diluted EPS, adjusted operating income, and adjusted diluted EPS on a local currency basis (which eliminate the effects that result from translating its international operations into U.S. dollars). The other costs in 2016 are for the anticipated divestiture related costs discussed under “Anticipated Divestiture” above, and the other costs in 2015 are acquisition related costs.

The Company has included each of these non-GAAP measures in order to provide additional information regarding our underlying operating results and comparable year-over-year performance. Such information is supplemental to information presented in accordance with GAAP and is not intended to represent a presentation in accordance with GAAP. These non-GAAP measures should not be considered in isolation. Rather, they should be considered together with GAAP measures and the rest of the information included in this report. Management internally reviews each of these non-GAAP measures to evaluate performance on a comparative period-to-period basis and to gain additional insight into underlying operating and performance trends, and the Company believes the information can be beneficial to investors for the same purposes. These non-GAAP measures may not be comparable to similarly titled measures used by other companies.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	% Change	2016	2015	% Change
Operating income from continuing operations (GAAP)	\$ 51,151	\$ 43,220	18.4 %	\$ 142,335	\$ 134,733	5.6 %
Restructuring - Cost of products sold	-	2,814		810	3,095	
Restructuring - Selling and administrative	2,781	8,138		8,588	24,594	
Other - Selling and administrative	191	18		10,483	873	
Adjusted operating income	\$ 54,123	\$ 54,190	-0.1 %	\$ 162,216	\$ 163,295	-0.7 %
Net earnings from continuing operations (GAAP)	\$ 35,619	\$ 27,638	28.9 %	\$ 91,563	\$ 87,915	4.1 %
Restructuring and other, before tax	2,972	10,970		19,881	28,562	
Tax impact of restructuring and other	(1,399)	(3,396)		(2,999)	(7,759)	