

SENSIENT TECHNOLOGIES CORP
Form 10-K
February 26, 2015

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2014

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

Commission File Number 1-7626
Sensient Technologies Corporation

WISCONSIN 39-0561070
(State of Incorporation) (IRS Employer Identification Number)

777 EAST WISCONSIN AVENUE
MILWAUKEE, WISCONSIN 53202-5304
(414) 271-6755
(Address of Principal Executive Offices)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

<u>TITLE OF EACH CLASS</u>	<u>NAME OF EACH EXCHANGE</u>
Common Stock, \$0.10 par value	<u>ON WHICH REGISTERED</u> New York Stock Exchange, Inc.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements

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incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company

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

The aggregate market value of the voting Common Stock held by non-affiliates of the Registrant as of June 30, 2014, was \$2,635,674,530. For purposes of this computation only, the Registrant’s directors and executive officers were considered to be affiliates of the Registrant. Such characterization shall not be construed to be an admission or determination for any other purpose that such persons are affiliates of the Registrant.

There were 47,521,901 shares of Common Stock outstanding as of February 20, 2015.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of: (1) the Company’s Annual Report to Shareholders for the fiscal year ended December 31, 2014 (see Parts I, II and IV of this Form 10-K), and (2) the Company’s 2015 Notice of Annual Meeting and Proxy Statement which will be filed with the Securities and Exchange Commission within 120 days after December 31, 2014 (see Part III of this Form 10-K).



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FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements that reflect management’s current assumptions and estimates of future economic circumstances, industry conditions, Company performance and financial results. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for such forward-looking statements. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors that could cause actual events to differ materially from those expressed in those statements. A variety of factors could cause the Company’s actual results and experience to differ materially from the anticipated results. These factors and assumptions include the pace and nature of new product introductions by the Company and the Company’s customers; the Company’s ability to successfully implement its growth strategies; the outcome of the Company’s various productivity-improvement and cost-reduction efforts; the effectiveness of the Company’s restructuring activities; changes in costs of raw materials, including energy; industry and economic factors related to the Company’s domestic and international business; growth in markets for products in which the Company competes; industry and customer acceptance of price increases; actions by competitors; currency exchange rate fluctuations; and the matters discussed below under the heading “Risk Factors” and under Part II, including the critical accounting policies incorporated by reference from pages 20 and 21 of the Company’s 2014 Annual Report to Shareholders. The Company does not undertake to publicly update or revise its forward-looking statements even if experience or future changes make it clear that any projected results expressed or implied therein will not be realized.

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PART I

Item 1. Business

General

Sensient Technologies Corporation (the “Company”) was incorporated in 1882 in Wisconsin. Its principal executive offices are located at 777 East Wisconsin Avenue, Suite 1100, Milwaukee, Wisconsin 53202-5304, telephone (414) 271-6755.

The Company is subject to the informational and reporting requirements of the Securities Exchange Act of 1934, as amended (the “Act”), and, in accordance with the Act, has filed annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the “Commission”). These reports and other information may be read and copied at the public reference facilities of the Commission at its principal offices at 100 F Street, N.E., Washington, D.C. 20549, and can also be accessed from the website maintained by the Commission at <http://www.sec.gov>. The public may obtain information on operations of the public reference room by calling the Commission at (800) SEC-0330.

The Company’s common stock is listed on the New York Stock Exchange under the ticker symbol “SXT.” Information about the Company may be obtained at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

The Company can also be reached at its website at www.sensient.com. The Company’s web address is provided as an inactive textual reference only, and the contents of that website are not incorporated in or otherwise to be regarded as part of this report. The Company makes available free of charge on its website its proxy statement, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Act as soon as reasonably practicable after such documents are electronically filed with or furnished to the Commission. Charters for the Audit, Compensation and Development, and Nominating and Corporate Governance Committees of the Company’s Board of Directors, as well as the Company’s Code of Conduct, Corporate Governance Guidelines, our Policy on Recovery of Incentive Compensation From Executives and our Directors and Officers Stock Ownership Guidelines are also available on the Company’s website, and are available in print to any shareholder, free of charge, upon request. If there are any amendments to the Code of Conduct or the Corporate Governance Guidelines, or if waivers from any of them are granted for executive officers or directors, those amendments or waivers also will be posted on the Company’s website.

Description of Business

The Company is a leading global manufacturer and marketer of colors, flavors and fragrances. The Company uses advanced technologies at facilities around the world to develop specialty food and beverage systems, cosmetic and pharmaceutical systems, specialty inks and colors, and other specialty and fine chemicals. The Company’s customers include major international manufacturers representing some of the world’s best-known brands.

The Company’s principal products include:

flavors, flavor enhancers and bionutrients;

fragrances and aroma chemicals;

natural ingredients, including dehydrated vegetables and other food ingredients;

natural and synthetic food and beverage colors;

cosmetic and pharmaceutical colors and ingredients; and

technical colors, specialty inks and colors, and specialty dyes and pigments.

The Company's two reportable segments are the Flavors & Fragrances Group and the Color Group, which are managed on a product-and-services basis. Two additional segments, the Asia Pacific Group and the Flavors Central & South America Group are managed on a geographic basis and are included in the "Corporate & Other" category, along with the Company's corporate expenses. Financial information regarding the Company's two reportable segments and the operations included within Corporate & Other is incorporated by reference to the information set forth on pages 37 through 39 of the Company's 2014 Annual Report to Shareholders under the heading "Segment and Geographic Information."

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In 2014, the Company announced and began a restructuring plan related to eliminating underperforming operations, consolidating manufacturing facilities and improving efficiencies within the Company, with an emphasis on the Flavors & Fragrances Group. Additional information regarding the costs related to the implementation of restructuring plan appears in “Restructuring Charges” on pages 39 through 41 of the 2014 Annual Report to Shareholders.

Flavors & Fragrances Group

The Company is a global developer, manufacturer and supplier of flavor and fragrance systems for the food, beverage, personal care and household-products industries. The Company’s flavor formulations are used in many of the world’s best-known consumer products. Under the unified brand names of Sensient Flavors, Sensient Natural Ingredients and Sensient Fragrances, the Group is a supplier to multinational companies.

The Flavors & Fragrances Group produces flavor and fragrance products that impart a desired taste, texture, aroma and/or other characteristics to a broad range of consumer and other products. This Group includes the Company’s natural ingredients business, which produces ingredients for food processors. The main products of the Group are systems products, including flavor-delivery systems, and compounded and blended products. In addition, the Group has strong positions in selected ingredient products such as essential oils, natural and synthetic flavors, and aroma chemicals. The Group serves food and non-food industries. In food industries, markets include savory, beverage and sweet flavors. In non-food industries, the Group supplies fragrance products to the personal and home-care markets.

Operating through its Sensient Natural Ingredients business, the Company believes it is the second largest producer (by sales) of dehydrated onion and garlic products in the United States. The Company is also one of the largest producers and distributors of chili powder, paprika, chili pepper and dehydrated vegetables such as parsley, celery and spinach. Domestically, the Company sells dehydrated products to food manufacturers for use as ingredients and also for repackaging under private labels for sale to the retail market and to the food service industry. In addition, Sensient Natural Ingredients is one of the leading dehydrators of specialty vegetables in Europe and it has a growing presence in China. Advanced dehydration technologies utilized by Sensient Natural Ingredients permit fast and effective rehydration of ingredients used in many of today’s popular convenience foods.

The Flavors & Fragrances Group operates principally through the Company’s subsidiaries Sensient Flavors LLC and Sensient Natural Ingredients LLC (formerly known as Sensient Dehydrated Flavors LLC). The Group’s principal manufacturing plants are located in California, Illinois, Indiana, Michigan, Wisconsin, Belgium, Canada, China, France, Germany, Italy, Mexico, the Netherlands, Spain and the United Kingdom.

Beginning in the first quarter of 2014, the results of operations for the Company’s fragrances businesses in Asia Pacific and China, previously reported in the Corporate & Other segment, are reported in the Flavors & Fragrances segment. Results for 2013 and 2012 have been restated to reflect this change.

Color Group

The Company is a developer, manufacturer and supplier of colors for businesses worldwide. The Company provides natural and synthetic color systems for use in foods, beverages and pharmaceuticals; colors and other ingredients for cosmetics and pharmaceuticals; and technical colors for industrial applications.

The Company believes that it is one of the world’s largest producers (by sales) of synthetic and natural colors, and that it is the world’s largest manufacturer (by sales) of certified food colors. The Company sells its synthetic and natural colors to domestic and international producers of beverages, bakery products, processed foods, confections, pet foods, cosmetics and pharmaceuticals. The Company also makes industrial colors, specialty inks and other dyes and pigments used in a variety of non-food applications.

The Color Group operates principally through the Company's subsidiary Sensient Colors LLC. The Group's principal manufacturing plants are located in Missouri, New Jersey, Brazil, Canada, France, Germany, Italy, Mexico, Switzerland and the United Kingdom.

The Color Group operates under the following trade names:

Sensient Food Colors (food and beverage colors);

Sensient Pharmaceutical Coating Systems (pharmaceutical colors and coatings);

Sensient Cosmetic Technologies (cosmetic colors and ingredients and systems);

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Sensient Inks (specialty inks); and

Sensient Industrial Colors (paper colors; and industrial colors for plastics, leather, wood stains, antifreeze and other uses).

The Company believes that its advanced process technology, state-of-the-art laboratory facilities and equipment and a complete range of synthetic and natural color products constitute the basis for its market leadership position.

Beginning in the first quarter of 2014, the results of operations for the Company's pharmaceutical flavors business, previously reported in the Flavors & Fragrances segment, are reported in the Color segment with the pharmaceutical colors business. Results for 2013 and 2012 have been restated to reflect this change.

Beginning in the first quarter of 2013, the results of operations for the Company's cosmetic and pharmaceutical businesses in Asia Pacific and China, previously reported in the Corporate & Other segment, are reported in the Color segment. Results for 2012 have been restated to reflect this change.

Asia Pacific Group

The Asia Pacific Group focuses on marketing the Company's diverse product line in the Pacific Rim under the Sensient name. Through these operations, the Company offers a full range of products from its Flavors & Fragrances Group and Color Group, as well as products developed by regional technical teams to appeal to local preferences.

Sales, marketing and technical functions are managed through the Asia Pacific Group's headquarters in Australia. Manufacturing operations are located in Australia, China, Japan, New Zealand and the Philippines. The Asia Pacific Group maintains offices for research and development, as well as sales, in China, India, Indonesia, Korea, Singapore and Thailand.

Flavors Central & South America Group

In 2012, the Flavors Central & South America Group was established to give management greater insight into the Company's flavors operations in this growing region. Previously, this Group was part of the Flavors & Fragrances Group.

The Flavors Central & South America Group develops, manufactures and supplies flavor systems to a broad range of customers across the region, primarily in the food and beverage markets.

The Flavors Central & South America Group has manufacturing and development facilities in Brazil and Costa Rica and maintains sales offices in multiple Central and South American countries.

Research and Development/Quality Assurance

The development of specialized products and services is a complex technical process calling upon the combined knowledge and talents of the Company's research, development and quality assurance personnel. The Company believes that its competitive advantage lies in its ability to work with its customers to develop and deliver high-performance products that address the distinct needs of those customers.

The Company's research, development and quality assurance personnel support the Company's efforts to improve existing products and develop new products tailored to customer needs, while providing on-going technical support and know-how to the Company's manufacturing activities. The Company employed 700 people in research and development, quality assurance, quality control and lab technician positions as of December 31, 2014.

Expenditures for research and development related to continuing operations in calendar year 2014 were \$35.9 million, compared with \$34.1 million in the year ended December 31, 2013, and \$34.2 million in the year ended December 31, 2012. As part of its commitment to quality as a competitive advantage, the Company holds certifications under the requirements established by the International Organization for Standardization in Geneva, Switzerland, through its ISO 9000 series of quality standards. Certified sites include Flavors & Fragrances Group plants in the United States, Belgium, Canada, France, Germany, Italy, Mexico, the Netherlands, Spain and the United Kingdom, and Color Group plants in the United States, Mexico and the United Kingdom. The Flavors & Fragrances Group plant in Spain has also received additional certification through the ISO 14001 and 18001 quality standards.

Products and Application Activities

The Company's strategic focus is on the manufacture and marketing of high-performance components that bring life to products. Accordingly, the Company devotes considerable attention and resources to the development of product applications and processing improvements to support its customers' numerous new and reformulated products. Many of the proprietary processes and formulae developed by the Company are maintained as trade secrets and under confidentiality agreements with customers.

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Within the Flavors & Fragrances Group, development activity is focused on ingredients, flavors and flavor systems that are responsive to consumer trends and the processing needs of our food and beverage customers. These activities include the development of functional ingredient systems for foods and beverages, savory flavors, and ingredient systems for prepared foods and flavors and ingredients for dairy, confectionery and other applications. The Company believes that the development of yeast derivatives and other specialty ingredients also provides growth opportunities in bionutrients and biotechnology markets, such as pharmaceuticals, vitamins, vaccines and bioremediation.

Within the Color Group, development activity for food and beverage product lines is focused on value-added products derived from synthetic dyes and pigments and natural food and beverage colors and on color systems. The Company also produces a diverse line of colors and ingredients for cosmetics and pharmaceutical applications and technical colors for industrial applications.

Raw Materials

The Company uses a wide range of raw materials in producing its products. Chemicals used to produce certified colors are obtained from several domestic and foreign suppliers. Raw materials for natural colors, such as carmine, beta-carotene, annatto and turmeric, are purchased from overseas and U.S. sources. In the production of flavors and fragrances, the principal raw materials include essential oils, aroma chemicals, botanicals, fruits and juices, and are obtained from domestic and foreign suppliers. Flavor enhancers and secondary flavors are produced from brewers' yeast and vegetable materials such as corn and soybeans. Chili peppers, onion, garlic and other vegetables are acquired under annual contracts with numerous growers in the western United States and Europe. The Company has expanded its sources of vegetables to include growers in China.

The Company believes that alternate sources of materials are generally available to enable it to maintain its competitive position in the event of an interruption in the supply of raw materials from a single supplier.

Competition

All Company products are sold in highly competitive markets. While no single factor is determinative, the Company's competitive position is based principally on process and applications expertise, quality, technological advances resulting from its research and development, and customer service and support. Because of its highly differentiated products, the Company competes with only a few companies across multiple product lines, and is more likely to encounter competition specific to an individual product.

Flavors & Fragrances. Competition to supply the flavors and fragrances industries has taken on an increasingly global nature. Most of the Company's customers do not buy their entire flavor and/or fragrance products from a single supplier and the Company does not compete with a single supplier in all product categories. Competition for the supply of flavors and fragrances is based on the development of customized ingredients for new and reformulated customer products, as well as on quality, customer service and price.

Competition to supply dehydrated vegetable products is present through several large and small domestic competitors, as well as competitors in other countries. Competition for the supply of dehydrated vegetables is based principally on product quality, customer service and price.

Color. Competition in the color market is diverse, with the majority of the Company's competitors specializing in either synthetic dyes and pigments or natural colors. The Company believes that it gains a competitive advantage as the only major basic manufacturer of a full range of color products, including synthetic dyes and pigments as well as natural colors. Competition in the supply of pharmaceutical coatings is based on the development of customized products and solutions as well as quality, customer service, and price. The Company believes that its reputation and capacity as a color producer as well as its product development give it a competitive advantage in the pharmaceutical coatings market.

Asia Pacific. Because of the broad array of products available to customers of the Asia Pacific Group, the Company believes that it is able to offer a wider product base than many of its competitors. Competition is based upon reliability in product quality, service and price as well as technical support available to customers.

Flavors Central & South America. Competition in the flavors market in Central and South America faces the same global nature and diversified purchasing seen by the Flavors & Fragrances Group. Competition for the supply of flavors is again based on the development of customized ingredients for new and reformulated products, as well as on quality, customer service and price.

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Foreign Operations

The information appearing under the heading “Segment and Geographic Information” in Note 9 to the Consolidated Financial Statements of the Company, which appears on pages 37 through 39 of the 2014 Annual Report to Shareholders, is incorporated herein by reference.

Patents, Formulae and Trademarks

The Company owns or controls many patents, formulae and trademarks related to its businesses. The businesses are not materially dependent upon patent or trademark protection; however, trademarks, patents and formulae are important to the business of the Company.

Employees

As of December 31, 2014, the Company employed 4,053 persons worldwide.

Regulation

Compliance with government provisions regulating discharges into the environment, or otherwise relating to the protection of the environment, did not have a material adverse effect on the Company’s operations for the year covered by this report. Current compliance is not expected to have a material adverse effect in the next two years. The production, packaging, labeling and distribution of certain of the products of the Company in the U.S. are subject to the regulations of various federal, state and local governmental agencies, in particular the U.S. Food and Drug Administration. The Company is subject to similar regulations in many international markets.

Item 1A. Risk Factors.

As with any business, the Company’s business and operations involve risks and uncertainties. In addition to the other discussions in, and incorporated by reference in, this report, particularly those in “Management’s Discussion & Analysis of Operations & Financial Condition” incorporated by reference from pages 15 through 22 of the 2014 Annual Report to Shareholders and “Forward Looking Statements” on page 22 of the 2014 Annual Report to Shareholders, the following factors should be considered:

In some product lines, most of our sales are made to a relatively small number of customers; if we lose any of those customers, sales and operating results could decline.

In some of our product lines, our sales are concentrated to a small number of customers. While we do not currently have any single customer that we consider to be significant to us as a whole, the loss of a significant customer of a product line could substantially affect the sales and profitability of that line, which may cause us to re-evaluate that line. Those developments could affect our results. In addition, the financial condition of our customers may adversely affect their ability to buy from us or to pay for products that they have already purchased.

Many of our products are used in items for human consumption and contact. We may be subject to product liability claims and product recalls, which could negatively impact our profitability and corporate image.

We sell flavors, fragrances and colors which are used in foods, beverages, pharmaceuticals, cosmetics and other items for human consumption or contact. These products involve risks such as product contamination or spoilage, product tampering and other adulteration. We may be subject to liability if the consumption or use of our flavors, fragrances and colors, or products which incorporate ingredients we manufacture, cause injury, illness or death. In addition, we or our customers may need to recall products in the event of contamination or damage.

A significant product defect, product liability judgment or product recall may negatively impact our profitability for a period of time depending on publicity, product availability, scope, competitive reaction and consumer attitudes. Even if a product liability claim is unsuccessful or is not fully pursued, the negative publicity surrounding any assertion that our products caused illness, injury or death could adversely affect our reputation with existing and potential customers and our corporate image.

·Consolidation has resulted in customers with increased buying power, which can affect our profitability.

Many of our customers have consolidated in recent years and we expect the combination trend to continue. These consolidations have often produced large, sophisticated customers with increased buying power who are more capable of resisting price increases. If the larger size or greater buying power of those customers results in additional negotiating strength, the prices we are able to charge could be negatively affected and our profitability could decline.

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· Intense competition may result in reduced sales and profitability.

The industries and markets in which we operate are highly competitive. That competition can reduce both our sales and the prices at which we are able to sell our products, which can in turn negatively affect our profitability.

· Our sales and profitability are affected by changing consumer preferences and changing technologies.

Although we do not generally make or sell proprietary consumer products, many of our products are sold to companies which develop and market consumer products. Sales of these flavors, fragrances, colors and inks depend in part upon our customers' ability to identify and meet consumer preferences and their sales and marketing efforts, all of which are beyond our control. Our sales could also be affected by changing technologies that could impact consumer demand for products that contain our flavors, fragrances, colors and inks. Therefore, we depend upon our customers' ability to create markets for the consumer products which incorporate many of the flavors, fragrances, colors and inks which we manufacture.

· If we do not maintain an efficient cost structure, our profitability could decrease.

Our success depends in part on our ability to maintain an efficient cost structure. We regularly initiate cost-reduction measures that could impact our manufacturing, sales, operations and information systems functions. If we do not continue to manage costs and achieve additional efficiencies, or we do not successfully implement related strategies, our competitiveness and our profits could decrease.

· Our recent restructurings may not be as effective as we anticipate and we may fail to realize the expected cost savings.

During 2013 and 2014, we announced and engaged in various restructuring activities. Such activities may pose significant risks and our ability to realize anticipated cost savings may be affected by a number of factors, including our ability to effectively reduce overhead, rationalize manufacturing capacity and shift production to more efficient facilities. Furthermore, our restructurings may not be as effective as we anticipate, and we may fail to realize the cost savings we expect from these restructurings. Actual charges, costs and adjustments due to restructuring activities may vary materially from our estimates and our restructuring activities may require cash and non-cash costs or charges in excess of budgeted amounts, which could reduce anticipated cost savings and could have an adverse effect on our margins.

· Commodity, energy and transportation price volatility and increases or material shortages may reduce our profits.

We use many different commodities as raw ingredients. We also use petroleum-based raw materials and other raw materials whose production is energy intensive. In addition, various energy sources are used in our production and distribution processes. Commodity and energy prices are subject to significant volatility caused by market fluctuations, supply and demand, currency fluctuation, production and transportation disruption, world events, and changes in governmental programs. Commodity and energy price increases will raise both our raw material costs and operating costs. We may not be able to increase our product prices enough to offset these increased costs. Increasing our prices also may reduce sales volume and related profitability.

In addition, we obtain some of the raw materials that we use from a single supplier or a limited number of suppliers, and problems with those suppliers could affect the availability of those materials. Even if there are multiple suppliers of a particular raw material, there are occasional shortages. An unavailability or shortage of a raw material could negatively affect our operations using that raw material and thus our results.

There are many laws and regulations applicable to our industries. Compliance with those requirements is costly to us and can affect our operations. Failure to comply could also be costly and disruptive.

Our facilities and products are subject to many laws and regulations relating to health, safety and the processing, packaging, storage, distribution, quality and safety of food, drugs, cosmetics and other consumer products, specialty inks and industrial colors. These laws and regulations are administered in the United States by the Department of Agriculture, the Food and Drug Administration, the Environmental Protection Agency, the Department of Labor and other federal and state governmental agencies. We are subject to similar governmental regulation and oversight abroad. Compliance with these laws and regulations can be costly and affect our operations. Also, if we fail to comply with applicable laws and regulations, we could be subject to administrative penalties and injunctive relief, civil remedies, fines and recalls of our products. Our customers, particularly those in the pharmaceutical industry, are also subject to laws and regulations which may impose costs on or create risk for us.

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·Environmental compliance may be costly to us.

Our operations are subject to extensive and increasingly stringent laws and regulations which pertain to the discharge of materials into the environment and the handling and disposition of wastes. These rules operate or will operate at both the federal and state levels in the United States, and there are analogous laws at many of our overseas locations. Environmental regulations, and the potential failure to comply with them, can have serious consequences, including the costs of compliance and defense, interference with our operations or the ability to obtain required permits, civil and administrative penalties and negative publicity.

·Operating in foreign countries and emerging markets exposes us to increased risks, including economic, political and international operation risks.

We operate and sell our products in many foreign countries and emerging markets. The international aspects of our business subject us to risks that could materially impact our operating results, including: difficulties in staffing and managing foreign personnel in diverse cultures; transportation delays or interruptions; and the effects of international political developments and political and economic instability. In addition, changes in policies by the United States or foreign governments could negatively affect our operating results due to changes in duties, tariffs, trade regulations, taxes or limitations on currency or fund transfers.

·The impact of currency exchange rate fluctuation may negatively affect our results.

We report the results of our foreign operations in the applicable local currency and then translate those results into U.S. dollars at applicable exchange rates. The applicable exchange rates between and among local currencies, foreign currencies and the U.S. dollar have fluctuated and will continue to do so in the future. Such currency exchange rate volatility may also adversely impact our financial condition or liquidity. While we may use forward exchange contracts and foreign currency denominated debt to manage our exposure to foreign exchange risk, such risk management strategies may not be effective and our results of operations could be adversely affected.

·We depend on certain key personnel, and the loss or retirement of these persons may harm our business.

Our success depends in large part on the continued service and availability of our key management and technical personnel, and on our ability to attract and retain qualified new personnel. The competition for these individuals can be significant, and the loss of key employees could harm our business. In addition, as some of these persons approach retirement age, we need to provide for smooth transitions, and our operations and results may be negatively affected if we are not able to do so.

·We may not successfully complete and integrate future acquisitions, which could adversely affect our operating results.

We have acquired many companies and operations in the past and may resume growth by acquisition in the future. Our future growth through acquisitions could involve significant risks that may have a material adverse effect on us. We may also be at risk for factors associated with acquisitions that the Company has made in the past. Acquired companies may also have significant latent liabilities which may not be discovered before an acquisition or fully reflected in the price we pay.

We may also need to finance future acquisitions, and the terms of any financing, and the need to ultimately repay or refinance any indebtedness, may have negative effects on us. Acquisitions also could have a dilutive effect on our financial results. Acquisitions also generally result in goodwill, which would need to be written off against earnings in the future if it becomes impaired.

Our ability to successfully maintain and upgrade our information technology systems, and to effectively respond to failures, disruptions or breaches of our information technology systems, may affect our competitiveness and our profits could decrease.

Our success depends in part on our ability to maintain a current information technology platform for our business to operate. We routinely review and upgrade our information technology systems in order to better manage and report the sales, manufacturing and other operations of our business. If we do not continue to maintain our information technology platform and successfully implement upgrades to the system, our competitiveness and profits could decrease. Furthermore, our information technology systems may be susceptible to failures, disruptions, breaches and other similar cyber-security events. The impact of any such event and the effectiveness of our response thereto may adversely affect our operations and subject us to increased operating costs.

World events and natural disasters are beyond our control and could affect our results.

World events, such as conflicts in the Middle East and the financial stresses in Europe, can adversely affect national, international and local economies. Economies can also be affected by natural disasters or by epidemics. Such events and conditions, as well as the current impairment of financial markets, high unemployment and constrained consumer spending, have adversely affected and could continue to affect our revenues and profitability, particularly if they occur in locations in which we or our customers have significant operations. In addition, while we have manufacturing facilities throughout the world, certain of our facilities are the sole manufacturer of a specific product and a disruption in manufacturing could lead to increased costs of relocating or replacing the production of a product, or reformulating a product, which could have an adverse effect on our results.

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Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

We lease our corporate headquarters offices, which are located at 777 East Wisconsin Avenue, Milwaukee, Wisconsin. We own our Color Group headquarters offices located in St. Louis, Missouri and our Asia Pacific Group headquarters offices located in Keysborough, Australia. We own a part, and lease a part, of our Flavors & Fragrances Group headquarters offices located in Hoffman Estates, Illinois. The locations of our production properties by reportable segment are as follows:

Color Group:

U.S. – St. Louis, Missouri; and South Plainfield, New Jersey*.

International – Jundiai, Brazil*; Kingston, Ontario, Canada; Saint Ouen L’Aumone, France*; Geesthacht, Germany; Reggio Emilia, Italy; Lerma, Mexico; Johannesburg, South Africa; Morges, Switzerland; and Kings Lynn, United Kingdom*.

Flavors & Fragrances Group:

U.S. – Livingston and Turlock, California; Amboy and Hoffman Estates*, Illinois; Indianapolis, Indiana, Harbor Beach, Michigan; and Juneau, Wisconsin.

International – Heverlee, Belgium; Cornwall and Halton Hills, Ontario, Canada; Qingdao, China*; San Jose, Costa Rica*; Marchais and Strasbourg, France; Bremen, Germany; Milan, Italy; Celaya and Tlalnepantla, Mexico; Elburg, Netherlands; Granada, Spain; and Wales and Milton Keynes, United Kingdom.

Asia Pacific:

U.S. – None.

International – Keysborough, Australia; Guangzhou, China; Hitachi, Japan; Auckland, New Zealand; Manila, Philippines*; and Bangkok, Thailand.

* Indicates a leased property at the location.

All properties are owned except as otherwise indicated above. All facilities are considered to be in good condition (ordinary wear and tear excepted) and suitable and adequate for the Company’s requirements.

Item 3. Legal Proceedings.

Commercial Litigation

The Company is involved in various other claims and litigation arising in the normal course of business. In the judgment of management, which relies in part on information from Company counsel, the ultimate resolution of these actions will not materially affect the consolidated financial statements of the Company.

Item 4. Mine Safety Disclosure.

Not Applicable.

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Executive Officers of the Registrant

The executive officers of the Company and their ages as of February 26, 2015, are as follows:

Name	Age	Position
Paul Manning	40	President and Chief Executive Officer
John F. Collopy	45	Vice President and Treasurer
Christopher M. Daniels	41	Vice President, Human Resources
Michael C. Geraghty		