BALCHEM CORP
Form 10-Q
August 07, 2009

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

(Mark One) |X| Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

|_| For The Quarterly Period Ended June 30, 2009

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number 1-13648

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

Maryland	13-2578432
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
P.O. Box 600 New Hampton, New York	10958
(Address of principal executive offices)	(Zip Code)

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

Indicate by a 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 filing requirements for the past 90 days.

Yes |X| 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 (ss.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.

Large accelerated filer |_|	Accelerated filer |X|
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 |X|

As of August 1, 2009 the registrant had 18,557,033 shares of its Common Stock, $.06 2/3 par value, outstanding.

Part 1 - Financial Information
Item 1. Financial Statements

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

Assets	June 30, 2009 (unaudited)	December 31, 2008
Current assets:		
Cash and cash equivalents	$ 27,092	$ 3,422
Accounts receivable, net	25,033	30,250
Inventories	15,738	16,618
Prepaid expenses	1,653	2,581
Deferred income taxes	1,066	649
Other current assets	582	1,731
Total current assets	71,164	55,251
Property, plant and equipment, net	41,681	42,513
Goodwill	26,658	26,658
Intangible assets with finite lives, net	28,127	29,993
Other assets	59	59
Total assets	$ 167,689	$ 154,474
Liabilities and Stockholders' Equity		
Current liabilities:		
Trade accounts payable	$ 9,495	$ 10,336
Accrued expenses	5,931	3,948
Accrued compensation and other benefits	3,085	2,501
Dividends payable	--	2,008
Income tax payable	1,437	1,988
Current portion of long-term debt	7,400	2,860
Revolver borrowings	702	2,044
Total current liabilities	28,050	25,685
Long-term debt	--	6,671
Deferred income taxes	5,120	6,003
Other long-term obligations	1,698	1,609
Total liabilities	34,868	39,968

Commitments and contingencies (note 12)		
Stockholders' equity:		
Common stock, $.0667 par value. Authorized 25,000,000 shares; 18,548,545 shares issued and outstanding at June 30, 2009 and 18,249,347 shares issued and outstanding at December 31, 2008	843	823
Preferred stock, $25 par value. Authorized 2,000,000 shares; none issued and outstanding	--	--
Additional paid-in capital	24,019	18,809
Retained earnings	107,849	94,882
Accumulated other comprehensive income	110	(8)
Total stockholders' equity	132,821	114,506
Total liabilities and stockholders' equity	$ 167,689	$ 154,474

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net sales	$ 52,976	$ 62,901	$ 105,962	$ 119,762
Cost of sales	35,672	49,950	72,360	93,328
Gross margin	17,304	12,951	33,602	26,434
Operating expenses:				
Selling expenses	3,832	3,068	7,480	6,387
Research and development expenses	880	701	1,688	1,483
General and administrative expenses	2,307	1,942	4,839	3,920
	7,019	5,711	14,007	11,790
Earnings from operations	10,285	7,240	19,595	14,644
Other expenses (income):				
Interest income	(20)	(24)	(30)	(49)
Interest expense	41	247	115	570
Other, net	(39)	16	41	(69)

Earnings before income tax expense	10,303	7,001	19,469	14,192
Income tax expense	3,434	2,277	6,502	4,827
Net earnings	$ 6,869	$ 4,724	$ 12,967	$ 9,365
Net earnings per common share - basic	$ 0.38	$ 0.26	$ 0.71	$ 0.52
Net earnings per common share - diluted	$ 0.36	$ 0.25	$ 0.68	$ 0.50

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended June 30, 2009	2008
Cash flows from operating activities:		
Net earnings	$ 12,967	$ 9,365
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	4,032	3,832
Reserve for doubtful accounts	464	--
Shares issued under employee benefit plans	256	252
Deferred income taxes	(1,299)	(230)
Foreign currency transaction (gain) loss	36	(81)
Stock compensation expense	1,505	1,244
Changes in assets and liabilities:		
Accounts receivable	4,721	(5,198)
Inventories	869	(3,458)
Prepaid expenses and other current assets	2,062	1,218
Income taxes	(611)	(278)
Customer deposits and other deferred revenue	--	(42)
Accounts payable and accrued expenses	1,804	1,884
Other	80	31
Net cash provided by operating activities	26,886	8,539
Cash flows from investing activities:		
Capital expenditures	(1,424)	(2,845)
Proceeds from sale of property, plant and equipment	4	--
Intangible assets acquired	(14)	(74)
Acquisition of assets	--	(39)
Net cash used in investing activities	(1,434)	(2,958)

Cash flows from financing activities:		
Revolver borrowings	701	2,345
Revolver repayments	(1,943)	(1,000)
Principal payments on long-term debt	(2,065)	(6,220)
Proceeds from stock options exercised	2,038	915
Excess tax benefits from stock compensation	1,431	581
Dividends paid	(2,008)	(1,975)
Net cash used in financing activities	(1,846)	(5,354)
Effect of exchange rate changes on cash	64	108
Increase in cash and cash equivalents	23,670	335
Cash and cash equivalents beginning of period	3,422	2,307
Cash and cash equivalents end of period	$ 27,092	$ 2,642

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net earnings	$ 6,869	$ 4,724	12,967	$ 9,365
Other comprehensive income, net of tax:				
Unfunded postretirement benefit plan	(4)	--	(7)	(4)
Other	188	13	125	22
Comprehensive income	$ 7,053	$ 4,737	13,085	$ 9,383

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(All dollar amounts in thousands, except per share data)

NOTE 1 - CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements presented herein have been prepared by the Company in accordance with the accounting policies described in its December 31, 2008 consolidated financial statements, and should be read in conjunction with the consolidated financial statements and notes, which appear in the Annual Report on Form 10-K for the year ended December 31, 2008. References in this report to the "Company" mean either Balchem Corporation or Balchem Corporation and its subsidiaries, including BCP Ingredients, Inc., Balchem Minerals Corporation, and Balchem B.V., on a consolidated basis, as the context requires.

In the opinion of management, the unaudited condensed consolidated financial statements furnished in this Form 10-Q include all adjustments necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented. All such adjustments are of a normal recurring nature. The condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles governing interim financial statements and the instructions to Form 10-Q and Article 10 of Regulation S-X under the Securities Exchange Act of 1934 and therefore do not include some information and notes necessary to conform to annual reporting requirements. Certain prior year amounts have been reclassified to conform to current year presentation. The results of operations for the six months ended June 30, 2009 are not necessarily indicative of the operating results expected for the full year or any interim period.

NOTE 2 - STOCKHOLDERS' EQUITY

STOCK-BASED COMPENSATION

The Company records stock-based compensation in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share Based Payment" ("SFAS 123R"). The Company's results for the three and six months ended June 30, 2009 and 2008 reflected the following stock-based compensation cost, and such compensation cost had the following effects on net earnings and basic and diluted earnings per share:

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008
Cost of sales	$ 88	$ 66
Operating expenses	659	556
Net earnings	(444)	(410)
Basic earnings per common share	(0.02)	(0.02)
Diluted earnings per common share	$ (0.02)	$ (0.02)

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Cost of sales	$ 178	$ 132
Operating expenses	1,327	1,112
Net earnings	(922)	(822)
Basic earnings per common share	(0.05)	(0.05)

Diluted earnings per common share	$ (0.05)	$ (0.04)

As required by SFAS 123R, the Company has made an estimate of expected forfeitures based on its historical experience and is recognizing compensation cost only for those stock-based compensation awards expected to vest.

The Company's stock incentive plans allow for the granting of restricted stock awards and options to purchase common stock. Both incentive stock options and nonqualified stock options can be awarded under the plans. No option will be exercisable for longer than ten years after the date of grant. The Company has approved and reserved a number of shares to be issued upon exercise of the outstanding options that is adequate to cover all exercises. As of June 30, 2009, the plans had 3,666,450 shares available for future awards. Compensation expense for stock options and restricted stock awards is recognized on a straight-line basis over the vesting period, generally three years for stock options, four years for employee restricted stock awards, and four to seven years for non-employee director restricted stock awards. Certain awards provide for accelerated vesting if there is a change in control (as defined in the plans) or other qualifying events.

Option activity for the six months ended June 30, 2009 and 2008 is summarized below:

For the six months ended June 30, 2009	Shares (000s)	Weighted Average Exercise Price	Aggregate Intrinsic Value ($000s)	Weighted Average Remaining Contractual Term
Outstanding as of December 31, 2008	2,396	$ 13.82	$ 26,873	
Granted	1	24.86		
Exercised	(289)	7.07		
Forfeited	(10)	21.10		
Outstanding as of June 30, 2009	2,098	$ 14.71	$ 20,971	6.5
Exercisable as of June 30, 2009	1,466	$ 11.42	$ 19,203	5.6

For the six months ended June 30, 2008	Shares (000s)	Weighted Average Exercise Price	Aggregate Intrinsic Value ($000s)	Weighted Average Remaining Contractual Term
Outstanding as of				

December 31, 2007	1,944	$ 10.66	$ 22,786	
Granted	307	20.41		
Exercised	(112)	8.14		
Outstanding as of June 30, 2008	2,139	$ 12.19	$ 23,402	6.7
Exercisable as of June 30, 2008	1,414	$ 9.25	$ 19,624	5.7

SFAS 123R requires companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions: dividend yields of 0.5% and 0.6%; expected volatilities of 50% and 40%; risk-free interest rates of 1.8% and 2.8%; and expected lives of 3.3 and 3.5, in each case for the six months ended June 30, 2009 and 2008, respectively.

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

Other information pertaining to option activity during the three and six months ended June 30, 2009 and 2008 was as follows:

	Three Months Ended June 30,		Six Month June
	2009	2008	2009
Weighted-average fair value of options granted	$ 8.88	$ N/A	$ 8.88
Total intrinsic value of stock options exercised ($000s)	$ 3,808	$ 1,048	$ 4,835

Non-vested restricted stock activity for the six months ended June 30, 2009 and 2008 is summarized below:

Six months ended June 30, 2009	Shares (000s)	Weighted Average Grant Date Fair Value
Non-vested balance as of December 31, 2008	232	$ 20.08
Non-vested balance as of June 30, 2009	232	$ 20.08

Six months ended June 30, 2008	Shares (000s)	Weighted Average Grant Date Fair Value
Non-vested balance as of December 31, 2007	118	$ 16.49
Granted	73	20.77
Non-vested balance as of June 30, 2008	191	$ 18.10

As of June 30, 2009 and 2008, there was $5,934 and $4,729, respectively, of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the plans. As of June 30, 2009, the unrecognized compensation cost is expected to be recognized over a weighted-average period of 2 years. The Company estimates that share-based compensation expense for the year ended December 31, 2009 will be approximately $3,000.

REPURCHASE OF COMMON STOCK

The Company has a stock repurchase program that was approved by the board of directors. The total authorization under this program is 2,508,692 shares. Since the inception of the program, a total of 1,307,867 shares have been purchased, none of which remained in treasury at June 30, 2009 or 2008. During the six months ended June 30, 2009, no additional shares have been purchased. The Company intends to acquire shares from time to time at prevailing market prices if and to the extent it deems it advisable to do so based on its assessment of corporate cash flow, market conditions and other factors.

NOTE 3 - INVENTORIES

Inventories at June 30, 2009 and December 31, 2008 consisted of the following:

	June 30, 2009	December 31, 2008
Raw materials	$ 5,458	$ 5,931
Work in progress	1,033	540
Finished goods	9,247	10,147
Total inventories	$ 15,738	$ 16,618

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at June 30, 2009 and December 31, 2008 are summarized as follows:

	June 30, 2009	December 31, 2008
Land	$ 2,083	$ 2,088
Building	15,464	15,426
Equipment	52,024	50,719
Construction in progress	2,701	2,654
	72,272	70,887
Less: accumulated depreciation	30,591	28,374
Net property, plant and equipment	$ 41,681	$ 42,513

NOTE 5 - INTANGIBLE ASSETS

The Company had goodwill in the amount of $26,658 as of June 30, 2009 and December 31, 2008 subject to the provisions of SFAS Nos. 141 and 142.

As of June 30, 2009 and December 31, 2008, the Company had identifiable intangible assets with finite lives with a gross carrying value of approximately $37,390 and $37,431, respectively, less accumulated amortization of $9,263 and $7,438, respectively.

Identifiable intangible assets with finite lives at June 30, 2009 and December 31, 2008 are summarized as follows:

	Amortization Period (in years)	Gross Carrying Amount at 6/30/09	Accumulated Amortization at 6/30/09	Gross Carrying Amount at 12/31/08	Accumula Amortiza at 12/31
Customer lists	10	$ 34,149	$ 8,304	$ 34,150	$ 6
Regulatory re-registration costs	10	85	7	85	
Patents & trade secrets	15-17	1,683	455	1,673	
Trademarks & trade names	17	908	224	904	
Other	5-10	565	273	619	
		$ 37,390	$ 9,263	$ 37,431	$ 7

Amortization of identifiable intangible assets was approximately $1,824 for the six months ended June 30, 2009. Assuming no change in the gross carrying value of identifiable intangible assets, the estimated amortization expense for the remainder of 2009 is $1,822 and approximately $3,600 per annum for 2010 through 2014. At June 30, 2009, there were no identifiable intangible assets with indefinite useful lives as defined by SFAS No. 142. Identifiable intangible assets are reflected in "Intangible assets with finite lives, net" in the Company's condensed consolidated balance sheets. There were no changes to the useful lives of intangible assets subject to amortization during the six months ended June 30, 2009.

NOTE 6 - NET EARNINGS PER SHARE

The following presents a reconciliation of the net earnings and shares used in calculating basic and diluted net earnings per share:

Three months ended June 30, 2009	Net Earnings (Numerator)	Number of Shares (Denominator)	Per Share Amount
Basic EPS - Net earnings and weighted average common shares outstanding	$ 6,869	18,223,455	$ .38
Effect of dilutive securities - stock options and restricted stock		960,778	
Diluted EPS - Net earnings and weighted average common shares outstanding and effect of stock options and restricted stock	$ 6,869	19,184,233	$ .36

Three months ended June 30, 2008	Net Earnings (Numerator)	Number of Shares (Denominator)	Per Share Amount
Basic EPS - Net earnings and weighted average common shares outstanding	$ 4,724	17,957,938	$ .26
Effect of dilutive securities - stock options and restricted stock		1,036,788	
Diluted EPS - Net earnings and weighted average common shares outstanding and effect of stock options and restricted stock	$ 4,724	18,994,726	$ .25

Six months ended June 30, 2009	Net Earnings (Numerator)	Number of Shares (Denominator)	Per Share Amount
Basic EPS - Net earnings and weighted average common shares outstanding	$ 12,967	18,146,903	$ .71
Effect of dilutive securities - stock options and restricted stock		959,895	
Diluted EPS - Net earnings and weighted average common shares outstanding and effect of stock options and restricted stock	$ 12,967	19,106,798	$ .68

Six months ended June 30, 2008	Net Earnings (Numerator)	Number of Shares (Denominator)	Per Share Amount
Basic EPS - Net earnings and weighted average common shares outstanding	$ 9,365	17,921,505	$ .52
Effect of dilutive securities - stock options and restricted stock		994,264	
Diluted EPS - Net earnings and weighted average common shares outstanding and effect of stock options and restricted stock	$ 9,365	18,915,769	$ .50

The Company had stock options covering 274,800 and 307,500 shares at June 30, 2009 and 2008, respectively, that could potentially dilute basic earnings per share in future periods that were not included in diluted earnings per share because their effect on the period presented was anti-dilutive.

NOTE 7 - INCOME TAXES

The Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes", or FIN 48, on January 1, 2007. FIN 48 clarifies whether or not to recognize assets or liabilities for tax positions taken that may be challenged by a tax authority. Upon adoption of FIN 48, the Company recognized approximately a $291 decrease in its retained earnings balance. The charge before federal tax benefits was $411. The Company includes interest expense or income as well as potential penalties on unrecognized tax positions as a component of income tax expense in the consolidated statements of earnings. The total amount of accrued interest and penalties related to uncertain tax positions at June 30, 2009 was approximately $150 and is included in other long-term obligations. All of the unrecognized tax benefits, if recognized in future periods, would impact the Company's effective tax rate. The Company files income tax returns in the U.S. and in various states and foreign countries. As of June 30, 2009, in the major jurisdictions where the Company operates, it is generally no longer subject to income tax examinations by tax authorities for years before 2005. There was not a significant change in the liabilities for unrecognized tax benefits during the six months ended June 30, 2009.

NOTE 8 - SEGMENT INFORMATION

The Company's reportable segments are strategic businesses that offer products and services to different markets. Presently, the Company has three segments: Specialty Products; Food, Pharma & Nutrition; and Animal Nutrition & Health.

Business Segment Net Sales:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Specialty Products	$ 9,093	$ 8,816	$ 17,887	$ 17,266
Food, Pharma & Nutrition	9,091	9,471	17,395	18,760
Animal Nutrition & Health	34,792	44,614	70,680	83,736
Total	$ 52,976	$ 62,901	$105,962	$119,762

Business Segment Earnings Before Income Taxes:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Specialty Products	$ 3,749	$ 2,720	$ 7,136	$ 5,318
Food, Pharma & Nutrition	1,283	1,670	2,242	3,198
Animal Nutrition & Health	5,253	2,850	10,217	6,128
Interest and other income (expense)	18	(239)	(126)	(452)
Total	$ 10,303	$ 7,001	$ 19,469	$ 14,192

The following table summarizes domestic (U.S.) and foreign sales for the three and six months ended June 30, 2009 and June 30, 2008:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Domestic	$ 34,960	$ 35,771	$ 72,000	$ 70,799
Foreign	18,016	27,130	33,962	48,963
Total	$ 52,976	$ 62,901	$105,962	$119,762

NOTE 9 - SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid during the six months ended June 30, 2009 and 2008 for income taxes and interest is as follows:

	Six months ended June 30,	
	2009	2008
Income taxes	$ 6,970	$ 4,965
Interest	$ 153	$ 524

NOTE 10 - LONG-TERM DEBT AND CREDIT AGREEMENTS

On April 30, 2007, the Company, and its principal bank entered into a Loan Agreement (the "European Loan Agreement") providing for an unsecured term loan of (euro)7,500, translated to $10,536 as of June 30, 2009 (the "European Term Loan"), the proceeds of which were used to fund the 2007 Akzo Nobel Acquisition

(described in Note 5 of the Company's Form 10-K as of December 31, 2008) and initial working capital requirements. The European Term Loan is payable in equal monthly installments of principal, each equal to 1/84th of the principal of the European Term Loan, together with accrued interest, with remaining principal and interest payable at maturity. The European Term Loan has a maturity date of May 1, 2010 and is subject to a monthly interest rate equal to EURIBOR plus 1%. At June 30, 2009, this interest rate was 1.94%. At June 30, 2009, the European Term Loan had an outstanding balance of (euro)5,268, translated to $7,400. The European Loan Agreement also provides for a short-term revolving credit facility of (euro)3,000, translated to $4,214 as of June 30, 2009 (the "European Revolving Facility"). The European Revolving Facility has been renewed for a period of one year as of May 1, 2009. The current European Revolving Facility is subject to an amended monthly interest rate equal to EURIBOR plus 1.45%, and accrued interest is payable monthly. As of June 30, 2009, the Company has drawn down (euro)500, or $702 as translated at June 30, 2009, of the European Revolving Facility. Management believes that such facility will be renewed in the normal course of business.

On March 16, 2007, the Company and its principal bank entered into a Loan Agreement (the "Loan Agreement") providing for an unsecured term loan of $29,000 (the "Term Loan"), the proceeds of which were used to fund the 2007 Chinook Acquisition (described in Note 5 of the Company's Form 10-K as of December 31, 2008). As of June 30, 2009, the Company has paid the Term Loan in full. The Loan Agreement also provides for a short-term revolving credit facility of $6,000 (the "Revolving Facility"). The Revolving Facility is subject to a monthly interest rate equal to LIBOR plus 1%, and accrued interest is payable monthly. No amounts are outstanding on the Revolving Facility as of the date hereof. The Revolving Facility has a maturity date of May 31, 2010. Management believes that such facility will be renewed in the normal course of business.

NOTE 11 - EMPLOYEE BENEFIT PLAN

The Company currently provides postretirement benefits in the form of a retirement medical plan under a collective bargaining agreement covering eligible retired employees of its Verona, Missouri facility.

Net periodic benefit cost for such retirement medical plan for the six months ended June 30, 2009 and June 30, 2008 was as follows:

	2009	2008
Service cost	$ 16	$ 14
Interest cost	21	20
Expected return on plan assets	--	--
Amortization of transition obligation	--	--
Amortization of prior service cost	(9)	(9)
Amortization of gain	(1)	(3)
Net periodic benefit cost	$ 27	$ 22

The amount recorded on the Company's balance sheet as of June 30, 2009 for this obligation is $852. The plan is unfunded and approved claims are paid from Company funds. Historical cash payments made under such plan approximated $50 per year.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

As part of the June 30, 2005 acquisition of certain assets relating to the encapsulation, agglomeration and granulation business of Loders Croklaan USA, LLC, the Company entered into a lease agreement with Loders under which the Company leases a portion of Loders' Channahon, Illinois facility where it principally conducted the manufacturing portion of the acquired business and utilized certain warehouse space. The initial term of the lease commenced in February, 2006 and runs through September 30, 2010, subject to earlier termination.

In February 2002, the Company entered into a ten (10) year lease which is cancelable in 2009 for approximately 20,000 square feet of office space. The office space is now serving as the Company's general offices and as a laboratory facility. The Company leases most of its vehicles, railcars and office equipment under non-cancelable operating leases, which primarily expire at various times through 2015. Rent expense charged to operations under such lease agreements for the six months ended June 30, 2009 and 2008 aggregated approximately $560 and $584, respectively. Aggregate future minimum rental payments required under all non-cancelable operating leases at June 30, 2009 are as follows:

Year	
July 1, 2009 to December 31, 2009	$ 555
2010	915
2011	666
2012	343
2013	163
2014	114
Thereafter	188
Total minimum lease payments	$ 2,944

In 1982, the Company discovered and thereafter removed a number of buried drums containing unidentified waste material from the Company's site in Slate Hill, New York. The Company thereafter entered into a Consent Decree to evaluate the drum site with the New York Department of Environmental Conservation ("NYDEC") and performed a Remedial Investigation/Feasibility Study that was approved by NYDEC in February 1994. Based on NYDEC requirements, the Company cleaned the area and removed additional soil from the drum burial site, which was completed in 1996. The Company continues to be involved in discussions with NYDEC to evaluate test results and determine what, if any, additional actions will be required on the part of the Company to close out the remediation of this site. Additional actions, if any, would likely require the Company to continue monitoring the site. The cost of such monitoring has been less than $5 per year for the period 2003 to date.

The Company's Verona, Missouri facility, while held by a prior owner, was designated by the EPA as a Superfund site and placed on the National Priorities List in 1983, because of dioxin contamination on portions of the site. Remediation conducted by the prior owner under the oversight of the EPA and the Missouri Department of Natural Resources ("MDNR") included removal of dioxin contaminated soil and equipment, capping of areas of residual contamination in

four relatively small areas of the site separate from the manufacturing facilities, and the installation of wells to monitor groundwater and surface water contamination by organic chemicals. No ground water or surface water treatment was required. The Company believes that remediation of the site is complete. In 1998, the EPA certified the work on the contaminated soils to be complete. In February 2000, after the conclusion of two years of monitoring groundwater and surface water, the former owner submitted a draft third party risk assessment report to the EPA and MDNR recommending no further action. The prior owner is awaiting the response of the EPA and MDNR to the draft risk assessment.

While the Company must maintain the integrity of the capped areas in the remediation areas on the site, the prior owner is responsible for completion of any further Superfund remedy. The Company is indemnified by the sellers under its May 2001 asset purchase agreement covering its acquisition of the Verona, Missouri facility for potential liabilities associated with the Superfund site and one of the sellers, in turn, has the benefit of certain contractual indemnification by the prior owner that is implementing the above-described Superfund remedy.

From time to time, the Company is a party to various litigation, claims and assessments. Management believes that the ultimate outcome of such matters will not have a material effect on the Company's consolidated financial position, results of operations, or liquidity.

NOTE 13 - NEW ACCOUNTING PRONOUNCEMENTS

In June 2009, FASB issued SFAS No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles - a Replacement of FASB Statement No. 162" ("SFAS 168"). SFAS 168 establishes the FASB Accounting Standards Codification ("Codification") as the single source of authoritative U.S. generally accepted accounting principles ("U.S. GAAP") recognized by FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. Statement 168 and the Codification are effective for financial statements issued for interim and annual periods ending after September 15, 2009. When effective, the Codification will supersede all existing non-SEC accounting and reporting standards. All other nongrandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. Following SFAS 168, FASB will not issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts. Instead, FASB will issue Accounting Standards Updates, which will serve only to: (a) update the Codification; (b) provide background information about the guidance; and (c) provide the bases for conclusions on the change(s) in the Codification. The Company does not expect the adoption of this statement to be significant to its consolidated financial statements.

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)" ("SFAS 167"). The amendments include: (1) the elimination of the exemption for qualifying special purpose entities, (2) a new approach for determining who should consolidate a variable-interest entity, and (3) changes to when it is necessary to reassess who should consolidate a variable-interest entity. SFAS 167 is effective for the first annual reporting period beginning after November 15, 2009 and for interim periods within that first annual

reporting period. The Company does not expect the adoption of this statement to

be significant to its consolidated financial statements.

In June 2009, the FASB issued SFAS No. 166, "Accounting for Transfers of Financial Assets, an amendment to SFAS No. 140" ("SFAS 166"). SFAS 166 eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets, and requires additional disclosures in order to enhance information reported to users of financial statements by providing greater transparency about transfers of financial assets, including securitization transactions, and an entity's continuing involvement in and exposure to the risks related to transferred financial assets. SFAS 166 is effective for fiscal years beginning after November 15, 2009. The Company does not expect the adoption of this statement to be significant to its consolidated financial statements.

In May 2009, FASB issued SFAS No. 165, "Subsequent Events" ("SFAS 165"). SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, SFAS165 provides the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. SFAS 165 was effective for interim or annual financial periods ending after June 15, 2009, and is to be applied prospectively. The adoption of this statement was not significant to the Company's consolidated financial statements. The Company has evaluated the financial statements for subsequent events through the date of the filing of this Form 10-Q on August 7, 2009.

In April 2009, FASB issued FASB Staff Position ("FSP") FAS 141(R)-1, "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies" ("FSP 141(R)-1"). This FSP amends the guidance in FASB Statement No. 141 (Revised December 2007), "Business Combinations" ("SFAS 141R") to require that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value if fair value can be reasonably estimated. If fair value of such an asset or liability cannot be reasonably estimated, the asset or liability would generally be recognized in accordance with SFAS No. 5, "Accounting for Contingencies", and FASB Interpretation ("FIN") No. 14, "Reasonable Estimation of the Amount of a Loss." Further, FASB decided to remove the subsequent accounting guidance for assets and liabilities arising from contingencies from SFAS 141R, and carry forward without significant revision the guidance in SFAS No. 141, "Business Combinations". FSP 141(R)-1 also eliminates the requirement to disclose an estimate of the range of outcomes of recognized contingencies at the acquisition date. For unrecognized contingencies, FASB decided to require that entities include only the disclosures required by SFAS No. 5 and that those disclosures be included in the business combination footnote. This FSP also requires that contingent consideration arrangements of an acquiree assumed by the acquirer in a business combination be treated as contingent consideration of the acquirer and should be initially and subsequently measured at fair value in accordance with SFAS 141R. This FSP is effective for assets or liabilities arising from contingencies in business combinations for which the acquisition date is on or after January 1, 2009. The Company will apply FSP 141(R)-1 prospectively to all business combinations subsequent to the effective date.

In April 2009, FASB issued FSP FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" ("FSP 157-4"), and

FSP FASB 107-1 and Accounting Principles Board ("APB") 28-1, "Interim Disclosures about Fair Value of Financial Instruments" ("FSP 107-1"). These two staff positions relate to fair value measurements and related disclosures. The FASB also issued a third FSP relating to the accounting for impaired debt securities titled FSP FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments" ("FSP 115-2"). These standards are effective for interim and annual periods ending after June 15, 2009. These standards are not significant to the Company's consolidated financial statements.

In May 2008, FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS 162"). SFAS 162 is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles ("GAAP") for nongovernmental entities. Prior to the issuance of SFAS No. 162, the GAAP hierarchy was defined in the American Institute of Certified Public Accountants' (AICPA) Statement on Auditing Standards (SAS) No. 69, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles." SFAS No. 162 was effective November 15, 2008. The adoption of this statement was not significant to the Company's consolidated financial statements.

In April 2008, FASB issued FSP 142-3, "Determining the Useful Life of Intangible Assets" ("FSP 142-3"). FSP 142-3 amends the factors to be considered in determining the useful life of intangible assets. Its intent is to improve the consistency between the useful life of an intangible asset and the period of expected cash flows used to measure its fair value. FSP 142-3 is effective for fiscal years beginning after December 15, 2008. The adoption of this statement was not significant to the Company's consolidated financial statements.

In March 2008, FASB issued Statement of Financial Accounting Standards No. 161, "Disclosures about Derivative Instruments and Hedging Activities -- an amendment of FASB Statement No. 133" ("SFAS 161"). SFAS 161 requires enhanced disclosures regarding derivatives and hedging activities, including: (a) the manner in which an entity uses derivative instruments; (b) the manner in which derivative instruments and related hedged items are accounted for under Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities"; and (c) the effect of derivative instruments and related hedged items on an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. As SFAS 161 relates specifically to disclosures, the adoption of this statement was not significant to the Company's consolidated financial statements.

In December 2007, FASB issued SFAS No.141 (revised 2007), "Business Combinations", or SFAS 141R. The purpose of issuing the statement is to replace current guidance in SFAS No.141 to better represent the economic value of a business combination transaction. The changes to be effected with SFAS 141R from the current guidance include, but are not limited to: (1) acquisition costs will

be recognized separately from the acquisition; (2) known contractual contingencies at the time of the acquisition will be considered part of the liabilities acquired measured at their fair value; all other contingencies will be part of the liabilities acquired measured at their fair value only if it is more likely than not that they meet the definition of a liability; (3) contingent consideration based on the outcome of future events will be recognized and measured at the time of the acquisition; (4) business combinations achieved in stages (step acquisitions) will need to recognize the identifiable assets and liabilities, as well as noncontrolling interests, in the acquiree, at the full amounts of their fair values; and (5) a bargain purchase

(defined as a business combination in which the total acquisition-date fair value of the identifiable net assets acquired exceeds the fair value of the consideration transferred plus any noncontrolling interest in the acquiree) will require that excess to be recognized as a gain attributable to the acquirer. SFAS 141R is effective for any business combinations that occur on or after January 1, 2009. The Company will apply SFAS 141R prospectively to all business combinations subsequent to the effective date.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements -- an amendment of ARB No. 51", or SFAS 160. SFAS 160 was issued to improve the relevance, comparability, and transparency of financial information provided to investors by requiring all entities to report noncontrolling (minority) interests in subsidiaries in the same way, that is, as equity in the consolidated financial statements. Moreover, SFAS 160 eliminates the diversity that currently exists in accounting for transactions between an entity and noncontrolling interests by requiring they be treated as equity transactions. SFAS 160 was effective January 1, 2009. The adoption of this statement was not significant to the Company's consolidated financial statements.

In September 2006, FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. The Company adopted the provisions of this statement for its financial assets and liabilities as of January 1, 2008 and it did not have a material impact on its financial condition or results of operations. As permitted by FASB Staff Position ("FSP") No. FAS 157-2, "Effective Date of FASB Statement No. 157", the Company elected to defer the adoption of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, until January 1, 2009. Effective January 1, 2009, we adopted the provision for nonfinancial assets and liabilities that are not required or permitted to be measured at fair value on a recurring basis, which include those measured at fair value in impairment testing and those initially measured at fair value in a business combination. The provisions of SFAS No. 157 related to these items did not have a significant impact on the Company's consolidated financial statements. In October 2008, FASB issued FSP No. 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active." FSP No. 157-3 clarifies the application of SFAS No. 157 in a market that is not active and provides an example of key considerations in determining the fair value of a financial asset when the market for that asset is not active. FSP No. 157-3 was effective on October 10, 2008, including prior periods for which financial statements have not been issued. Revisions resulting from a change in the valuation technique or its application should be accounted for as a change in accounting estimate following the guidance in SFAS No. 154, "Accounting Changes and Error Corrections." The Company adopted FSP No. 157-3 on October 10, 2008 and it did not have a material effect on its consolidated financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (All dollar amounts in thousands)

This Report contains forward-looking statements, within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, which reflect our expectation or belief concerning future events that involve risks and uncertainties. Our actions and performance could differ materially from what is contemplated by the forward-looking statements contained in this Report. Factors that might cause differences from the forward-looking statements include those referred to or identified in Item 1A of our Annual Report on Form 10-K for the

year ended December 31, 2008 and other factors that may be identified elsewhere in this Report. Reference should be made to such factors and all forward-looking statements are qualified in their entirety by the above cautionary statements.

Overview

We develop, manufacture, distribute and market specialty performance ingredients and products for the food, nutritional, pharmaceutical, animal health and medical device sterilization industries. Our reportable segments are strategic businesses that offer products and services to different markets. We presently have three reportable segments: Specialty Products; Food, Pharma & Nutrition; and Animal Nutrition & Health.

Specialty Products

Our Specialty Products segment operates in industry as ARC Specialty Products.

Ethylene oxide, at the 100% level, is sold as a sterilant gas, primarily for use in the health care industry. It is used to sterilize a wide range of medical devices because of its versatility and effectiveness in treating hard or soft surfaces, composites, metals, tubing and different types of plastics without negatively impacting the performance of the device being sterilized. Our 100% ethylene oxide product is distributed in uniquely designed, recyclable, double-walled, stainless steel drums to assure compliance with safety, quality and environmental standards as outlined by the U.S. Environmental Protection Agency (the "EPA") and the U.S. Department of Transportation. Our inventory of these specially built drums, along with our two filling facilities, represents a significant capital investment. Contract sterilizers, medical device manufacturers, and medical gas distributors are our principal customers for this product. In addition, we also sell single use canisters with 100% ethylene oxide for use in medical device sterilization. As a fumigant, ethylene oxide blends are highly effective in killing bacteria, fungi, and insects in spices and other seasoning materials.

We also sell propylene oxide principally to customers seeking smaller (as opposed to bulk) quantities and whose requirements include timely delivery and safe handling. Propylene oxide uses can include fumigation in spice treatment, various chemical synthesis applications, to make paints more durable, and for manufacturing specialty starches and textile coatings.

Food, Pharma & Nutrition

The Food, Pharma & Nutrition ("FP&N") segment provides microencapsulation, granulation and agglomeration solutions to a variety of applications in food,

pharmaceutical and nutritional ingredients to enhance performance of nutritional fortification, processing, mixing, and packaging applications and shelf-life. Major product applications are baked goods, refrigerated and frozen dough systems, processed meats, seasoning blends, confections, and nutritional supplements. We also market human grade choline nutrient products through this segment for wellness applications. Choline is recognized to play a key role in the development and structural integrity of brain cell membranes in infants, processing dietary fat, reproductive development and neural functions, such as memory and muscle function. The FP&N portfolio also includes granulated calcium carbonate products, primarily used in, or in conjunction with, novel over-the-counter and prescription pharmaceuticals for the treatment of

osteoporosis, gastric disorders and calcium deficiencies in the United States.

Animal Nutrition & Health

Our Animal Nutrition & Health ("AN&H") segment provides the animal nutrition market with nutritional products derived from our encapsulation and chelation technologies in addition to basic choline chloride. Commercial sales of REASHURE(R) Choline, an encapsulated choline product, NITROSHURETM, an encapsulated urea supplement, and NIASHURETM, our microencapsulated niacin product for dairy cows, boosts health and milk production in transition and lactating dairy cows, delivering nutrient supplements that survive the rumen and are biologically available, providing required nutritional levels. We also market chelated mineral supplements for use in animal feed throughout the world, as our proprietary chelation technology provides enhanced nutrient absorption for various species of production and companion animals. In October 2008, we introduced the first proven rumen-protected lysine for use in dairy rations, AMINOSHURETM-L, which gives nutritionists and dairy producers a precise and consistent source of rumen-protected lysine. AN&H also manufactures and supplies basic choline chloride, an essential nutrient for animal health, predominantly to the poultry and swine industries. Choline, which is manufactured and sold in both dry and aqueous forms, plays a vital role in the metabolism of fat. Choline deficiency can result in reduced growth and perosis in poultry; fatty liver, kidney necrosis and general poor health condition in swine. Certain derivatives of choline chloride are also manufactured and sold into industrial applications. The AN&H segment also includes the manufacture and sale of methylamines. Methylamines are a primary building block for the manufacture of choline products and are also used in a wide range of industrial applications.

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

The following tables summarize consolidated net sales by segment and business segment earnings from operations for the three and six months ended June 30, 2009 and June 30, 2008:

Business Segment Net Sales:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Specialty Products	$ 9,093	$ 8,816	$ 17,887	$ 17,266
Food, Pharma & Nutrition	9,091	9,471	17,395	18,760
Animal Nutrition & Health	34,792	44,614	70,680	83,736
Total	$ 52,976	$ 62,901	$105,962	$119,762

Business Segment Earnings From Operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008

Specialty Products	$ 3,749	$ 2,720	$ 7,136	$ 5,318
Food, Pharma & Nutrition	1,283	1,670	2,242	3,198
Animal Nutrition & Health	5,253	2,850	10,217	6,128
Total	$ 10,285	$ 7,240	19,595	14,644

RESULTS OF OPERATIONS

Three months ended June 30, 2009 compared to three months ended June 30, 2008.

Net Sales

Net sales for the three months ended June 30, 2009 were $52,976, as compared with $62,901 for the three months ended June 30, 2008, a decrease of $9,925 or 15.8%. Net sales for the Specialty Products segment were $9,093 for the three months ended June 30, 2009, as compared with $8,816 for the three months ended June 30, 2008, an increase of $277 or 3.1%. This increase in sales was derived principally from increases in the average selling prices of certain ethylene oxide products for medical device sterilization. Net sales for the Food, Pharma & Nutrition segment were $9,091 for the three months ended June 30, 2009 compared with $9,471 for the three months ended June 30, 2008, a decrease of $380 or 4.0%. This result was driven principally by aggressive inventory management by customers along with volume declines in the human-grade choline and calcium products for the supplement market, which has been negatively impacted by the worldwide economic downturn. These declines were partially offset by a favorable product mix sold in the domestic food market, including the launch of choline into new food applications as well as growth in the bakery, tortilla and preservation markets. Also offsetting the declines were increased volumes in the international food market and higher sales of Vitashure(R) products for nutritional enhancement. Net sales of $34,792 were realized for the three months ended June 30, 2009 for the Animal Nutrition & Health segment, as compared with $44,614 for the prior year comparable quarter, a decrease of $9,822 or 22.0%. Feed and industrial grade choline product sales and derivatives decreased 23.3%, or $8,887 over the prior year quarter, principally from a decline in volume sold into the well-publicized soft poultry industry. There were also lower export sales from our North American choline plants, largely due to the stronger U.S. dollar in 2009 versus 2008 and international political factors affecting poultry exports. This U.S. volume decline was partially offset by increased volumes of choline products sourced from our Italian operation into the European and international poultry markets. This geographic mix lowered consolidated feed grade prices in the quarter, as did lower pricing linked to the decline in raw material costs. Sales of industrial derivatives (both choline and methylamines) were impacted by softness in the industrial sector, principally caused by the general economic downturn. Sales of our specialty animal nutrition and health products, targeted for ruminant production animals and companion animals, decreased 14.5% or $935 over the prior year comparable quarter primarily due to the general economic downturn and worsening market conditions in the dairy industry. Partially offsetting this decrease were improved sales of chelated mineral products and new sales generated from AminoShureTM-L, the Company's rumen protected lysine product.

Operating Expenses

Operating expenses for the three months ended June 30, 2009 were $7,019, as compared to $5,711 for the three months ended June 30, 2008, an increase of $1,308 or 22.9%. This increase was due primarily to increased payroll expenses along with an increase to some accounts receivable reserves for international accounts. Operating expenses were 13.2% of sales or 4.1 percentage points more than the operating expenses as a percent of sales incurred in last year's comparable quarter. During the three months ended June 30, 2009 and 2008, the

Company spent $880 and $701 respectively, on research and development programs, substantially all of which pertained to the Company's Food, Pharma & Nutrition and Animal Nutrition & Health segments.

Business Segment Earnings From Operations

Earnings from operations for the three months ended June 30, 2009 increased to $10,285 compared to $7,240 for the three months ended June 30, 2008, an increase of $3,045 or 42.1%. This increase was primarily driven by cost reductions of certain petro-chemical raw materials over the prior year comparable quarter, increases in average selling prices and a favorable product mix. Earnings from operations as a percentage of sales ("operating margin") for the three months ended June 30, 2009 increased to 19.4% compared to 11.5% for the three months ended June 30, 2008, principally a result of product mix and the aforementioned cost reductions of certain petro-chemical raw materials. Earnings from operations for the Specialty Products segment were $3,749, an increase of $1,029 or 37.8%, primarily due to reductions in the cost of certain petro-chemical raw materials and increases in average selling prices. Earnings from operations for Food, Pharma & Nutrition were $1,283, a decrease of $387 or 23.2%, due largely to the aforementioned aggressive inventory management by customers and volume declines in the human-grade choline and calcium products for the supplement market. Earnings from operations for Animal Nutrition & Health increased by $2,403 to $5,253, an 84.3% increase from the prior comparable quarter, resulting principally from reductions in the cost of certain petro-chemical raw materials.

Other Expenses (Income)

Interest income for the three months ended June 30, 2009 totaled $20 as compared to $24 for the three months ended June 30, 2008. Interest expense was $41 for the three months ended June 30, 2009 compared to $247 for the three months ended June 30, 2008. This decrease is primarily attributable to the decrease in average current and long-term debt resulting from both normal recurring principal payments as well as accelerated payments of the Term Loan (as defined below in the Financing Activities section of Liquidity and Capital Resources). Other income of $39 for the three months ended June 30, 2009 is primarily the result of favorable fluctuations in foreign currency exchange rates between the U.S. dollar (the reporting currency) and functional foreign currencies.

Income Tax Expense

The Company's effective tax rate for the three months ended June 30, 2009 and 2008 was 33.3% and 32.5% respectively. This increase in the effective tax rate is primarily attributable to a change in the income proportion towards jurisdictions with higher tax rates.

Net Earnings

Primarily as a result of the above-noted cost reductions of certain petro-chemical raw materials, increases in average selling prices and the favorable product mix, net earnings were $6,869 for the three months ended June 30, 2009, as compared with $4,724 for the three months ended June 30, 2008, an increase of 45.4%.

Six months ended June 30, 2009 compared to six months ended June 30, 2008.

Net Sales

Net sales for the six months ended June 30, 2009 were $105,962, as compared with $119,762 for the six months ended June 30, 2008, a decrease of $13,800 or 11.5%. Net sales for the Specialty Products segment were $17,887 for the six months ended June 30, 2009, as compared with $17,266 for the six months ended June 30, 2008, an increase of $621 or 3.6%. This increase in sales was derived principally from increases in the average selling prices of certain ethylene oxide products for medical device sterilization. Net sales for the Food, Pharma & Nutrition segment were $17,395 for the six months ended June 30, 2009 compared with $18,760 for the six months ended June 30, 2008, a decrease of $1,365 or 7.3%. This result was driven principally by aggressive inventory management by customers along with volume declines in the human-grade choline and calcium products for the supplement market, which has been negatively impacted by the worldwide economic downturn. These declines were partially offset by a favorable product mix sold in the domestic food market, including the launch of choline into new food applications as well as growth in the bakery, tortilla and preservation markets. Also offsetting the declines were increased volumes in the international food market and higher sales of Vitashure(R) products for nutritional enhancement. Net sales of $70,680 were realized for the six months ended June 30, 2009 for the Animal Nutrition & Health segment, as compared with $83,736 for the prior year comparable period, a decrease of $13,056 or 15.6%. Feed and industrial grade choline product sales and derivatives decreased 17.2%, or $12,351 over the prior year period, principally from a decline in volume sold into the well-publicized soft poultry industry. There were also lower export sales from our North American choline plants, largely due to the stronger U.S. dollar in 2009 versus 2008 and international political factors affecting poultry exports. This U.S. volume decline was partially offset by increased volumes of choline products sourced from our Italian operation into the European and international poultry markets. This geographic mix lowered consolidated feed grade prices in the period, as did lower pricing linked to the decline in raw material costs. Sales of industrial derivatives (both choline and methylamines) were impacted by softness in the industrial sector, principally caused by the general economic downturn. Sales of our specialty animal nutrition and health products, targeted for ruminant production animals and companion animals, decreased 5.8% or $705 over the prior year comparable period primarily due to the general economic downturn and worsening market conditions in the dairy industry. Partially offsetting this decrease were new sales generated from AminoShureTM-L, the Company's rumen protected lysine product.

Operating Expenses

Operating expenses for the six months ended June 30, 2009 were $14,007 as compared to $11,790 for the six months ended June 30, 2008, an increase of $2,217 or 18.8%. This increase was due primarily to increased payroll expenses along with an increase to some accounts receivable reserves for international accounts. Operating expenses were 13.2% of sales or 3.4 percentage points more than the operating expenses as a percent of sales incurred in last year's

comparable quarter. During the six months ended June 30, 2009 and 2008, the Company spent $1,688 and $1,483 respectively, on research and development programs, substantially all of which pertained to the Company's Food, Pharma & Nutrition and Animal Nutrition & Health segments.

Business Segment Earnings From Operations

Earnings from operations for the six months ended June 30, 2009 increased to $19,595 compared to $14,644 for the six months ended June 30, 2008, an increase of $4,951 or 33.8%. This increase was primarily driven by cost reductions of certain petro-chemical raw materials over the prior year comparable period, increases in average selling prices and a favorable product mix. Earnings from operations as a percentage of sales ("operating margin") for the six months ended June 30, 2009 increased to 18.5% compared to 12.2% for the six months ended June 30, 2008, principally a result of product mix and the aforementioned cost reductions of certain petro-chemical raw materials. Earnings from operations for the Specialty Products segment were $7,136, an increase of $1,818 or 34.2%, primarily due to reductions in the cost of certain petro-chemical raw materials and increases in average selling prices. Earnings from operations for Food, Pharma & Nutrition were $2,242, a decrease of $956 or 29.9%, due largely to the aforementioned aggressive inventory management by customers and volume declines in the human-grade choline and calcium products for the supplement market. Earnings from operations for Animal Nutrition & Health increased by $4,089 to $10,217, a 66.7% increase from the prior year, resulting principally from reductions in the cost of certain petro-chemical raw materials.

Other Expenses (Income)

Interest income for the six months ended June 30, 2009 totaled $30 as compared to $49 for the six months ended June 30, 2008. Interest expense was $115 for the six months ended June 30, 2009 compared to $570 for the six months ended June 30, 2008. This decrease is primarily attributable to the decrease in average current and long-term debt resulting from both normal recurring principal payments as well as accelerated payments of the Term Loan (as defined below in the Financing Activities section of Liquidity and Capital Resources). Other expense of $41 for the six months ended June 30, 2009 is primarily the result of unfavorable fluctuations in foreign currency exchange rates between the U.S. dollar (the reporting currency) and functional foreign currencies.

Income Tax Expense

The Company's effective tax rate for the six months ended June 30, 2009 and 2008 was 33.4% and 34.0% respectively. This decrease in the effective tax rate is primarily attributable to a change in allocation relating to state income taxes.

Net Earnings

Primarily as a result of the above-noted cost reductions of certain petro-chemical raw materials, increases in average selling prices and the favorable product mix, net earnings were $12,967 for the six months ended June 30, 2009, as compared with $9,365 for the six months ended June 30, 2008, an increase of 38.5%.

FINANCIAL CONDITION

LIQUIDITY AND CAPITAL RESOURCES

Contractual Obligations

The Company's contractual obligations and commitments principally include obligations associated with future minimum non-cancelable operating lease obligations (including for the headquarters office space entered into in 2002), long-term debt obligations and purchase obligations principally related to open purchase orders for inventory not yet received or recorded on our balance sheet.

The Company knows of no current or pending demands on, or commitments for, its liquid assets that will materially affect its liquidity.

During the six months ended June 30, 2009, there were no material changes outside the ordinary course of business in the specified contractual obligations set forth in our Annual Report on Form 10-K for the year ended December 31, 2008. The Company expects its operations to continue generating sufficient cash flow to fund working capital requirements and necessary capital investments. The Company is actively pursuing additional acquisition candidates. The Company could seek additional bank loans or access to financial markets to fund such acquisitions, its operations, working capital, necessary capital investments or other cash requirements should it deem it necessary to do so.

Cash

Cash and cash equivalents increased to $27,092 at June 30, 2009 from $3,422 at December 31, 2008 primarily resulting from the information detailed below. Working capital amounted to $43,114 at June 30, 2009 as compared to $29,566 at December 31, 2008, an increase of $13,548.

Operating Activities

Cash flows from operating activities provided $26,886 for the six months ended June 30, 2009 compared to $8,539 for the six months ended June 30, 2008. The increase in cash flows from operating activities was primarily due to an increase in net earnings, lower accounts receivable, and a decrease in inventories and prepaid expenses.

Investing Activities

Capital expenditures were $1,424 for the six months ended June 30, 2009 compared to $2,845 for the six months ended June 30, 2008.

Financing Activities

The Company has an approved stock repurchase program. The total authorization under this program is 2,508,692 shares. Since the inception of the program, a total of 1,307,867 shares have been purchased, none of which remained in treasury at June 30, 2009 or 2008. During the six months ended June 30, 2009, no

additional shares have been purchased. The Company intends to acquire shares from time to time at prevailing market prices if and to the extent it deems it advisable to do so based on its assessment of corporate cash flow, market conditions and other factors.

On April 30, 2007, the Company, and its principal bank entered into a Loan Agreement (the "European Loan Agreement") providing for an unsecured term loan of (euro)7,500, translated to $10,536 as of June 30, 2009 (the "European Term Loan"), the proceeds of which were used to fund the 2007 Akzo Nobel Acquisition (described in Note 5 of the Company's Form 10-K as of December 31, 2008) and initial working capital requirements. The European Term Loan is payable in equal monthly installments of principal, each equal to 1/84th of the principal of the European Term Loan, together with accrued interest, with remaining principal and interest payable at maturity. The European Term Loan has a maturity date of May 1, 2010 and is subject to a monthly interest rate equal to EURIBOR plus 1%. At June 30, 2009, this interest rate was 1.94%. At June 30, 2009, the European Term Loan had an outstanding balance of (euro)5,268, translated to $7,400. The European Loan Agreement also provides for a short-term revolving credit facility of (euro)3,000, translated to $4,214 as of June 30, 2009 (the "European Revolving Facility"). The European Revolving Facility has been renewed for a period of one year as of May 1, 2009. The current European Revolving Facility is subject to an amended monthly interest rate equal to EURIBOR plus 1.45%, and accrued interest is payable monthly. The Company has drawn down (euro)500, or $702 as translated at June 30, 2009, of the European Revolving Facility as of June 30, 2009. Management believes that such facility will be renewed in the normal course of business.

On March 16, 2007, the Company and its principal bank entered into a Loan Agreement (the "Loan Agreement") providing for an unsecured term loan of $29,000 (the "Term Loan"), the proceeds of which were used to fund the 2007 Chinook Acquisition (described in Note 5 of the Company's Form 10-K as of December 31, 2008). As of June 30, 2009, the Company has paid the Term Loan in full. The Loan Agreement also provides for a short-term revolving credit facility of $6,000 (the "Revolving Facility"). The Revolving Facility is subject to a monthly interest rate equal to LIBOR plus 1%, and accrued interest is payable monthly. No amounts are outstanding on the Revolving Facility as of the date hereof. The Revolving Facility has a maturity date of May 31, 2010. Management believes that such facility will be renewed in the normal course of business.

Proceeds from stock options exercised totaled $2,038 and $915 for the six months ended June 30, 2009 and 2008, respectively. Dividend payments were $2,008 and $1,975 for the six months ended June 30, 2009 and 2008, respectively.

Other Matters Impacting Liquidity

The Company currently provides postretirement benefits in the form of a retirement medical plan under a collective bargaining agreement covering eligible retired employees of its Verona, Missouri facility. The amount recorded on the Company's balance sheet as of June 30, 2009 for this obligation is $852. The postretirement plan is not funded. Historical cash payments made under such plan have approximated $50 per year.

Critical Accounting Policies

There were no changes to the Company's Critical Accounting Policies, as described in its December 31, 2008 Annual Report on Form 10-K, during the six months ended June 30, 2009.

Related Party Transactions

The Company was not engaged in related party transactions during the six months ended June 30, 2009.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Cash and cash equivalents are invested primarily in money market accounts. The money market funds in which the Company invests are participants in the United States Treasury Department's Temporary Guarantee Program for Money Market Funds. This program provides coverage for amounts held in money market funds as of the close of business on September 19, 2008. The Company has no derivative financial instruments or derivative commodity instruments, nor does the Company have any financial instruments entered into for trading or hedging purposes. As of June 30, 2009, the Company's borrowings were under a bank term loan bearing interest at EURIBOR plus 1.00% and a revolving line of credit bearing interest at EURIBOR plus 1.45%. A 100 basis point increase or decrease in interest rates, applied to the Company's borrowings at June 30, 2009, would result in an increase or decrease in annual interest expense and a corresponding reduction or increase in cash flow of approximately $81. The Company is exposed to market risks for changes in foreign currency rates and has exposure to commodity price risks, including prices of our primary raw materials. Our objective is to seek a reduction in the potential negative earnings impact of changes in foreign exchange rates and raw material pricing arising in our business activities. The Company manages these financial exposures, where possible, through pricing and operational means. Our practices may change as economic conditions change.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Pursuant to the requirements of the Sarbanes-Oxley Act of 2002, the Company's management, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated, as of the end of the period covered by this Quarterly Report on Form 10-Q, the effectiveness of the Company's disclosure controls and procedures (including its internal controls and procedures.) Based upon management's evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures were effective in identifying

the information required to be disclosed in the Company's periodic reports filed with the Securities and Exchange Commission ("SEC"), including this Quarterly Report on Form 10-Q, and ensuring that such information is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

(b) Changes in Internal Controls

During the most recent fiscal quarter, there has been no significant change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II. Other Information

Item 1A. Risk Factors

There have been no material changes in the Risk Factors identified in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

Item 4. Submission of Matters to a Vote of Security Holders.

On June 18, 2009, the Company held its Annual Meeting of stockholders. The following actions were voted upon at the meeting:

1. The following individuals were elected Class 2 directors to serve until the annual meeting of stockholders in 2012 and until the election and qualification of their respective successors. A total of 16,989,944 shares were represented in person or by proxy at the Annual Meeting. The numbers of shares that were voted for, and that were withheld from, each of the director nominees are as follows:

Director	For	Votes Withheld
Kenneth P. Mitchell	14,870,200	2,119,744
Edward L. McMillan	15,442,644	1,547,300

The terms of our other directors, Mr. Perry W. Premdas, Mr. Dino A. Rossi, Dr. John Y. Televantos and Dr. Elaine R. Wedral continued after the Annual Meeting.

2. The stockholders approved the appointment of McGladrey & Pullen, LLP as the Company's independent registered public accounting firm for the 2009 fiscal year by a vote of 16,971,320 in favor, 10,134 against, with 8,490 abstentions.

Item 6. Exhibits

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

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BALCHEM CORPORATION

By: /s/ Dino A. Rossi
Dino A. Rossi, Chairman, President and Chief Executive Officer

Date: August 7, 2009

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Exhibit Index

Exhibit No.	Description
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