BALCHEM CORP
Form 10-Q
November 09, 2007

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 September 30, 2007

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer |_| Accelerated filer |X| Non-accelerated filer |_|

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 November 5, 2007 the registrant had 17,965,215 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
(In thousands, except share and per share data)
(unaudited)

Assets	September 30, 2007	Dece 2
Current assets:		
Cash and cash equivalents	$ 5,501	$
Accounts receivable	27,395	
Inventories	14,995	
Prepaid expenses and other	1,102	
Deferred income taxes	459	
Other current assets	3,607	
Total current assets	53,059	
Property, plant and equipment, net	40,762	
Goodwill	26,264	
Intangible assets with finite lives, net	34,346	
Other assets	60	
Total assets	$ 154,491	$
Liabilities and Stockholders' Equity		
Current liabilities:		
Trade accounts payable	$ 6,561	$
Accrued expenses	11,367	
Customer deposits and other deferred revenue	264	
Current portion of long-term debt	7,329	
Revolver borrowings	2,854	
Dividends payable	--	
Income tax payable	2,306	
Total current liabilities	30,681	
Long-term debt	26,465	
Deferred income taxes	6,295	
Other long-term obligations	1,201	
Total liabilities	64,642	
Stockholders' equity:		
Preferred stock, $25 par value. Authorized 2,000,000 shares; none issued and outstanding	--	
Common stock, $.0667 par value. Authorized 25,000,000 shares; 17,916,417 shares issued and outstanding at September 30, 2007 and 17,733,849 shares issued and outstanding at December 31, 2006	800	

Additional paid-in capital	13,199	
Retained earnings	75,660	
Accumulated other comprehensive income	190	
Total stockholders' equity	89,849	
Total liabilities and stockholders' equity	$ 154,491	$

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net sales	$ 50,498	$ 25,122	$ 122,468	$ 74,8
Cost of sales	37,889	16,449	87,936	49,1
Gross profit	12,609	8,673	34,532	25,6
Operating expenses:				
Selling expenses	3,176	1,683	8,498	5,2
Research and development expenses	613	549	1,797	1,5
General and administrative expenses	1,627	1,460	4,913	4,5
	5,416	3,692	15,208	11,3
Earnings from operations	7,193	4,981	19,324	14,3
Other expenses (income):				
Interest (income)	(96)	(13)	(170)	(1
Interest expense	672	16	1,283	1
Other, net	(155)	--	(242)	
Earnings before income tax expense	6,772	4,978	18,453	14,2
Income tax expense	2,315	1,827	6,490	5,1
Net earnings	$ 4,457	$ 3,151	$ 11,963	$ 9,0
Net earnings per common share - basic	$ 0.25	$ 0.18	$ 0.67	$ 0.

Net earnings per common share - diluted	$ 0.24	$ 0.17	$ 0.65	$ 0.

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30, 2007	2006
Cash flows from operating activities:		
Net earnings	$ 11,963	$ 9,064
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	4,615	2,573
Foreign currency transaction gain	(125)	--
Shares issued under employee benefit plans	306	281
Deferred income taxes	(375)	(11
Stock compensation expense	1,176	786
Provision for doubtful accounts	--	23
Gain on sale of equipment	(11)	--
Other	20	--
Changes in assets and liabilities net of effects of acquisitions:		
Accounts receivable	(13,475)	215
Inventories	1,082	376
Prepaid expenses and other current assets	(135)	1,074
Income taxes	2,103	1,125
Customer deposits and other deferred revenue	(808)	(916
Accounts payable and accrued expenses	1,678	(318
Other long-term obligations	395	41
Net cash provided by operating activities	8,409	14,313
Cash flows from investing activities:		
Capital expenditures	(3,005)	(1,235
Proceeds from sale of property, plant & equipment	11	--
Cash paid for intangible assets acquired	(149)	(71
Acquisition of assets	(40,640)	(22,772
Net cash used in investing activities	(43,783)	(24,078
Cash flows from financing activities:		
Proceeds from long-term borrowings	38,946	10,000
Proceeds from short-term obligations	3,554	--

Repayment of short-term obligations	(870)	--
Principal payments on long-term debt	(5,768)	(10,000
Proceeds from stock options exercised	752	321
Excess tax benefits from stock compensation	584	163
Dividends paid	(1,596)	(1,045
Other	--	(10
Net cash provided by (used in) financing activities	35,602	(571
Effect of exchange rate changes on cash	84	--
Increase (decrease) in cash and cash equivalents	312	(10,336
Cash and cash equivalents beginning of period	5,189	12,996
Cash and cash equivalents end of period	$ 5,501	$ 2,660

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months September 2007	
Net earnings	$ 4,457	$ 3,151	$ 11,963	$
Other comprehensive income, net of tax:				
Unfunded post retirement benefit plan - prior service cost and gain amortized during period	(3)	--	(10)	
Equity adjustment from translation	(1)	--	7	
Comprehensive income	$ 4,453	$ 3,151	$ 11,960	$

See accompanying notes to condensed consolidated financial statements.

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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, 2006 consolidated financial statements, and should be read in conjunction with the consolidated financial statements and notes, which appear in our Annual Report on Form 10-K for the year ended December 31, 2006. 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. The results of operations for the nine months ended September 30, 2007 are not necessarily indicative of the operating results expected for the full year or any interim period.

NOTE 2 - STOCKHOLDERS' EQUITY

STOCK-BASED COMPENSATION

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share Based Payment" ("SFAS 123R"), which requires all share-based payments, including grants of stock options, to be recognized in the statement of earnings as an operating expense, based on their fair values. SFAS 123R establishes the accounting for transactions in which an entity pays for employee services in share-based payment transactions. SFAS 123R eliminates the ability to account for share-based compensation transactions using the intrinsic value method and 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 employee share options and similar instruments is estimated using option-pricing models that take into account the unique characteristics of those instruments. That cost is recognized over the period during which an employee is required to provide service in exchange for the award. The Company adopted SFAS 123R effective January 1, 2006, using the modified prospective transition method. Under this method, compensation cost is recognized for awards granted and for awards modified, repurchased or cancelled in the period after adoption. Compensation cost is also recognized for the unvested portion of awards granted prior to adoption over the remaining requisite service period. The Company's results for the three and nine months ended September 30, 2007 and 2006 reflected the following compensation cost as a result of adopting SFAS 123R and such

compensation cost had the following effects on net earnings and basic and diluted earnings per share:

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006
Cost of sales	$ 44	$ 27
Operating expenses	348	235
Net earnings	(267)	(206)
Basic earnings per common share	(0.01)	(0.01)
Diluted earnings per common share	$ (0.01)	$ (0.01)

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Cost of sales	$ 131	$ 81
Operating expenses	1,045	705
Net earnings	(801)	(665)
Basic earnings per common share	(0.05)	(0.04)
Diluted earnings per common share	$ (0.04)	$ (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.

Additionally, since adoption of SFAS 123R, excess tax benefits related to stock compensation are presented as a cash inflow from financing activities. This change had the effect of decreasing cash flows from operating activities and increasing cash flows from financing activities by $83 and $584 for the three and nine months ended September 30, 2007, respectively, and by $-0- and $163 for the three and nine months ended September 30, 2006, respectively.

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 September 30, 2007, the plans had 720,153 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 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 nine months ended September 30, 2007 and 2006 is summarized below:

Weighted	Aggregate	W

For the nine months ended September 30, 2007	Shares (000s)	Average Exercise Price	Intrinsic Value ($000s)	R Co
Outstanding as of December 31, 2006	2,170	$ 10.13	$ 15,168	
Granted	10	18.00		
Exercised	(160)	4.70		
Expired	--	--		
Forfeited	(13)	14.01		
Outstanding as of September 30, 2007	2,007	$ 10.58	$ 19,726	
Exercisable as of September 30, 2007	1,490	$ 8.70	$ 17,441	

For the nine months ended September 30, 2006	Shares (000s)	Weighted Average Exercise Price	Aggregate Intrinsic Value ($000s)	W R Co
Outstanding as of December 31, 2005	2,153	$ 8.38	$ 10,479	
Granted	15	15.06		
Exercised	(64)	4.98		
Expired	--	--		
Forfeited	(21)	9.64		
Outstanding as of September 30, 2006	2,083	$ 8.53	$ 9,720	
Exercisable as of September 30, 2006	1,366	$ 7.02	$ 8,430	

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 0.3% and 0.4%; expected volatilities of 27% and 26%; risk-free interest rates of 4.2% and 3.8%; and expected lives of 3.7 and 4.5, in each case for the nine months ended September 30, 2007 and 2006, 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.

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Other information pertaining to option activity during the three and nine months ended September 30, 2007 and 2006 was as follows:

	Three Months Ended	Nine Months End

	September 30, 2007	September 30, 2006	September 30, 2007	20
Weighted-average fair value of options granted	$ 6.44	$ N/A	$ 6.44	$
Total intrinsic value of stock options exercised	$ 424	$ 89	$ 1,936	$

Non-vested restricted stock activity for the nine months ended September 30, 2007 and 2006 is summarized below:

Nine Months ended September 30, 2007	Shares (000s)	Weighted Average Grant Date Fair Value
Non-vested balance as of December 31, 2006	113	$ 16.40
Granted	5	18.61
Vested	--	--
Forfeited	--	--
Non-vested balance as of September 30, 2007	118	$ 16.49

Nine Months ended September 30, 2006	Shares (000s)	Weighted Average Grant Date Fair Value
Non-vested balance as of December 31, 2005	34	$ 13.22
Granted	--	--
Vested	--	--
Forfeited	--	--
Non-vested balance as of September 30, 2006	34	$ 13.22

As of September 30, 2007 and 2006, there was $2,946 and $1,625, respectively, of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the plans. As of September 30, 2007, the unrecognized compensation cost is expected to be recognized over a weighted-average period of 2 years. We estimate that share-based compensation expense for the year ended December 31, 2007 will be approximately $1,576.

STOCK SPLITS AND REPURCHASE OF COMMON STOCK

On December 8, 2006, the Board of Directors of the Company approved a three-for-two split of the Company's common stock to be effected in the form of a stock dividend to shareholders of record on December 29, 2006. Such stock dividend was made on January 19, 2007. The stock split was recognized by reclassifying the par value of the additional shares resulting from the split, from additional paid-in capital to common stock.

On December 15, 2005, the Board of Directors of the Company approved a three-for-two split of the Company's common stock to be effected in the form of a stock dividend to

shareholders of record on December 30, 2005. Such stock dividend was made on January 20, 2006. The stock split was recognized by reclassifying the par value of the additional shares resulting from the split, from additional paid-in capital to common stock.

All references to number of common shares and per share amounts except shares authorized in the accompanying consolidated financial statements were retroactively adjusted to reflect the effect of the December 2006 and December 2005 stock splits.

In June 1999, the Board of Directors of the Company authorized the repurchase of shares of the Company's outstanding common stock over a two-year period commencing July 2, 1999. Under this program, which was subsequently extended, the Company had, as of December 31, 2004, repurchased a total 1,158,692 shares at an average cost of $2.74 per share, none of which remained in treasury at December 31, 2004. In June 2005, the board of directors authorized another extension of the stock repurchase program for up to an additional 1,350,000 shares, over and above those 1,158,692 shares previously repurchased under the program. Under this extension, a total of 149,175 shares were purchased at an average cost of $8.03 per share, none of which remained in treasury at September 30, 2007. During the nine months ended September 30, 2007, 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 - ACQUISITIONS

Akzo Nobel Acquisition

Effective April 30, 2007, pursuant to an asset purchase agreement dated March 30, 2007 (the "Akzo Nobel Asset Purchase Agreement"), the Company, through its European subsidiary, Balchem B.V., completed an acquisition of the methylamines and choline chloride business and manufacturing facilities of Akzo Nobel Chemicals S.p.A., located in Marano Ticino, Italy (the "Akzo Nobel Acquisition") for a provisional purchase price including acquisition costs of $9,067, subject to adjustment based on actual working capital and other adjustments.

The Akzo Nobel Acquisition has been accounted for using the purchase method of accounting and the purchase price of the acquisition has been assigned to the net assets acquired based on the fair value of such assets at the date of acquisition. The preliminary allocation of the total purchase price, including acquisition costs, was based on the estimated fair values as of April 30, 2007. Adjustments to these estimates will be included in the allocation of the purchase price of the Akzo Nobel Acquisition upon settlement of any working capital or other adjustments. The preliminary purchase price has been allocated as follows:

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	Fair Value Recorded in Purchase Accounting
Property plant & equipment	$ 7,994
Short-term receivable	2,506

Inventories		4,323
Goodwill		990
Other		83
Accounts payable and accrued expenses		(8,258)
Total	$	7,638

Chinook Acquisition

On March 16, 2007, the Company, through its wholly-owned subsidiary BCP Ingredients, Inc. ("BCP"), entered into an asset purchase agreement (the "Asset Purchase Agreement") with Chinook Global Limited ("Chinook"), a privately held Ontario corporation, pursuant to which BCP acquired certain of Chinook's choline chloride business assets (the "Chinook Acquisition") for a purchase price of approximately $29,000, plus the value of certain product inventories of approximately $1,840. The acquisition closed effective the same date.

The Chinook Acquisition has been accounted for using the purchase method of accounting and the purchase price of the acquisition has been assigned to the net assets acquired based on the fair value of such assets at the date of acquisition. The preliminary allocation of the total purchase price, including acquisition costs, was based on the estimated fair values as of March 16, 2007. Adjustments to these estimates will be included in the allocation of the purchase price of the Chinook Acquisition upon settlement of any working capital or other adjustments. The preliminary purchase price has been allocated as follows:

	Fair Value Recorded in Purchase Accounting
Customer list	$ 29,262
Inventory	1,840
Short-term receivable	1,850
Short-term obligation	(870)
Other	73
Total	$ 32,155

The short-term receivable was included in other current assets.

Pro Forma Summary of Operations

The following unaudited pro forma information has been prepared as if the Chinook Acquisition had occurred on January 1, 2007 and does not include cost savings expected from the transaction. In addition to including the results of operations, the pro forma information gives effect primarily to changes in depreciation and amortization of tangible and intangible assets resulting from the acquisition.

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

	Pro Forma Nine Months Ended September 30, 2007
Net sales	$ 131,455
Net earnings	12,439
Basic EPS	.70
Diluted EPS	.67

St. Gabriel Acquisition

Effective August 24, 2006, pursuant to an asset purchase agreement of the same date, the Company, through its wholly owned subsidiaries BCP and BCP St. Gabriel, acquired from BioAdditives, LLC, CMB Additives, LLC and CMB Realty of Louisiana (the "St. Gabriel Sellers") an animal feed grade aqueous choline chloride manufacturing facility and related assets located in St. Gabriel, Louisiana (the "St. Gabriel Acquisition"). The Company also acquired the St. Gabriel Sellers' remaining interest in a land lease (approximately 21 years) relating to the realty upon which the acquired facility and related assets are located. The acquisition was funded through the Company's cash reserves. In February 2007, the facility was placed in service.

CMC Acquisition

On February 8, 2006, the Company, through its wholly owned subsidiary Balchem Minerals Corporation ("BMC"), completed an acquisition (the "CMC Acquisition") of all of the outstanding capital stock of Chelated Minerals Corporation ("CMC"), a privately held Utah corporation, for a purchase price of $17,350, subject to adjustment based upon CMC's actual working capital and other adjustments. On February 6, 2006, the Company and its principal bank entered into a Loan Agreement (the "Loan Agreement") providing for an unsecured term loan of $10,000 (the "Term Loan"), the proceeds of which were used to fund the CMC Acquisition, in part. The remaining balance of the purchase price of the CMC Acquisition was funded through the Company's cash reserves. At December 31, 2006, the Term Loan had been repaid in full.

The CMC Acquisition has been accounted for using the purchase method of accounting and the purchase price of the acquisition has been assigned to the net assets acquired based on the fair value of such assets and liabilities at the date of acquisition. The allocation of the total purchase price, including acquisition costs, of CMC's net tangible and intangible assets was based on the estimated fair values as of February 8, 2006. Adjustments to these estimates have been included in the allocation of the purchase price of CMC upon settlement of any working capital or other adjustments. The excess of the purchase price over the identifiable intangible and net tangible assets was allocated to goodwill. The purchase price has been allocated as follows:

	Fair Value Recorded in Purchase Accounting
Accounts receivable	$ 884

Inventory	552
Property, plant and equipment	1,980
Current liabilities	(388)
Other long-term liabilities	(2,368)
Goodwill	11,925
Other intangible assets	5,334
Total	$ 17,919

Pro Forma Summary of Operations

The following unaudited pro forma information has been prepared as if the CMC Acquisition had occurred on January 1, 2006 and does not include cost savings expected from the transaction. In addition to including the results of operations, the pro forma information gives effect primarily to changes in depreciation and amortization of tangible and intangible assets resulting from the acquisition.

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

	Actual Nine Months Ended September 30, 2007	Pro Forma Nine Months Ended September 30, 2006
Net sales	$ 122,468	$ 75,553
Net earnings	11,963	9,078
Basic EPS	.67	.52
Diluted EPS	.65	.50

NOTE 4 - INVENTORIES

Inventories at September 30, 2007 and December 31, 2006 consisted of the following:

	September 30, 2007	December 31, 2006
Raw materials	$ 6,380	$ 4,264
Work in progress	225	143
Finished goods	8,390	5,511
Total inventories	$ 14,995	$ 9,918

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at September 30, 2007 and December 31, 2006 are summarized as follows:

	September 30, 2007	December 31, 2006
Land	$ 1,234	$ 650
Building	12,316	11,640
Equipment	45,241	38,545
Construction in progress	5,371	1,247
	64,162	52,082
Less: Accumulated depreciation	23,400	20,769
Net property, plant and equipment	$ 40,762	$ 31,313

NOTE 6 - INTANGIBLE ASSETS

Goodwill represents the excess of costs over fair value of assets of businesses acquired. The Company adopted the provisions of SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets, as of January 1, 2002. These standards require the use of the purchase method of accounting for a business combination and define an intangible asset. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but are instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, Accounting for Impairment or Disposal of Long-Lived Assets.

As of December 31, 2006, the Company performed an impairment test of its goodwill balance. As of such date, the Company's reporting units' fair values exceeded their carrying amounts, and therefore there was no indication that goodwill was impaired. Accordingly, the Company was not required to perform any further impairment tests. The Company will perform its impairment test next on December 31, 2007.

The Company had goodwill in the amount of $26,264 and $25,253 at September 30, 2007 and December 31, 2006, respectively, subject to the provisions of SFAS Nos. 141 and 142. For the nine months ended September 30, 2007, the increase in goodwill is primarily attributable to the cost in excess of net assets acquired from the Akzo Nobel Acquisition, as described in Note 3.

As of September 30, 2007 and December 31, 2006, the Company had identifiable intangible assets with finite lives with a gross carrying value of approximately $37,227 and $7,799, respectively, less accumulated amortization of $2,881 and $887, respectively. For the nine months ended September 30, 2007, the increase in the gross carrying amount is primarily attributable to the customer list acquired as part of the Chinook Acquisition, as described in Note 3.

Identifiable intangible assets with finite lives at September 30, 2007 and December 31, 2006 are summarized as follows:

	Amortization Period (in years)	Gross Carrying Amount at 9/30/07	Accumulated Amortization at 9/30/07	Gross Carrying Amount at 12/31/06	Accumu Amortiz at 12/
Customer lists	10	$ 34,150	$ 2,325	$ 4,888	$
Regulatory re-registration costs	10	28	--	28	
Patents & trade secrets	15-17	1,616	289	1,550	
Trademarks & trade names	17	880	134	876	
Other	5	553	133	457	
		$ 37,227	$ 2,881	$ 7,799	$

Amortization of identifiable intangible assets was $1,994 for the first nine months of 2007. Assuming no change in the gross carrying value of identifiable intangible assets, the estimated amortization expense for the remainder of 2007 is $912, approximately $3,614 per annum for 2008 and 2009, $3,611 in 2010, $3,610 in 2011, and $3,573 in 2012. At September 30, 2007, 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 nine months ended September 30, 2007.

NOTE 7 - NET EARNINGS PER SHARE

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

Three months ended September 30, 2007	Net Earnings (Numerator)	Number of Shares (Denominator)
Basic EPS - Net earnings and weighted average common shares outstanding	$ 4,457	17,783,384
Effect of dilutive securities - stock options and restricted stock		873,218
Diluted EPS - Net earnings and weighted average common shares outstanding and effect of stock options and restricted stock	$ 4,457	18,656,602

Three months ended September 30, 2006	Net Earnings (Numerator)	Number of Shares (Denominator)
Basic EPS - Net earnings and weighted average common shares outstanding	$ 3,151	17,445,075
Effect of dilutive securities - stock options and restricted stock		778,478
Diluted EPS - Net earnings and weighted average common shares outstanding and effect of stock options and restricted stock	$ 3,151	18,223,553

Nine months ended September 30, 2007	Net Earnings (Numerator)	Number of Shares (Denominator)
Basic EPS - Net earnings and weighted average common shares outstanding	$ 11,963	17,744,182
Effect of dilutive securities - stock options and restricted stock		799,362
Diluted EPS - Net earnings and weighted average common shares outstanding and effect of stock options and restricted stock	$ 11,963	18,543,544

Nine months ended September 30, 2006	Net Earnings (Numerator)	Number of Shares (Denominator)
Basic EPS - Net earnings and weighted average common shares outstanding	$ 9,064	17,421,466
Effect of dilutive securities - stock options and restricted stock		811,707
Diluted EPS - Net earnings and weighted average common shares outstanding and effect of stock options and restricted stock	$ 9,064	18,233,173

The Company had stock options covering 294,400 and 349,300 shares at September 30, 2007 and 2006, 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 8 - INCOME TAXES

Effective January 1, 2007, the Company adopted the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). This interpretation, among other things, creates a two-step approach for evaluating uncertain tax positions. Recognition (step one) occurs when an enterprise concludes that a tax position, based solely on its technical merits, is more-likely-than-not to be sustained upon examination. Measurement (step two) determines the amount of benefit that more-likely-than-not will be realized upon settlement. De-recognition of a tax position that was previously recognized would occur when a company subsequently determines that a tax position no longer meets the more-likely-than-not threshold of being sustained. FIN 48 specifically prohibits the use of a valuation allowance as a substitute for de-recognition of tax positions, and it has expanded disclosure requirements. The adoption of FIN 48 resulted in, as a cumulative effect, a non-cash charge, net of federal tax benefits, of $291, recorded as a reduction to beginning retained earnings. 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 statement of operations. The total amount of accrued interest and penalties related to uncertain tax positions at January 1, 2007 was $89 and is included in other long-term obligations. All of our unrecognized tax benefits, if recognized in future periods, would impact the Company's effective tax rate. The Company remains open for examination by the IRS for 2003 through 2006. For most of its other significant tax jurisdictions (U.S. states), the Company's income tax returns are also open for examination for 2003 through 2006. There was not a significant change in our liabilities for unrecognized tax benefits during the nine months ended September 30, 2007.

NOTE 9 - 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, encapsulated / nutritional products and BCP Ingredients, its unencapsulated feed supplements segment.

Business Segment Net Sales:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Specialty Products	$ 8,248	$ 7,966	$ 24,676	$ 23,9
Encapsulated/Nutritional Products	12,880	10,349	36,126	30,6
BCP Ingredients	29,370	6,807	61,666	20,2
Total	$ 50,498	$ 25,122	$ 122,468	$ 74,8

Business Segment Earnings:

	Three Months Ended September 30, 2007	2006	Nine Months Ended September 30, 2007	2006
Specialty Products	$ 2,935	$ 2,863	$ 8,891	$ 8,4
Encapsulated/Nutritional Products	2,186	1,028	4,642	3,0
BCP Ingredients	2,072	1,090	5,791	2,8
Other expense	(421)	(3)	(871)	(
Earnings before income taxes	$ 6,772	$ 4,978	$ 18,453	$ 14,2

The following table summarizes domestic (U.S.) and foreign sales for the three and nine months ended September 30, 2007 and September 30, 2006:

	Three Months Ended September 30, 2007	2006	Nine Months Ended September 30, 2007	2006
Domestic	$ 31,958	$ 22,275	$ 87,433	$ 67,5
Foreign	18,540	2,847	35,035	7,3
Total	$ 50,498	$ 25,122	$ 122,468	$ 74,8

NOTE 10 - SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid during the nine months ended September 30, 2007 and 2006 for income taxes and interest is as follows:

	Nine months ended September 30, 2007	2006
Income taxes	$ 4,005	$ 3,896
Interest	$ 1,074	$ 186

Other supplemental non-cash transactions resulting from acquisitions are described in Notes 3 and 11.

NOTE 11 - 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 $10,244 (the "European Term Loan"), the proceeds of which were used to fund the Akzo Nobel Acquisition (see Note 3) 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

September 30, 2007, this interest rate was 5.41%. The European Loan Agreement also provides for a short-term revolving credit facility of (euro)2,000, translated to $2,854 as of September 30, 2007 (the "European Revolving Facility"). The European Revolving Facility is subject to a monthly interest rate equal to EURIBOR plus 1.25%, and accrued interest is payable monthly. The Company has drawn down the European Revolving Facility in full as of September 30, 2007. The European Revolving Facility has a maturity date of May 1, 2008. 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 "New Loan Agreement") providing for an unsecured term loan of $29,000 (the "New Term Loan"), the proceeds of which were used to fund the Chinook Acquisition (see Note 3). The New Term Loan is payable in equal monthly installments of principal, each equal to 1/60th of the principal of the New Term Loan, together with accrued interest, with remaining principal and interest payable at maturity. The New Term Loan has a maturity date of March 16, 2010 and is subject to a monthly interest rate equal to LIBOR plus 1%. At September 30, 2007, this interest rate was 6.75%. As of September 30, 2007, the Company has prepaid $2,500 of the New Term Loan. The New Loan Agreement also provides for a short-term revolving credit facility of $6,000 (the "New Revolving Facility"). The New Revolving Facility is subject to a monthly interest rate equal to LIBOR plus 1%, and accrued interest is payable monthly. No amounts have been drawn on the New Revolving Facility as of the date hereof. The New Revolving Facility has a maturity date of May 31, 2009. Management believes that such facility will be renewed in the normal course of business.

NOTE 12 - EMPLOYEE BENEFIT PLANS

The Company sponsors a 401(k) savings and profit sharing plan for eligible employees. The plan allows participants to make pretax contributions and the Company matches certain percentages of those pretax contributions with shares of the Company's common stock. The profit sharing portion of the plan is discretionary and non-contributory. All amounts contributed to the plan are deposited into a trust fund administered by independent trustees.

The Company also currently provides postretirement benefits in the form of an unfunded 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 nine months ended September 30, 2007 and September 30, 2006 was as follows:

	2007	2006
Service Cost	$ 22	$ 21
Interest Cost	31	29
Expected return on plan assets	--	--
Amortization of transition obligation	--	--
Amortization of prior service cost	(14)	(14)
Amortization of (gain) or loss	(2)	(2)

Net periodic benefit cost	$ 37	$ 34

The plan is unfunded and approved claims are paid from Company funds. Historical cash payments made under such plan approximated $50 per year.

NOTE 13 - NEW ACCOUNTING PRONOUNCEMENTS

In February, 2007 the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities", including an amendment of FASB Statement No. 115. This statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This statement is expected to expand the use of fair market value measurement, which is consistent with long-term measurement objectives for accounting for financial instruments. This statement is effective beginning in January 2008. The Company does not expect the adoption of this statement to be significant to its consolidated financial statements.

In September 2006, the FASB issued SFAS 157, "Fair Value Measurements," which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. This statement is effective beginning in January 2008. The Company is evaluating whether adoption of this statement will result in a change to its fair value measurements.

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 1 of our Annual Report on Form 10-K for the year ended December 31, 2006 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; encapsulated / nutritional products; and BCP Ingredients.

Specialty Products

Our specialty products segment operates 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 sell two other products, propylene oxide and methyl chloride, principally to customers seeking smaller (as opposed to bulk) quantities and whose requirements include timely delivery and safe handling. Propylene oxide is used for fumigation in spice treatment, various chemical synthesis applications, to make paints more durable, and for manufacturing specialty starches and textile coatings. Methyl chloride is used as a raw material in specialty herbicides, fertilizers, pharmaceuticals, malt and wine preservers.

Encapsulated / Nutritional Products

The encapsulated / nutritional products 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, packaging applications and shelf-life. Major product applications are baked goods, refrigerated and frozen dough systems, processed meats, seasoning blends, confections, nutritional supplements and animal nutrition. 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. Our portfolio of granulated calcium carbonate products are 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.

In the animal health industry, we market REASHURE(R) Choline, an encapsulated choline product that boosts health and milk production in transition and early lactation cows. Commercial sales are currently derived from the dairy industry where REASHURE(R) delivers nutrient supplements that survive the rumen and are biologically available, providing required nutritional levels during certain weeks preceding and following calving, commonly referred to as the "transition period" of the animal. Also, in animal health, we market NITROSHURETM, an encapsulated urea supplement for lactating dairy cows that is designed to create a slow-release nitrogen source for the rumen, allowing for greater flexibility

in feed rations for dairy nutritionists and producers, and NIASHURETM, our microencapsulated niacin product for dairy cows. In addition, CMC manufactures, sells and distributes chelated mineral supplements for use in animal feed throughout the world. CMC's proprietary chelation technology provides enhanced nutrient absorption for various species of domestic and companion animals.

BCP Ingredients

This segment manufactures and supplies raw choline chloride, an essential nutrient for animal health, predominantly to the poultry and swine industries. Choline plays a vital role in the metabolism of fat and the building and maintaining of cell structures. Choline deficiency can result in, among other symptoms, reduced growth and perosis in poultry, and fatty liver, kidney necrosis and general poor health condition in swine. In addition, certain derivatives of choline chloride are also manufactured and sold into industrial applications. Choline chloride is manufactured and sold in both an aqueous and dry form.

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 for the nine months ended September 30, 2007 and September 30, 2006:

Business Segment Net Sales:

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Specialty Products	$ 8,248	$ 7,966	$ 24,676	$ 23,927
Encap/Nutritional Products	12,880	10,349	36,126	30,676
BCP Ingredients	29,370	6,807	61,666	20,216
Total	$ 50,498	$ 25,122	$122,468	$ 74,819

Business Segment Earnings:

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Specialty Products	$ 2,935	$ 2,863	$ 8,891	$ 8,400
Encap/Nutritional Products	2,186	1,028	4,642	3,079
BCP Ingredients	2,072	1,090	5,791	2,841
Other expense	(421)	(3)	(871)	(84)
Earnings bef. income taxes	$ 6,772	$ 4,978	$ 18,453	$ 14,236

RESULTS OF OPERATIONS

Three months ended September 30, 2007 compared to three months ended September 30, 2006

Net Sales

Net sales for the three months ended September 30, 2007 were $50,498 compared with $25,122 for the three months ended September 30, 2006, an increase of $25,376 or 101.0%. Net sales for the specialty products segment were $8,248 for the three months ended September 30, 2007 compared with $7,966 for the three months ended September 30, 2006, an increase of $282 or 3.5%. This increase was principally due to an increase in sales volume, along with modest price increases for products in this segment. Net sales for the encapsulated / nutritional products segment were $12,880 for the three months ended September 30, 2007 compared with $10,349 for the three months ended September 30, 2006, an increase of $2,531 or 24.5%. This result was driven principally by increased global sales of human nutritional and choline products, and includes $701 from the Akzo Nobel Acquisition, as described in Note 3. Sales of REASHURE(R), Niashure and Chelated Minerals, our specialty animal nutrition and health products targeted for ruminant animals, and increases in the companion animal market also contributed to this growth. Net sales of $29,370 were realized for the three months ended September 30, 2007 for the BCP Ingredients (unencapsulated feed supplements) segment, as compared with $6,807 for the three months ended September 30, 2006, an increase of $22,563 or 331.5%. This result reflects sales from the customer list acquisition of Chinook Group Limited ("Chinook"), as described in Note 3, as well as sales from the Akzo Nobel Acquisition. The Chinook and Akzo Nobel acquisitions contributed approximately $21,338 of the revenue increase in this segment. The remaining increase (approximately 18.5%) was due to increased volumes sold in the core dry and aqueous choline, as well as the specialty industrial product lines.

Gross Margin

Gross margin for the three months ended September 30, 2007 increased to $12,609 compared to $8,673 for the three months ended September 30, 2006, an increase of $3,936 or 45.4%, due largely to the above-noted increase in sales. Gross margin percentage for the three months ended September 30, 2007 was 25.0% compared to 34.5% for the three months ended September 30, 2006. This decrease in gross margin percentage reflects the impact of the acquisitions in the animal grade choline business, which carry lower gross margins and was also a result of higher raw material and fuel costs. Gross margin dollars for the specialty products segment increased 5.3% as increases in sales volume and modest sales price increases were partially offset by higher raw material prices. Gross margin dollars in the encapsulated / nutritional products segment increased 39.8% as margins were favorably affected by increased volumes sold in the human choline markets and specialty animal nutrition and health markets. Gross margin dollars for the BCP Ingredients segment, while unfavorably impacted by certain petro-chemical raw material cost increases, improved 194.4% and was favorably affected by the previously noted increased sales volumes, and improved productivity.

Operating Expenses

Operating expenses for the three months ended September 30, 2007 were $5,416

compared to $3,692 for the three months ended September 30, 2006, an increase of $1,724 or 46.7%. This $1,724 increase was due primarily to $734 of additional amortization expense, plus sales and technical personnel expense associated with the Chinook and Akzo Nobel acquisitions. We also incurred approximately $160 of commercial development expenses toward our pharmaceutical market initiatives in the quarter. With these increases, operating expenses were 10.7% of sales or 4.0 percentage points less than the operating expenses as a percent of sales incurred in last year's comparable quarter. During the three months ended September 30, 2007 and 2006, the Company spent $613 and $549, respectively, on research and development programs, substantially all of which pertained to the Company's encapsulated / nutritional products segment for both human and animal health.

Earnings From Operations

Primarily as a result of the above-noted increase in sales, earnings from operations for the three months ended September 30, 2007 were $7,193 as compared to $4,981 for the three months ended September 30, 2006.

Other Expenses (Income)

Interest income for the three months ended September 30, 2007 totaled $96 as compared to $13 for the three months ended September 30, 2006. Interest expense was $672 for the three months ended September 30, 2007 compared to $16 for the three months ended September 30, 2006. This increase is attributable to the increase in average current and long-term debt resulting from the aforementioned Chinook and Akzo Nobel acquisitions. Other income of $155 for the three months ended September 30, 2007 is 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 September 30, 2007 and 2006 was 34.2% and 36.7%, respectively. This decrease in the effective tax rate is primarily attributable to a domestic manufacturer's deduction and to a change in allocation relating to state income taxes.

Net Earnings

Primarily as a result of the above-noted increase in sales, net earnings were $4,457 for the three months ended September 30, 2007 as compared with $3,151 for the three months ended September 30, 2006, an increase of 41.4%.

Nine months ended September 30, 2007 compared to Nine months ended September 30, 2006

Net Sales

Net sales for the nine months ended September 30, 2007 were $122,468 compared with $74,819 for the nine months ended September 30, 2006, an increase of $47,649 or 63.7%. Net sales for the specialty products segment were $24,676 for the nine months ended September 30, 2007 compared with $23,927 for the nine

months ended September 30, 2006, an increase of $749 or 3.1%. This increase was principally due to an increase in sales volume along with modest price increases for our ethylene oxide products for medical device sterilization partially offset by a decline in sales of propylene oxide for starch processing. Net sales for the encapsulated / nutritional products segment were $36,126 for the nine months ended September 30, 2007 compared with $30,676 for the nine months ended September 30, 2006, an increase of $5,450 or 17.8%. This increase was due principally to increased volumes sold in the human choline markets partially offset by slowness in sales of calcium products into the over-the-counter pharmaceutical markets. Sales of REASHURE(R), Niashure and Chelated Minerals, our specialty animal nutrition and health products targeted for ruminant animals, and increases in the companion animal market also contributed to this growth. Net sales of $61,666 were realized for the nine months ended September 30, 2007 for the BCP Ingredients (unencapsulated feed supplements) segment, as compared with $20,216 for the nine months ended September 30, 2006, an increase of $41,450 or 205.0%. This result reflects sales from the customer list acquisition of Chinook as well as sales from the Akzo Nobel Acquisition. This increase was also due to increased volumes sold in the core dry and aqueous choline product lines, and choline derivatives, along with modest price increases in all product lines.

Gross Margin

Gross margin for the nine months ended September 30, 2007 increased to $34,532 compared to $25,695 for the nine months ended September 30, 2006, an increase of $8,837 or 34.4%, due largely to the above-noted increase in sales. Gross margin percentage for the nine months ended September 30, 2007 was 28.2% compared to 34.3% for the nine months ended September 30, 2006. This decrease in gross margin percentage reflects the initial impact of the acquisitions in the BCP Ingredients business, which carry lower gross margins and was also a result of higher raw material and fuel costs. Gross margin dollars for the specialty products segment increased 7.1% due to improved productivity, resulting from increases in sales volume, and modest increases in average selling price that were initiated to offset higher raw material prices. Gross margin dollars in the encapsulated / nutritional products segment increased 22.6% as margins were favorably affected by increased volumes sold in the human choline markets and specialty animal nutrition and health products, as described above. Gross margin dollars for BCP Ingredients increased 176.3% and was favorably affected by increased sales volumes and improved productivity.

Operating Expenses

Operating expenses for the nine months ended September 30, 2007 were $15,208 compared to $11,375 for the nine months ended September 30, 2006, an increase of

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$3,833 or 33.7%. This $3,833 dollar increase was due primarily to additional amortization expense, plus sales and technical personnel expense associated with the Chinook and Akzo Nobel acquisitions. With these increases, operating expenses were 12.4% of sales or 2.8 percentage points less than the operating expenses as a percent of sales incurred in last year's comparable period. During the nine months ended September 30, 2007 and 2006, the Company spent $1,797 and $1,561, respectively, on research and development programs, substantially all of which pertained to the Company's encapsulated / nutritional products segment for both human and animal health.

Earnings From Operations

Primarily as a result of the above-noted increase in sales, earnings from operations for the nine months ended September 30, 2007 were $19,324 as compared to $14,320 for the nine months ended September 30, 2006.

Other Expenses (Income)

Interest income for the nine months ended September 30, 2007 totaled $170 as compared to $102 for the nine months ended September 30, 2006. This decrease is attributable to the decrease in the average total cash balance. Interest expense was $1,283 for the nine months ended September 30, 2007 compared to $186 for the nine months ended September 30, 2006. This increase is attributable to the increase in average current and long-term debt resulting from the aforementioned Chinook and Akzo Nobel acquisitions. Other income of $242 for the nine months ended September 30, 2007 is 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 nine months ended September 30, 2007 and 2006 was 35.2% and 36.3%, respectively. This decrease in the effective tax rate is primarily attributable to a domestic manufacturer's deduction and to a change in allocation relating to state income taxes.

Net Earnings

Primarily as a result of the above-noted increase in sales, net earnings were $11,963 for the nine months ended September 30, 2007 as compared with $9,064 for the nine months ended September 30, 2006, an increase of 32.0%.

FINANCIAL CONDITION

LIQUIDITY AND CAPITAL RESOURCES

Contractual Obligations

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 asset purchase agreement provides for the contingent payment by the Company of additional consideration based upon the volume of sales associated with one particular product acquired by the Company during the three year period following the acquisition. Such contingent consideration will be recorded as an additional cost of the acquired product lines. No such contingent consideration has been earned or paid in 2007.

The Company's other 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).

As a result of the adoption of FIN 48 on January 1, 2007, we have a liability

for uncertain tax positions of $291. We are unable to reasonably estimate the amount or timing of payments for this liability, if any. Other than the adoption of FIN 48, there have been no significant changes to the Contractual Obligations table, which was included in our Annual Report on Form 10-K for the year ended December 31, 2006.

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

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 $5,501 at September 30, 2007 from $5,189 at December 31, 2006. Working capital amounted to $22,379 at September 30, 2007 as compared to $19,295 at December 31, 2006, an increase of $3,084.

Operating Activities

Cash flows from operating activities provided $8,409 for the nine months ended September 30, 2007 compared to $14,313 for the nine months ended September 30, 2006. The decrease in cash flows from operating activities was primarily due to an increase in accounts receivable resulting from our recently acquired Akzo Nobel Methylamines and Choline business and the Chinook customer list acquisition, which was completed in March 2007, in which we did not acquire outstanding accounts receivable. Combined they contributed approximately $21,338 of revenue in 2007. This decrease was partially offset by an increase in net earnings, depreciation and amortization expense.

Investing Activities

Capital expenditures were $3,005 for the nine months ended September 30, 2007 compared to $1,235 for the nine months ended September 30, 2006. Cash paid for the acquisition of certain business assets of Chinook Global Limited and the Akzo Nobel Methylamines and Choline business was $40,640.

Financing Activities

In June 1999, the board of directors authorized the repurchase of shares of the Company's outstanding common stock over a two-year period commencing July 2, 1999. Under this program, which was subsequently extended, the Company had, as of December 31, 2004, repurchased a total 1,158,692 shares at an average cost of $2.74 per share, none of which remained in treasury at December 31, 2004. In June 2005, the board of directors authorized another extension of the stock repurchase program for up to an additional 1,350,000 shares, over and above those 1,158,692 shares previously repurchased under the program. Under this extension, a total of 149,175 shares were purchased at an average cost of $8.03 per share, none of which remained in treasury at September 30, 2007. During the nine months ended September 30, 2007, 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 $10,244 (the "European Term Loan"), the proceeds of which were used to fund the Akzo Nobel Acquisition (see Note 3) 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 September 30, 2007, this interest rate was 5.41%. The European Loan Agreement also provides for a short-term revolving credit facility of (euro)2,000, translated to $2,854 as of September 30, 2007 (the "European Revolving Facility"). The European Revolving Facility is subject to a monthly interest rate equal to EURIBOR plus 1.25%, and accrued interest is payable monthly. The Company has drawn down the European Revolving Facility in full as of September 30, 2007. The European Revolving Facility has a maturity date of May 1, 2008. 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 "New Loan Agreement") providing for an unsecured term loan of $29,000 (the "New

Term Loan"), the proceeds of which were used to fund the Chinook Acquisition (see Note 3). The New Term Loan is payable in equal monthly installments of principal, each equal to 1/60th of the principal of the New Term Loan, together with accrued interest, with remaining principal and interest payable at maturity. The New Term Loan has a maturity date of March 16, 2010 and is subject to a monthly interest rate equal to LIBOR plus 1%. At September 30, 2007, this interest rate was 6.75%. As of September 30, 2007, the Company has prepaid $2,500 of the New Term Loan. The New Loan Agreement also provides for a short-term revolving credit facility of $6,000 (the "New Revolving Facility"). The New Revolving Facility is subject to a monthly interest rate equal to LIBOR plus 1%, and accrued interest is payable monthly. No amounts have been drawn on the New Revolving Facility as of the date hereof. The New Revolving Facility has a maturity date of May 31, 2009. Management believes that such facility will be renewed in the normal course of business.

Proceeds from stock options exercised totaled $752 and $321 for the nine months ended September 30, 2007 and 2006, respectively. Dividend payments were $1,596 and $1,045 for the nine months ended September 30, 2007 and 2006, 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 September 30, 2007 for this obligation is $779. The postretirement plan is not funded. Historical cash payments made under such plan have approximated $50 per year.

Critical Accounting Policies

Accounting for Uncertainty in Income Taxes

As discussed above, effective January 1 2007, the Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). This interpretation, among other things, creates a two-step approach for evaluating uncertain tax positions. Recognition (step one) occurs when an enterprise concludes that a tax position, based solely on its technical merits, is more-likely-than-not to be sustained upon examination. Measurement (step two) determines the amount of benefit that more-likely-than-not will be realized upon settlement. De-recognition of a tax position that was previously recognized would occur when a company subsequently determines that a tax position no longer meets the more-likely-than-not threshold of being sustained. FIN 48 specifically prohibits the use of a valuation allowance as a substitute for de-recognition of tax positions, and it has expanded disclosure requirements. The adoption of FIN 48 resulted in a non-cash transition charge of $291, recorded as a reduction to beginning retained earnings.

Other than the aforementioned adoption of FIN 48, there were no changes to the Company's Critical Accounting Policies, as described in its December 31, 2006 Annual Report on Form 10-K, during the nine months ended September 30, 2007.

Related Party Transactions

The Company was not engaged in related party transactions during the nine months ended September 30, 2007 and all transactions of the Company during such period were at arms length.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Cash and cash equivalents are invested primarily in money market accounts. Accordingly, we believe we have limited exposure to market risk for changes in interest rates. 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 September 30, 2007, the Company's borrowings were under a bank term loan bearing interest at LIBOR plus 1.00%, a second bank term loan bearing interest at EURIBOR plus 1.00%, and a revolving line of credit bearing interest at EURIBOR plus 1.25%. A 100 basis point increase or decrease in interest rates, applied to the Company's borrowings at September 30, 2007, would result in an increase or decrease in annual interest expense and a corresponding reduction or increase in cash flow of approximately $366. 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, 2006.

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

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.

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, President and
Chief Executive Officer

Date: November 9, 2007

Exhibit Index

Exhibit No.	Description
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