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BALCHEM CORP
Form 10-K/A
August 13, 2004

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

FORM 10-K/A
Amendment No. 1

(Mark One)

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

For the fiscal year ended December 31, 2003

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
(State or other jurisdiction of
incorporation or organization)

13-257-8432
(I.R.S. Employer
Identification Number)

P.O. Box 600, New Hampton,
NY 10958
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (845) 326-5600

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value \$.06-2/3 per share	American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the Common Stock issued and outstanding and held by nonaffiliates of the Registrant, based upon the closing price for the Common Stock on the American Stock Exchange on June 30, 2003 was approximately \$111,889,838. For purposes of this calculation, shares of the registrant held by directors and officers of the registrant and under the registrant's 401(k)/profit sharing plan have been excluded.

The number of shares outstanding of the Registrant's common stock was 4,945,273 as of March 1, 2004.

DOCUMENTS INCORPORATED BY REFERENCE

Selected portions of the registrant's proxy statement for its 2004 Annual Meeting of Stockholders (the "2004 Proxy Statement") are incorporated by reference in Part III of this Report.

Explanatory Note

Balchem Corporation is filing this Amendment No. 1 on Form 10-K/A (the "Form 10-K/A") to its Annual Report on Form 10-K for the period ended December 31, 2003, dated March 15, 2004 (the "Form 10-K"), to reflect revisions to (i) the Index to Financial Statements and Supplementary Financial Data, (ii) the Report of Independent Registered Public Accounting Firm, (iii) the Exhibit List and Exhibit Index and (iv) Consent of Independent Registered Public Accounting Firm.

In accordance with the rules of the Commission, the affected items of the Form 10-K, Item 8 of Part II and Item 15 of Part IV, along with the exhibit index are being amended and restated in their entirety. This Form 10-K/A does not reflect information subsequent to, or events occurring after, the original filing of the Form 10-K, other than the amendments discussed above and reflected below.

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Item 8. Financial Statements and Supplementary Data

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Balchem Corporation:

We have audited the accompanying consolidated financial statements of Balchem Corporation and subsidiaries as listed in the accompanying index. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule as listed in the accompanying index. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Balchem Corporation and subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2003, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As described in Note 1 to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" effective January 1, 2002.

/s/ KPMG LLP

Short Hills, New Jersey
February 6, 2004

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BALCHEM CORPORATION
Consolidated Balance Sheets
December 31, 2003 and 2002

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(Dollars in thousands, except share and per share data)

Assets	2003

Current assets:	
Cash and cash equivalents	\$ 9,239
Accounts receivable, net of allowance for doubtful accounts of \$86 and \$90 at December 31, 2003 and 2002, respectively	7,233
Inventories	5,961
Prepaid income taxes	--
Prepaid expenses	723
Deferred income taxes	474

Total current assets	23,630

Property, plant and equipment, net	25,636
Excess of cost over net assets acquired less accumulated amortization	6,368
Intangibles assets, net	1,272

Total assets	\$ 56,906
	=====

(continued)

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BALCHEM CORPORATION
Consolidated Balance Sheets, continued
December 31, 2003 and 2002
(Dollars in thousands, except share and per share data)

Liabilities and Stockholders' Equity	2003

Current liabilities:	
Trade accounts payable	\$ 1,254
Accrued expenses	1,508
Accrued compensation and other benefits	1,182
Dividends payable	389
Current portion of long-term debt	1,742

Total current liabilities	6,075

Long-term debt	7,839
Deferred income taxes	2,226
Other long-term obligations	985

Total liabilities	17,125

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Commitments and contingencies (note 11)

Stockholders' equity:

Preferred stock, \$25 par value. Authorized 2,000,000 shares; none issued and outstanding	--
Common stock, \$.0667 par value. Authorized 10,000,000 shares; 4,903,238 shares issued and 4,860,078 shares outstanding at December 31, 2003 and 4,903,238 shares issued and 4,775,684 shares outstanding at December 31, 2002	327
Additional paid-in capital	3,902
Retained earnings	36,056
Treasury stock, at cost: 43,160 and 127,554 shares at December 31, 2003 and 2002, respectively	(504)

Total stockholders' equity	39,781

Total liabilities and stockholders' equity	\$ 56,906
	=====

See accompanying notes to consolidated financial statements.

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BALCHEM CORPORATION
Consolidated Statements of Earnings
Years Ended December 31, 2003, 2002 and 2001
(In thousands, except per share data)

	2003	2002	2001
	-----	-----	-----
Net sales	\$ 61,875	\$ 60,197	\$ 46,142
Cost of sales	40,723	36,887	28,216
	-----	-----	-----
Gross profit	21,152	23,310	17,926
Operating expenses:			
Selling expenses	5,718	5,426	4,380
Research and development expenses	2,083	1,907	1,631
General and administrative expenses	4,336	3,792	3,760
	-----	-----	-----
	12,137	11,125	9,771
	-----	-----	-----
Earnings from operations	9,015	12,185	8,155
Other expenses (income):			
Interest income	(20)	(42)	(110)
Interest expense	272	389	387
Other, net	--	(7)	(491)
	-----	-----	-----

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Earnings before income tax expense	8,763	11,845	8,369
Income tax expense	3,125	4,429	3,259
	-----	-----	-----
Net earnings	\$ 5,638	\$ 7,416	\$ 5,110
	=====	=====	=====
Basic net earnings per common share	\$ 1.17	\$ 1.56	\$ 1.10
	=====	=====	=====
Diluted net earnings per common share	\$ 1.13	\$ 1.50	\$ 1.05
	=====	=====	=====

See accompanying notes to consolidated financial statements.

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BALCHEM CORPORATION
Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2003 2002 and 2001
(Dollars in thousands, except share and per share data)

	Common Shares	Stock Amount	Additional Paid-in Capital	Retained Earnings	S
	-----	-----	-----	-----	---
Balance - December 31, 2000	4,903,238	327	3,082	18,968	(2)
Net earnings	--	--	--	5,110	
Dividends (\$.065 per share)	--	--	--	(305)	
Shares issued under employee benefit plans	--	--	116	--	
Shares issued under stock option plans and an income tax benefit of \$235	--	--	189	--	
	-----	-----	-----	-----	---
Balance - December 31, 2001	4,903,238	327	3,387	23,773	(2)
Net earnings	--	--	--	7,416	
Dividends (\$.08 per share)	--	--	--	(382)	
Shares issued under employee benefit plans	--	--	136	--	
Shares issued under stock option plans and an income tax benefit of \$147	--	--	23	--	
	-----	-----	-----	-----	---
Balance - December 31, 2002	4,903,238	\$ 327	\$ 3,546	\$ 30,807	(1)
Net earnings	--	--	--	5,638	
Dividends (\$.08 per share)	--	--	--	(389)	
Shares issued under employee benefit plans	--	--	138	--	
Shares issued under stock option plans and an income tax benefit of \$183	--	--	218	--	
	-----	-----	-----	-----	---

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Balance - December 31, 2003	4,903,238	\$ 327	\$ 3,902	\$ 36,056	(
	=====	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

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BALCHEM CORPORATION
Consolidated Statements of Cash Flows
Years Ended December 31, 2003, 2002 and 2001
(In thousands, except per share data)

	2003	

Cash flows from operating activities:		
Net earnings	\$ 5,638	\$
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	3,525	
Shares issued under employee benefit plans	273	
Deferred income tax (benefit) expense	598	
Provision for doubtful accounts	36	
Changes in assets and liabilities net of effects of acquisition:		
Accounts receivable	(110)	
Inventories	1,277	
Prepaid expenses	582	
Accounts payable and accrued expenses	(1,676)	
Income taxes	975	
Other long-term obligations	35	
Net cash provided by operating activities	11,153	

Cash flows from investing activities:		
Capital expenditures	(2,270)	
Proceeds from sale of property, plant and equipment	41	
Cash paid for product lines acquired	--	
Cash paid for intangibles assets acquired	(85)	
Net cash used in investing activities	(2,314)	

Cash flows from financing activities:		
Proceeds from long-term debt	--	
Principal payments on long-term debt	(1,742)	
Proceeds from stock options and warrants exercised	807	
Dividends paid	(382)	
Other financing activities	(14)	
Net cash (used in) provided by financing activities	(1,331)	

Increase (decrease) in cash and cash equivalents	7,508	

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Cash and cash equivalents beginning of year	1,731

Cash and cash equivalents end of year	\$ 9,239
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See accompanying notes to consolidated financial statements.

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BALCHEM CORPORATION

Notes to Consolidated Financial Statements

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

NOTE 1- BUSINESS DESCRIPTION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business Description

Balchem Corporation ("Balchem", or the "Company"), incorporated in the State of Maryland in 1967, is engaged in the development, manufacture and marketing of specialty performance ingredients for the food, feed and medical sterilization industries.

Principles of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Revenue Recognition

Revenue is recognized upon product shipment, passage of title and risk of loss. The Company reports amounts billed to customers related to shipping and handling as revenue and includes costs incurred for shipping and handling in cost of sales.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

Inventories

Inventories are stated at the lower of cost or market, with cost generally determined on a first-in, first-out basis, and have been reduced by an allowance for excess or obsolete inventories. Cost elements include material, labor and manufacturing overhead.

Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost. Depreciation of plant and equipment is calculated using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	15-25 years
Equipment	3-12 years

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Expenditures for repairs and maintenance are charged to expense. Alterations and major overhauls that extend the lives or increase the capacity of plant assets are capitalized. When assets are retired or otherwise disposed of, the cost of the assets and the related accumulated depreciation are removed from the accounts and any resultant gain or loss is included in earnings.

Business Concentrations

A Specialty Products customer accounted for 10%, 9% and 11% of the Company's consolidated net sales for 2003, 2002 and 2001, respectively. This customer accounted for 12% and 11% of the Company's accounts receivable balance at December 31, 2003 and 2002, respectively. Approximately 8%, 9% and 8% of the Company's net sales consisted of sales outside the United States, predominately to Europe, Japan, and Mexico for 2003, 2002 and 2001, respectively.

Trade receivables potentially subject the Company to credit risk. The Company extends credit to its customers based upon an evaluation of the customers' financial condition and credit histories. The majority of the Company's customers are major national or international corporations.

Goodwill and Acquired 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 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 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. All of the Company's goodwill arose from the June 2001 acquisition described in Note 4.

As required by SFAS No. 142, the Company performed an assessment of whether there was an indication that goodwill was impaired at the date of adoption. In connection therewith, the Company determined that its operations consisted of three reporting units and determined each reporting units' fair value and compared it to the reporting unit's net book value. Since the fair value of each reporting unit exceeded its carrying amount, there was no indication of impairment and no further transitional impairment testing was required. As of December 31, 2003 and 2002, the Company also performed an impairment test of its goodwill balance. As of such date the Company's reporting units' fair value exceeded their carrying amounts, and therefore there was no indication that goodwill was impaired. Accordingly, the Company was not required to perform any

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further impairment tests. The Company plans to perform its impairment test each December 31 in the future.

The Company had unamortized goodwill in the amount of \$6,368 and \$6,398 at December 31, 2003 and December 31, 2002, respectively, subject to the provisions of SFAS Nos. 141 and 142. The decrease in goodwill was a result of a reimbursement of \$30 of the purchase price of the June 2001 acquisition of certain assets of DCV, Inc. and its affiliate, DuCoa L.P., as described in Note 4.

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The following table sets forth the reconciliation of previously reported net earnings to net earnings as if SFAS No. 142 was adopted as of January 1, 2001.

2001	
Net Earnings	
Net earnings as reported	\$5,110
Add Back: Goodwill Amortization, net of tax	105
Net earnings as adjusted	\$5,215
Earnings per share	
Basic EPS as reported	\$ 1.10
Basic EPS as adjusted	\$ 1.12
Diluted EPS as reported	\$ 1.05
Diluted EPS as adjusted	\$ 1.08

The following intangible assets are stated at cost and are amortized on a straight-line basis over the following estimated useful lives:

Customer lists	6-10 years
Re-registration costs	10 years

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

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Use of Estimates

Management of the Company is required to make certain estimates and assumptions during the preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. These estimates and assumptions impact the reported amount of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the consolidated financial statements. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the consolidated financial statements in the period they are determined to be necessary. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The Company has a number of financial instruments, none of which are held for trading purposes. The Company estimates that the fair value of all financial instruments at December 31, 2003 and 2002 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying consolidated balance sheets. The estimated fair value amounts have been determined by the Company using available market information and

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appropriate valuation methodologies. Considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value, and, accordingly, the estimates are not necessarily indicative of the amounts that the Company could realize in a current market exchange. The Company's financial instruments, principally cash equivalents, accounts receivable, accounts payable and accrued liabilities, are carried at cost which approximates fair value due to the short-term maturity of these instruments. As amounts outstanding under the Company's credit agreements bear interest approximating current market rates, their carrying amounts approximate fair value.

Accounting for Derivative Instruments and Hedging Activities

Effective January 1, 2001, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, ("SFAS 133") which requires that all derivative financial instruments be reported on the balance sheet at fair value and establishes criteria for designation and effectiveness of transactions entered into for hedging purposes.

The implementation of this standard did not have a material effect on the Company's consolidated financial statements because the Company did not have any derivative financial instruments at January 1, 2001 or during 2001, 2002 or 2003.

Research and Development

Research and development costs are expensed as incurred.

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Stock Option Plan

At December 31, 2003, the Company has stock based employee compensation plans which are described more fully in Note 8. The Company accounts for its stock option plans in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations. As such, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeds the exercise price. No stock based employee compensation cost is reflected in net earnings, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The Company has adopted the disclosure standards of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation" and SFAS 148, "Accounting for Stock-Based Compensation - Transition and Disclosure an amendment of FASB Statement 123," which requires the Company to provide pro forma net earnings and pro forma earnings per share disclosures for employee and director stock option grants made as if the fair-value based method of accounting for stock options as defined in SFAS No. 123 has been applied. The following table illustrates the effect on net earnings and per share amounts if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock based employee compensation:

Year Ended December 31		
2003	2002	2001
(In thousands, except per share amounts)		

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Net Earnings			
Net earnings, as reported	\$ 5,638	\$ 7,416	\$ 5,110
Deduct: Total stock-based employee compensation expense determined under fair value based method, net of related tax effects	(731)	(452)	(296)
Net earnings as adjusted	\$ 4,907	\$ 6,964	\$ 4,814
Earnings per share:			
Basic EPS as reported	\$ 1.17	\$ 1.56	\$ 1.10
Basic EPS as adjusted	\$ 1.02	\$ 1.47	\$ 1.03
Diluted EPS as reported	\$ 1.13	\$ 1.50	\$ 1.05
Diluted EPS as adjusted	\$.98	\$ 1.41	\$.99

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The fair value of each stock option granted during the year is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	2003	2002	2001
Expected life (years)	5	5	5
Expected volatility	33%	32%	49%
Expected dividend yield	.40%	.40%	.50%
Risk-free interest rate	3.0%	3.7%	4.4%
Weighted average fair value of options granted during the year	\$8.08	\$9.47	\$10.94

Impairment of Long-lived Assets

Long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset, which is generally based on discounted cash flows.

New Accounting Pronouncements

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" ("SFAS No. 143"). SFAS No. 143 requires the Company to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal use of the assets. The Company also records a corresponding asset which is depreciated over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation will be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The Company was required to adopt SFAS No. 143 on January 1, 2003. The adoption of SFAS No. 143 did not

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have a material effect on the Company's consolidated financial statements.

In June 2002, the FASB issued Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement nullifies EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." Statement No. 146 is different from EITF Issue No. 94-3 in that Statement No. 146 requires that a liability be recognized for a cost associated with an exit or disposal activity only when the liability is incurred, that is when it meets the definition of a liability in the FASB's conceptual framework. Statement No. 146 also establishes fair value as the objective for initial measurement of liabilities related to exit or disposal activities. In contrast, under

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EITF Issue 94-3, a company recognized a liability for an exit cost when it committed to an exit plan. Statement No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of Statement No. 146 can be expected to impact the timing of liability recognition associated with any future exit activities.

In November 2002, the FASB issued FASB Interpretation No. 45 (FIN45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others." This interpretation elaborates on the disclosures to be made by a guarantor in interim and annual financial statements about its obligations under guarantees issued. FIN 45 also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The Company was required to adopt FIN 45 on December 31, 2002. The adoption of FIN 45 did not have a material effect on the Company's financial position or results of operations.

In December 2002, the FASB issued Statement No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure "SFAS No. 148." SFAS No. 148 amends FASB Statement No. 123, Accounting for Stock-Based Compensation ("SFAS No. 123"), to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of SFAS No. 123 to require prominent disclosures about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. SFAS No. 148 also amends APB Opinion No. 28 ("Opinion No. 28"), Interim Financial Reporting, to require disclosures about those effects in interim financial information. The amendments to SFAS No. 123 include certain disclosure provisions that are effective for financial statements for fiscal years ending after December 15, 2002, and other disclosure provisions as well as the amendment to Opinion No. 28 shall be effective for financial reports containing condensed financial statements for interim periods beginning after December 15, 2002. The Company currently accounts for its stock-based compensation awards to employees and directors using the intrinsic value method as prescribed by Accounting Principles Board Opinion No. 25, and provides the disclosures required by SFAS No. 123. The Company adopted the disclosure provisions of SFAS No. 148 during the first quarter of 2003.

In May 2003, the FASB issued SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities

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and equity. It requires that an issuer classify a freestanding financial instrument that is within its scope as a liability (or an asset in some circumstances). The adoption of SFAS 150 did not have an impact on the Company's consolidated financial statements.

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On December 24, 2003, the Financial Accounting Standards Board ("FASB") issued Financial Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities (FIN 46R), which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. The Interpretation replaces Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46), which was issued on January 17, 2003. The effective date of FIN 46R depends on whether the reporting enterprise is a public or nonpublic company and on the nature of the entity in which the reporting entity has a variable interest. The initial adoption of this accounting pronouncement will not have a material effect on the Company's consolidated financial statements.

Net Earnings Per Common Share

Basic net earnings per common share is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net earnings per common share is calculated in a manner consistent with basic net earnings per common share except that the weighted average number of common shares outstanding also includes the dilutive effect of stock options outstanding (using the treasury stock method).

NOTE 2-INVENTORIES

Inventories at December 31, 2003 and 2002 consist of the following:

	2003	2002
Raw materials	\$ 1,914	\$ 2,042
Finished goods	4,047	5,196
Total inventories	\$ 5,961	\$ 7,238

NOTE 3- PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at December 31, 2003 and 2002 are summarized as follows:

	2003	2002
Land	\$ 290	\$ 290
Building	10,264	9,271
Equipment	27,781	24,582
Construction in Progress	123	2,728
	38,458	36,871
Less: Accumulated depreciation	12,822	11,019
Net property, plant and equipment	\$ 25,636	\$ 25,852

Depreciation expense was \$2,445, \$1,833 and \$1,329 for the years ended December 31, 2003, 2002 and 2001, respectively.

NOTE 4 - PRIOR YEAR ACQUISITION

Effective as of June 1, 2001, pursuant to a certain Asset Purchase Agreement, dated as of May 21, 2001 (the "Asset Purchase Agreement"), BCP Ingredients, Inc. ("Buyer"), a wholly owned subsidiary of Balchem Corporation, acquired certain assets, excluding accounts receivable and inventories, relating to the choline animal feed, human choline nutrient and encapsulated product lines of DCV, Inc. and its affiliate, DuCoa L.P., including DuCoa's manufacturing facility in Verona, Missouri.

The purchase price, including acquisition costs, was approximately \$15,290, of which approximately \$14,259 was paid in cash, with the balance reflecting the assumption by the Buyer of certain liabilities. The Buyer also assumed certain obligations of DuCoa for retiree medical benefits under the collective bargaining agreement covering various employees at the Verona facility. The acquisition was financed with a \$13,500 term loan and approximately \$759 in existing cash. The Asset Purchase Agreement also called for the payment of up to an additional \$2,750 based upon the sales of specified product lines achieving certain gross margin levels (in excess of specified thresholds) over the three year period following the closing, with no more than \$1,000 payable for any particular yearly period. Additionally, pursuant to the agreement, a reimbursement of a part of the purchase price could be due the Company for the first year of such calculation. Based upon the results of the calculation for the first one year period ended June 2002, a reimbursement of \$30 was received by the Company in 2003. Such reimbursement was recorded as a reduction of the cost of the acquired product lines. No contingent consideration has been earned or paid for the second one year period ended June 2003. Any future contingent consideration would be recorded as an additional cost of the acquired product lines. Effective January 1, 2002, the Company adopted the provisions of SFAS No. 142 and the amortization of such goodwill ceased.

The allocation of the purchase price of the acquisition has been assigned to the net assets acquired as follows:

	Fair Value Recorded in Purchase Accounting

Property, plant and equipment	\$ 9,518
Retiree Medical Obligation	(821)
Other Receivable	31
Goodwill	6,562

Total Purchase Price	\$ 15,290
Current Liabilities Assumed	(1,031)

Total Cash Paid	\$ 14,259
	=====

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The above 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 consolidated financial statements include the results of operations of the acquired product lines from the date of purchase.

Pro Forma Summary of Operations:

The following unaudited pro forma information has been prepared as if the aforementioned acquisition had occurred on January 1, 2000 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 interest on borrowings to finance the acquisition and 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 aforementioned acquisition, and related financing transactions had occurred at the beginning of the periods presented and is not intended to be a projection of future results.

=====	
Pro-Forma	
Twelve Months Ended	
December 31,	
2001	

Net sales	\$ 54,866
Net earnings	\$ 4,482
Basic EPS	\$.96
Diluted EPS	\$.92
=====	

NOTE 5- INTANGIBLE ASSETS

As of December 31, 2003 and 2002 the Company had identifiable intangible assets as follows:

=====				
	Amortization	2003	2003	2002
	period	Gross	Accumulated	Gross
	(in years)	Carrying	Amortization	Carrying
		Amount		Amount

Customer lists	10	\$ 6,760	\$ 6,124	\$ 6,760
Re-registration costs	10	356	347	356
Patents	17	487	81	386
Trademarks	17	205	25	191
Other	5	54	13	53
		\$ 7,862	\$ 6,590	\$ 7,746
=====				

Amortization of identifiable intangible assets was approximately \$1,080 for 2003. Assuming no change in the gross carrying value of identifiable intangible

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assets, the estimated amortization expense for 2004 is approximately \$690, approximately \$41 in the second succeeding year, and approximately \$41 in the third and fourth succeeding years. At December 31, 2003, there were no identifiable intangible assets with indefinite useful lives as defined by SFAS No. 142. Identifiable intangible assets are reflected in Intangible assets in the Company's consolidated balance sheets. There were no changes to the useful lives of intangible assets subject to amortization in 2003.

In 1994, the Company purchased certain tangible and intangible assets for one of its packaged specialty products for \$1,500 in cash and the Company was required to pay additional contingent amounts to compensate the seller for the purchase of the seller's customer list in accordance with a formula based on profits derived from sales of the specialty packaged ingredient. In 1998, the Company elected to exercise the early payment option under the agreement and made a final payment of \$3,700 to the seller in settlement of its remaining purchase price obligation under the terms of the agreement. Amounts allocated to the customer list are being amortized over its remaining estimated useful life on a straight-line basis through August, 2004 and are included in cost of sales. Amortization expense included in cost of sales related to this customer list was \$997 in 2003, 2002 and 2001, respectively.

The Company is in the process of re-registering a product it sells for sterilization of medical devices and other uses. The re-registration requirement is a result of a congressional enactment during 1988 requiring the re-registration of this product and all other products that are used as pesticides. The Company, in conjunction with one other company, has been conducting the required testing under the direction of the Environmental Protection Agency ("EPA"). Testing has concluded and the EPA has stated that, due to a backlog of projects, it cannot anticipate a date for completing the re-registration process for this product at this time. The Company's management believes it will be successful in obtaining re-registration for the product as it has met the EPA's requirements thus far, although no assurance can be given. Additionally, the product is used as a sterilant with no known substitute. Management believes absence of availability of this product could not be easily tolerated by medical device manufacturers and the health care industry due to the resultant infection potential if the product were unavailable.

NOTE 6 - LONG-TERM DEBT & CREDIT AGREEMENTS

On June 1, 2001, the Company and its principal bank entered into a Loan Agreement (the "Loan Agreement") providing for a term loan of \$13,500 (the "Term Loan"), the proceeds of which were used to fund the aforementioned acquisition of certain assets of DCV, Inc. and its affiliate DuCoa L.P. The Term Loan is payable in equal monthly installments of principal beginning October 1, 2001 of approximately \$145, together with accrued interest, and has a maturity date of May 31, 2009. Borrowings under the Term Loan bear interest at LIBOR plus 1.25% (2.42% and 2.63% at December 31, 2003 and 2002,

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respectively). Certain provisions of the Term Loan require maintenance of certain financial ratios, limit future borrowings and impose certain other requirements as contained in the agreement. At December, 2003, the Company was in compliance with all restrictive covenants contained in the Loan Agreement. The Loan Agreement also provides for a short-term revolving credit facility of \$3,000 (the "Revolving Facility"). Borrowings under the Revolving Facility bear interest at LIBOR plus 1.00% (2.17% and 2.32% at December 31, 2003 and 2002, respectively). No amounts have been drawn on the Revolving Facility as of the date hereof. The Revolving Facility expires on May 30, 2004. Management believes that such facility will be renewed in the normal course of business.

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Indebtedness under the Loan Agreement is secured by substantially all of the assets of the Company other than real properties.

As of December 31, 2003, long-term debt matures as follows:

```

=====
2004                1,742
2005                1,742
2006                1,742
2007                1,742
2008                1,742
2009                 871
-----
Total                $ 9,581
=====

```

NOTE 7 - INCOME TAXES

Income tax expense consists of the following:

```

=====
                                     2003          2002          2001
-----
Current:
  Federal                $ 2,111        $ 2,874        $ 2,515
  State                   416            538            632
Deferred:
  Federal                 557            895            99
  State                    41            122            13
-----
Total income tax provision    $ 3,125        $ 4,429        $ 3,259
=====

```

The provision for income taxes differs from the amount computed by applying the Federal statutory rate of 35% to earnings before income tax expense due to the following:

```

=====
                                     2003          2002          2001
-----
Income tax at Federal
  statutory rate         $ 3,067        $ 4,027        $ 2,846
State income taxes, net of
  Federal income tax benefit    297            435            426
Other                     (239)          (33)           (13)
-----
Total income tax provision    $ 3,125        $ 4,429        $ 3,259
=====

```

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2003 and 2002 are as follows:

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=====
                                     2003          2002
-----
Deferred tax assets:

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Customer list amortization	\$	720	\$	705
Inventories		292		343
Deferred compensation		93		25
Non-employee stock options		100		102
Other		178		125

Total deferred tax assets		1,383		1,300

Deferred tax liabilities:				
Depreciation		3,135		2,454

Total deferred tax liabilities		3,135		2,454

Net deferred tax liability	\$	1,752	\$	1,154
=====				

There is no valuation allowance for deferred tax assets at December 31, 2003 and 2002. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences. The amount of deferred tax asset realizable, however, could change if management's estimate of future taxable income should change.

NOTE 8 - STOCKHOLDERS' EQUITY

In June 1999, the board of directors authorized the repurchase of up to 1,000,000 shares of the Company's outstanding common stock over a two-year period commencing July 2, 1999, which was subsequently extended. Through December 31, 2003, the Company has

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repurchased 343,316 shares at an average cost of \$9.26 per share of which 43,360 remain in treasury at December 31, 2003. In June 2003, the board of directors authorized an extension to the stock repurchase program for up to an additional 600,000 shares that is, over and above those repurchased to date under the program, through June 30, 2004.

In June 1999, the Company adopted the Balchem Corporation 1999 Stock Plan (the "1999 Stock Plan") for officers, directors, directors emeritus and employees of and consultants to the Company and its subsidiaries. The 1999 Stock Plan is administered by the Compensation Committee of the Board of Directors of the Company. Under the plan, options and rights to purchase shares of the Company's common stock are granted at prices established at the time of grant. Option grants generally become exercisable 20% after 1 year, 60% after 2 years and 100% after 3 years from the date of grant for employees and are fully exercisable on the date of grant for directors. Other option grants are either fully exercisable on the date of grant or become exercisable thereafter in such installments as the Committee may specify. The 1999 Stock Plan reserves an aggregate of 600,000 shares of common stock for issuance under the Plan. In April 2003, the Board of Directors of the Company adopted and stockholders subsequently approved, the Amended and Restated 1999 Stock Plan which amended

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the 1999 Stock Plan by: (i) increasing the number of shares of Common Stock reserved for issuance under the 1999 Stock Plan by 600,000 shares, to a total of 1,200,000 shares of Common Stock; and (ii) confirming the right of the Company to grant awards of Common Stock ("Awards") in addition to the other Stock Rights available under the 1999 Stock Plan, and providing certain language changes relating thereto. The 1999 Stock Plan replaced the Company's incentive stock option plan (the "ISO Plan") and its non-qualified stock option plan (the "Non-Qualified Plan"), both of which expired on June 24, 1999. Unexercised options granted under the ISO Plan and the Non-Qualified Plan prior to such termination remain exercisable in accordance with their terms. Options granted under the ISO Plan generally become exercisable 20% after 1 year, 60% after 2 years and 100% after 3 years from the date of grant, and expire ten years from the date of grant. Options granted under the Non-Qualified Plan, generally vested on the date of grant, and expire ten years from the date of grant.

A summary of stock option plan activity for 2003, 2002, and 2001 for all plans is as follows:

2003	# of Shares	Weighted Average Exercise Price
Outstanding at beginning of year	584,670	\$ 14.62
Granted	124,960	21.77
Exercised	(71,459)	11.30
Terminated or expired	(37,560)	22.26
Outstanding at end of year	600,611	\$ 16.03
Exercisable at end of year	399,831	\$ 13.15

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2002	# of Shares	Weighted Average Exercise Price
Outstanding at beginning of year	544,372	\$12.17
Granted	108,150	22.86
Exercised	(65,652)	7.84
Terminated or expired	(2,200)	14.82
Outstanding at end of year	584,670	\$14.62
Exercisable at end of year	347,760	\$10.84

2001	# of Shares	Weighted Average Exercise Price
Outstanding at beginning of year	441,797	\$ 8.55
Granted	179,662	18.96
Exercised	(71,327)	7.15
Terminated or expired	(5,760)	8.49
Outstanding at end of year	544,372	\$12.17
Exercisable at end of year	326,972	\$ 9.68

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Information related to stock options outstanding under all plans at December 31, 2003 is as follows:

Range of Exercise Prices	Shares Outstanding	Options Outstanding		Options Exer
		Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable
\$ 5.38 - \$10.75	196,326	4.6 years	\$ 8.93	196,326
11.13 - 18.91	149,209	7.4 years	14.64	123,169
20.05 - 24.91	255,076	8.6 years	22.30	80,336
	600,611	7.1 years	\$16.03	399,831

NOTE 9 - NET EARNINGS PER COMMON SHARE

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

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2003	Earnings (Numerator)	Number of Shares (Denominator)
Basic EPS - Net earnings and weighted average common shares outstanding	\$5,638	4,815,884
Effect of dilutive securities - stock options		181,935
Diluted EPS - Net earnings and weighted average common shares outstanding and effect of stock options	\$5,638	4,997,819

2002	Earnings (Numerator)	Number of Shares (Denominator)
Basic EPS - Net earnings and weighted average common shares outstanding	\$7,416	4,750,784

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Effect of dilutive securities - stock options		204,297

Diluted EPS - Net earnings and weighted average common shares outstanding and effect of stock options	\$7,416	4,955,081
=====		

2002	Earnings (Numerator)	Number of Shares (Denominator)

Basic EPS - Net earnings and weighted average common shares outstanding	\$5,110	4,660,922
Effect of dilutive securities - stock options		186,555

Diluted EPS - Net earnings and weighted average common shares outstanding and effect of stock options	\$5,110	4,847,477
=====		

The Company had 166,150, 94,950 and 103,562 stock options outstanding at December 31, 2003, 2002 and 2001, 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 10 - EMPLOYEE BENEFIT PLANS

The Company sponsors a 401(k) savings 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 provided for profit sharing contributions and matching 401(k) savings plan contributions of \$307 and \$273 in 2003, \$241 and \$320 in 2002 and \$263 and \$201 in 2001, respectively.

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 the Verona facility.

The actuarial recorded liabilities for such unfunded postretirement benefit is as follows:

Change in benefit obligation:

	2003	2002

Benefit obligation at beginning of year	\$ 976	\$ 910
Service Cost with Interest to End of Year	32	26
Interest Cost	62	61
Participant contributions	23	19

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Acquisitions/divestitures	--	--
Benefits Paid	(77)	(68)
Actuarial (gain) or loss	66	28

Benefit obligation at end of year	\$ 1,082	\$ 976
=====		

Change in plan assets:

	2003	2002

Fair value of plan assets at beginning of year	\$ --	\$ --
Actual return on plan assets	--	--
Employer contributions	54	49
Participant contributions	23	19
Acquisitions/divestitures	--	--
Benefits Paid	(77)	(68)
Exchange Rate Changes	--	--

Benefit obligation at end of year	\$ --	\$ --
=====		

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Amounts recognized in consolidated balance sheet:

	2003

Accumulated Postretirement Benefit Obligation	\$ (1,082)
Fair Value of Plan Assets	--
Funded Status	(1,082)
Unrecognized Transition Obligation	--
Unrecognized Prior Service Cost	--
Unrecognized Net (Gain)/Loss	182

Accrued Postretirement Benefit Cost (included in other long-term obligations)	\$ 900
=====	

Components of net periodic benefit cost:

	2003	2002

Service Cost	32	26
Interest Cost	62	61
Expected return on plan assets	--	--
Amortization of transition obligation	--	--
Amortization of prior service cost	--	--
Amortization of (gain) or loss	1	--

Benefit obligation at end of year	\$ 95	\$ 87
=====		

Assumed health care cost trend rates have been used in the valuation of postretirement health insurance benefits. The trend rate is 11 percent in 2003

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declining to 5.5 percent in 2009 and thereafter. A one percentage point increase in health care cost trend rates in each year would increase the accumulated postretirement benefit obligation as of December 31, 2003 by \$205 and the net periodic postretirement benefit cost for 2003 by \$18. A one percentage point decrease in health care cost trend rates in each year would decrease the accumulated postretirement benefit obligation as of December 31, 2003 by \$188 and the net periodic postretirement benefit cost for 2003 by \$17. The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 6.25% in 2003 and 6.625% in 2002.

The Company has elected to defer accounting for the economic effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act). In accordance with FSP FAS 106-1, any measures of the accumulated postretirement plan benefit obligation or net periodic postretirement plan benefit cost in the consolidated financial statements or accompanying notes do not reflect the effects of the Act on the plan. Specific authoritative guidance on the accounting for the federal subsidy is pending and that guidance, when issued, could require the Company to change previously reported information.

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NOTE 11 - COMMITMENTS AND CONTINGENCIES

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 and office equipment under noncancelable operating leases, which expire at various times through 2011. Rent expense charged to operations under such lease agreements for 2003, 2002 and 2001 aggregated approximately \$564, \$382 and \$310, respectively. Aggregate future minimum rental payments required under noncancelable operating leases at December 31, 2003 are as follows:

Year	
2004	\$ 469
2005	449
2006	392
2007	351
2008	324
Thereafter	473
Total minimum lease payments	\$ 2,458

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. The cost for this clean-up and the related reports was approximately \$164. Clean-up was completed in 1996, but NYDEC required the Company to monitor the site through 1999. 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 recently been less than \$5 per year.

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The Company's Verona 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

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the conclusion of the 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 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 alternate outcome of such matters will not have a material effect on the Company's consolidated financial position, results of operations, or liquidity.

NOTE 12 - SEGMENT INFORMATION

The Company's reportable segments are strategic businesses that offer products and services to different markets. As a result of the aforementioned acquisition of certain assets of DCV, Inc. and its affiliate, DuCoa L.P., the Company presently has three segments, specialty products, encapsulated / nutritional products and, the unencapsulated feed supplements segment (also referred to as BCP Ingredients). Products relating to choline animal feed for non-ruminant animals are primarily reported in the unencapsulated feed supplements segment. Human choline nutrient products and encapsulated products are reported in the encapsulated / nutritional products segment. They are managed separately because each business requires different technology and marketing strategies. The specialty products segment consists of three specialty chemicals: ethylene oxide, propylene oxide and methyl chloride. The encapsulated / nutritional products segment is principally in the business of encapsulating performance ingredients for use throughout the food and animal health industries for processing, mixing, packaging applications and nutritional fortification and for shelf-life improvement. The unencapsulated feed supplements segment is in the business of manufacturing and supplying choline chloride, an essential nutrient for animal health, to the poultry and swine industries. In addition, certain derivatives of choline chloride are also manufactured and sold into industrial applications and are included in the unencapsulated feed supplements segment. The Company sells products for all segments through its own sales force, independent distributors, and sales agents. The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

Business Segment Net Sales:

	2003	2002	2001
Specialty Products	\$ 26,163	\$ 22,028	\$ 21,130
Encapsulated/Nutritional Products	24,043	27,990	18,312
BCP Ingredients	11,669	10,179	6,700
Total	\$ 61,875	\$ 60,197	\$ 46,142

Business Segment Earnings (Loss):

	2003	2002	2001
Specialty Products	\$ 9,409	\$ 7,240	\$ 6,612
Encapsulated/Nutritional Products	(962)	5,118	1,582
BCP Ingredients	568	(173)	(39)
Interest expense and other income (expense)	(252)	(340)	(214)
Earnings before income taxes	\$ 8,763	\$ 11,845	\$ 8,369

Depreciation/Amortization:

	2003	2002	2001
Specialty Products	\$ 1,991	\$ 1,689	\$ 1,585
Encapsulated/Nutritional Products	1,102	800	506
BCP Ingredients	431	428	530
Total	\$ 3,525	\$ 2,917	\$ 2,621

Business Segment Assets:

	2003	2002	2001
Specialty Products	\$ 14,287	\$ 13,993	\$ 11,074
Encapsulated/Nutritional Products	15,043	16,730	10,798
BCP Ingredients	17,099	17,954	18,181
Other Unallocated	10,477	4,621	4,424
Total	\$ 56,906	\$ 53,298	\$ 44,477

Other unallocated assets consist of cash, prepaid expenses, deferred income taxes and other deferred charges, which the Company does not allocate to its individual business segments.

Capital Expenditures:

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	2003	2002	2001
Specialty Products	\$ 1,090	\$ 5,273	\$ 414
Encapsulated/Nutritional Products	661	4,705	1,175
BCP Ingredients	519	42	361
Total	\$ 2,270	\$ 10,020	\$ 1,950

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Geographic Revenue Information:

	2003	2002	2001
United States	\$56,727	\$54,663	\$42,606
Foreign Countries	5,148	5,534	3,536
Total	\$61,875	\$60,197	\$46,142

The Company has no foreign based operations. Therefore, all long-lived assets are in the United States and revenue from foreign countries is based on customer ship-to address.

NOTE 13 - SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid during the year for:

	2003	2002	2001
Income taxes	\$2,110	\$4,386	\$3,220
Interest	\$ 272	\$ 389	\$ 387

Non-cash financing activities:

	2003	2002	2001
Dividends declared	\$ 389	\$ 382	\$ 305

NOTE 14 - QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

(In thousands, except per share data)

	2003					
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter
Net sales	\$14,816	\$14,860	\$15,791	\$16,408	\$14,389	\$15,668
Gross profit	5,651	5,488	4,657	5,356	5,294	6,564
Earnings before						

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income taxes	2,684	2,692	1,335	2,052	2,340	3,571
Net earnings	1,683	1,691	867	1,397	1,438	2,205
Basic net earnings						
per common share	\$.35	\$.35	\$.18	\$.29	\$.31	\$.46
Diluted net earnings						
per common share	\$.34	\$.34	\$.17	\$.28	\$.29	\$.45

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Schedule II

BALCHEM CORPORATION
Valuation and Qualifying Accounts
Years Ended December 31, 2003, 2002 and 2001
(In thousands)

Description	Balance at Beginning of Year	Additions	
		Charges to Costs and Expenses	Charges to Other Accounts
Year ended December 31, 2003			
Allowance for doubtful accounts:	\$ 90	\$ 36	--
Inventory obsolescence reserve	192	--	--
Year ended December 31, 2002			
Allowance for doubtful accounts:	\$ 50	\$ 70	--
Inventory obsolescence reserve	82	152	--
Year ended December 31, 2001			
Allowance for doubtful accounts:	48	65	--
Inventory obsolescence reserve	81	63	--

(a) represents write-offs.

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Part III

Item 15. Exhibits and Reports on Form 8-K.

(a) Exhibits:

- 2.1 Asset Purchase Agreement, dated as of May 21, 2001, among BCP Ingredients, Inc. and DuCoa L.P., DCV, Inc. and DCV GPH, Inc. and certain related agreements (forms of which constitute Exhibits to the Asset Purchase Agreement) as executed. (The Disclosure Schedule identified throughout Asset Purchase Agreement, Schedule A to the Obligations Undertaking (list of contracts assumed by BCP Ingredients, Inc.) and the Power of Attorney and Security Agreement (referred to in Section 2.6 of the Asset Purchase Agreement) and Post-Closing Escrow Agreement (referred to in Sections 3.2.2 and 3.3.3 of the Asset Purchase Agreement), have been omitted. The

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Company agrees to furnish a copy of these documents on a supplemental basis to the Securities and Exchange Commission upon request.) (incorporated by reference to exhibit 2.1 to the Company's Current Report on Form 8-K dated June, 2001(the "2001 8-K".))

- 3.1 Composite Articles of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1999 (the "1999 10-K")).
- 3.2 Composite By-laws of the Company.

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- 4.1 Loan Agreement dated June 1, 2001 by and between Fleet National Bank and Balchem Corporation, Note dated June 1, 2001 from Balchem Corporation to Fleet National Bank, and Promissory Note (Revolving Line of Credit) dated June 1, 2001 from Balchem Corporation to Fleet National Bank (incorporated by reference to exhibit 4.1 to the 2001 8-K).
 - 4.1.1 Amendment to Agreements No. 3, dated as of May 23, 2002, with respect to Loan Agreement dated June 1, 2001 by and between Fleet National Bank and Balchem Corporation and Amendment, dated December 27, 2002, to Loan Agreement dated June 1, 2001 by add between Fleet National Bank and Balchem Corporation (incorporated by reference to exhibit 4.1.1 to the Company's Annual Report on Form 10-K for the Fiscal Year ended December 31, 2002).
- 4.2 Guaranty dated June 1, 2001 from BCP Ingredients, Inc. to Fleet National Bank (incorporated by reference to exhibit 4.2 to the 2001 8-K).
- 4.3 Security Agreement dated June 1, 2001 from Balchem Corporation to Fleet National Bank (incorporated by reference to exhibit 4.3 to the 2001 8-K).
- 4.4 Security Agreement dated June 1, 2001 from BCP Ingredients, Inc. to Fleet National Bank (incorporated by reference to exhibit 4.4 to the 2001 8-K).
- 10.1 Incentive Stock Option Plan of the Company, as amended, (incorporated by reference to the Company's Registration Statement on Form S-8, File No. 33-35910, dated October 25, 1996, and to Proxy Statement, dated April 22, 1998, for the Company's 1998 Annual Meeting of Stockholders (the "1998 Proxy Statement")).*
- 10.2 Stock Option Plan for Directors of the Company, as amended (incorporated by reference to the Company's Registration Statement on Form S-8, File No. 33-35912, dated October 25, 1996, and to the 1998 Proxy Statement).*
- 10.3 Balchem Corporation Amended and Restated 1999 Stock Plan (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended July 30, 2003).*
- 10.4 Balchem Corporation 401(k)/Profit Sharing Plan, dated January 1, 1998 (incorporated by reference to Exhibit 4 to the Company's Registration Statement on Form S-8, File No. 333-4448, dated December 12, 1997).*

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- 10.5 Employment Agreement, dated as of January 1, 2001, between the Company and Dino A. Rossi ((incorporated by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001 (the "2001 10-K")). *
- 10.6 Agreements dated as of April 1, 1993, January 1, 1995 and April 25, 1997, as amended, between the Company and Dr. Charles McClelland (incorporated by reference to Exhibit 10.5 to the 1999 10-K).*

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- 10.7 Lease dated as of February 8, 2002 between Sunrise Park Realty, Inc. and Balchem Corporation (incorporated by reference to Exhibit 10.7 to the 2001 10-K).
- 14 Code of Ethics for Senior Financial Officers.
- 21. Subsidiaries of Registrant (incorporated by reference to Exhibit 21 to the 2001 10-K).
- 23.1 Consent of KPMG LLP, Registered Public Accounting Firm.
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a).
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a).
- 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.
- 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.
- * Each of the Exhibits noted by an asterisk is a management compensatory plan or arrangement.

- (b) Reports on Form 8-K.

On October 28, 2003, the Company furnished a report on Form 8-K announcing financial results for the quarter ended September 30, 2003.

On February 12, 2004, the Company furnished a report on Form 8-K announcing financial results for the quarter ended December 31, 2003.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this amendment to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: August 13, 2004

BALCHEM CORPORATION

By: /s/ Dino A. Rossi

 Dino A. Rossi, President,
 Chief Executive Officer

EXHIBIT INDEX

Exhibit Number -----	Description -----
2.1	Asset Purchase Agreement, dated as of May 21, 2001, among BCP Ingredients, Inc. and DuCoa L.P., DCV, Inc. and DCV GPH, Inc. and certain related agreements (forms of which constitute Exhibits to the Asset Purchase Agreement) as executed. (The Disclosure Schedule identified throughout Asset Purchase Agreement, Schedule A to the Obligations Undertaking (list of contracts assumed by BCP Ingredients, Inc.) and the Power of Attorney and Security Agreement (referred to in Section 2.6 of the Asset Purchase Agreement) and Post-Closing Escrow Agreement (referred to in Sections 3.2.2 and 3.3.3 of the Asset Purchase Agreement), have been omitted. The Company agrees to furnish a copy of these documents on a supplemental basis to the Securities and Exchange Commission upon request.) (incorporated by reference to exhibit 2.1 to the Company's Current Report on Form 8-K dated June, 2001(the "2001 8-K".))
3.1	Composite Articles of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1999 (the "1999 10-K")).
3.2	Composite By-laws of the Company.
4.1	Loan Agreement dated June 1, 2001 by and between Fleet National Bank and Balchem Corporation, Note dated June 1, 2001 from Balchem Corporation to Fleet National Bank, and Promissory Note (Revolving Line of Credit) dated June 1, 2001 from Balchem Corporation to Fleet National Bank (incorporated by reference to exhibit 4.1 to the 2001 8-K).
4.1.1	Amendment to Agreements No. 3, dated as of May 23, 2002, with respect to Loan Agreement dated June 1, 2001 by and between Fleet National Bank and Balchem Corporation and Amendment, dated December 27, 2002, to Loan Agreement dated June 1, 2001 by and between Fleet National Bank and Balchem Corporation (incorporated by reference to exhibit 4.1.1 to the Company's Annual Report on Form 10-K for the Fiscal Year ended December 31, 2002).
4.2	Guaranty dated June 1, 2001 from BCP Ingredients, Inc. to Fleet National Bank (incorporated by reference to exhibit 4.2 to the 2001 8-K).
4.3	Security Agreement dated June 1, 2001 from Balchem Corporation to Fleet National Bank (incorporated by reference to exhibit 4.3 to the 2001 8-K).
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(incorporated by reference to the Company's Registration Statement on Form S-8, File No. 33-35910, dated October 25, 1996, and to Proxy Statement, dated April 22,

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1998, for the Company's 1998 Annual Meeting of Stockholders (the "1998 Proxy Statement")).*

- 10.2 Stock Option Plan for Directors of the Company, as amended (incorporated by reference to the Company's Registration Statement on Form S-8, File No. 33-35912, dated October 25, 1996, and to the 1998 Proxy Statement).*
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arrangement.