

BALCHEM CORP
Form 10-Q
May 10, 2010

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

(Mark One) Quarterly Report Pursuant to Section 13 or 15(d) of
 x the Securities Exchange Act of 1934
 For The Quarterly Period Ended March 31, 2010
 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 (I.R.S. Employer Identification
 Number)
 incorporation or organization)
 52 Sunrise Park Road, New 10958
 Hampton, New York (Zip Code)
 (Address of principal executive offices)

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company

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

Yes No

As of May 1, 2010 the registrant had 28,190,728 shares of its Common Stock, \$.06 2/3 par value, outstanding.

Part 1 - Financial Information
Item 1. Financial Statements

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

Assets	March 31, 2010 (unaudited)	December 31, 2009
Current assets:		
Cash and cash equivalents	\$ 51,361	\$ 46,432
Accounts receivable, net	30,692	29,149
Inventories	15,845	13,965
Prepaid expenses	1,608	2,046
Deferred income taxes	875	891
Other current assets	294	529
Total current assets	100,675	93,012
Property, plant and equipment, net	41,811	41,579
Goodwill	26,658	26,658
Intangible assets with finite lives, net	25,585	26,504
Other assets	56	60
Total assets	\$ 194,785	\$ 187,813
Liabilities and Stockholders' Equity		
Current liabilities:		
Trade accounts payable	\$ 9,908	\$ 10,876
Accrued expenses	7,772	5,613
Accrued compensation and other benefits	2,555	4,399
Dividends payable	-	3,091
Income tax payable	6,447	3,053
Current debt	6,007	6,783
Total current liabilities	32,689	33,815
Deferred income taxes	4,366	5,030
Other long-term obligations	1,925	1,825
Total liabilities	38,980	40,670
Commitments and contingencies (note 12)		
Stockholders' equity:		

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Preferred stock, \$25 par value. Authorized 2,000,000 shares; none issued and outstanding	-	-
Common stock, \$.0667 par value. Authorized 60,000,000 shares; 28,183,505 shares issued and outstanding at March 31, 2010 and 28,097,279 shares issued and outstanding at December 31, 2009	1,879	1,873
Additional paid-in capital	28,545	26,541
Retained earnings	125,605	118,576
Accumulated other comprehensive (loss) income	(224)	153
Total stockholders' equity	155,805	147,143
Total liabilities and stockholders' equity	\$ 194,785	\$ 187,813

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2010	2009
Net sales	\$59,903	\$52,986
Cost of sales	42,489	36,688
Gross margin	17,414	16,298
Operating expenses:		
Selling expenses	3,826	3,649
Research and development expenses	868	808
General and administrative expenses	2,226	2,531
	6,920	6,988
Earnings from operations	10,494	9,310
Other expenses (income):		
Interest income	(70)	(10)
Interest expense	22	74
Other, net	(119)	80
Earnings before income tax expense	10,661	9,166
Income tax expense	3,632	3,068
Net earnings	\$7,029	\$6,098
Net earnings per common share - basic	\$0.25	\$0.23
Net earnings per common share - diluted	\$0.24	\$0.21

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2010	2009
Cash flows from operating activities:		
Net earnings	\$7,029	\$6,098
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	2,058	2,001
(Recovery of) provision for doubtful accounts	(140)	373
Shares issued under employee benefit plans	165	133
Deferred income taxes	(631)	(750)
Foreign currency transaction (gain) loss	(21)	44
Stock compensation expense	979	758
Changes in assets and liabilities:		
Accounts receivable	(1,778)	4,420
Inventories	(1,986)	1,203
Prepaid expenses and other current assets	649	1,732
Income taxes	3,444	3,230
Customer deposits and other deferred revenue	-	(5)
Accounts payable and accrued expenses	(175)	(775)
Other	104	40
Net cash provided by operating activities	9,697	18,502
Cash flows from investing activities:		
Capital expenditures	(2,015)	(594)
Proceeds from sale of property, plant and equipment	-	3
Acquisition of assets	-	(12)
Net cash used in investing activities	(2,015)	(603)
Cash flows from financing activities:		
Principal payments on long-term debt	(371)	(1,700)
Proceeds from stock options exercised	507	701
Excess tax benefits from stock compensation	359	279
Dividends paid	(3,091)	(2,008)
Net cash used in financing activities	(2,596)	(2,728)
Effect of exchange rate changes on cash	(157)	(40)
Increase in cash and cash equivalents	4,929	15,131
Cash and cash equivalents beginning of period	46,432	3,422

Cash and cash equivalents end of period	\$51,361	\$18,553
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See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2010	2009
Net earnings	\$7,029	\$6,098
Other comprehensive income, net of tax:		
Other	(377)	(66)
Comprehensive income	\$6,652	\$6,032

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1 - CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements presented herein have been prepared by the Company in accordance with the accounting policies described in its December 31, 2009 consolidated financial statements, and should be read in conjunction with the consolidated financial statements and notes, which appear in the Annual Report on Form 10-K for the year ended December 31, 2009. 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 (“U.S. GAAP” or “GAAP”) governing interim financial statements and the instructions to Form 10-Q and Article 10 of Regulation S-X under the Securities Exchange Act of 1934 and therefore do not include some information and notes necessary to conform to annual reporting requirements. Certain prior year amounts have been reclassified to conform to current year presentation. The results of operations for the three months ended March 31, 2010 are not necessarily indicative of the operating results expected for the full year or any interim period.

NOTE 2 - STOCKHOLDERS' EQUITY

STOCK-BASED COMPENSATION

The Company records stock-based compensation in accordance with the provisions of ASC 718, “Compensation-Stock Compensation” (incorporating former Statement of Financial Accounting Standards (“SFAS”) No. 123 (revised 2004), “Share Based Payment”). The Company’s results for the three months ended March 31, 2010 and 2009 reflected the following stock-based compensation cost, and such compensation cost had the following effects on net earnings and basic and diluted earnings per share:

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Cost of sales	\$ 114	\$ 90
Operating expenses	865	668
Net earnings	(599)	(478)
Basic earnings per common share	(0.02)	(0.02)
Diluted earnings per common share	\$ (0.02)	\$ (0.02)

As required by ASC 718, the Company has made an estimate of expected forfeitures based on its historical experience and is recognizing compensation cost only for those stock-based compensation awards expected to vest.

The Company's stock incentive plans allow for the granting of restricted stock awards and options to purchase common stock. Both incentive stock options and nonqualified stock options can be awarded under the plans. No option will be exercisable for longer than ten years after the date of grant. The Company has approved and reserved a number of shares to be issued upon exercise of the outstanding options that is adequate to cover all exercises. As of March 31, 2010, the plans had 5,089,980 shares available for future awards. Compensation expense for stock options and restricted stock awards is recognized on a straight-line basis over the vesting period, generally three years for stock options, four years for employee restricted stock awards, and four to seven years for non-employee director restricted stock awards. Certain awards provide for accelerated vesting if there is a change in control (as defined in the plans) or other qualifying events.

Option activity for the three months ended March 31, 2010 and 2009 is summarized below:

For the three months ended March 31, 2010	Shares (000s)	Weighted Average Exercise Price	Aggregate Intrinsic Value (\$000s)	Weighted Average Remaining Contractual Term
Outstanding as of December 31, 2009	3,286	\$ 11.28	\$ 36,342	
Granted	1	22.34		
Exercised	(79)	6.43		
Expired	-	-		
Forfeited	-	-		
Outstanding as of March 31, 2010	3,208	\$ 11.40	\$ 42,498	6.4
Exercisable as of March 31, 2010	2,356	\$ 8.97	\$ 36,929	5.5

For the three months ended March 31, 2009	Shares (000s)	Weighted Average Exercise Price	Aggregate Intrinsic Value (\$000s)	Weighted Average Remaining Contractual Term
Outstanding as of December 31, 2008	3,594	\$ 9.21	\$ 26,873	
Granted	-	-		
Exercised	(119)	5.93		
Expired	-	-		
Forfeited	(5)	13.03		
Outstanding as of March 31, 2009	3,470	\$ 9.31	\$ 26,037	6.5
Exercisable as of March 31, 2009	2,512	\$ 7.19	\$ 24,020	5.5

ASC 718 requires companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions for the three months ended March 31, 2010: dividend yield of 0.6%; expected volatility of 46%; risk-free interest rate of 2.1%; and an expected life of 3.9. There were no options granted during the three months ended March 31, 2009.

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

Other information pertaining to option activity during the three months ended March 31, 2010 and 2009 was as follows:

	Three Months Ended March 31,	
	2010	2009
Weighted-average fair value of options granted	\$8.11	\$N/A
Total intrinsic value of stock options exercised (\$000s)	\$1,245	\$1,027

Non-vested restricted stock activity for the three months ended March 31, 2010 and 2009 is summarized below:

	Shares (000s)	Weighted Average Grant Date Fair Value
Three months ended March 31, 2010		
Non-vested balance as of December 31, 2009	418	\$ 14.56
Granted	-	-
Vested	-	-
Forfeited	-	-
Non-vested balance as of March 31, 2010	418	\$ 14.56

	Shares (000s)	Weighted Average Grant Date Fair Value
Three months ended March 31, 2009		
Non-vested balance as of December 31, 2008	347	\$ 13.39
Granted	-	-
Vested	-	-
Forfeited	-	-
Non-vested balance as of March 31, 2009	347	\$ 13.39

As of March 31, 2010 and 2009, there was \$7,491 and \$6,725, respectively, of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the plans. As of March 31, 2010, the unrecognized compensation cost is expected to be recognized over a weighted-average period of 2 years. The Company estimates that share-based compensation expense for the year ended December 31, 2010 will be approximately \$3,900.

STOCK SPLITS AND REPURCHASE OF COMMON STOCK

On December 12, 2009, 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, 2009. Such stock dividend was made on January 20, 2010. 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 2009 stock split.

The Company has an approved stock repurchase program. The total authorization under this program is 3,763,038 shares. Since the inception of the program, a total of 1,961,800 shares have been purchased, none of which remained in treasury at March 31, 2010 or 2009. During the three months ended March 31, 2010, no additional shares have been purchased. The Company intends to acquire shares from time to time at prevailing market prices if and to the extent it deems it advisable to do so based on its assessment of corporate cash flow, market conditions and other factors.

NOTE 3 - INVENTORIES

Inventories at March 31, 2010 and December 31, 2009 consisted of the following:

	March 31, 2010	December 31, 2009
Raw materials	\$ 6,608	\$ 5,799
Work in progress	803	793
Finished goods	8,434	7,373
Total inventories	\$ 15,845	\$ 13,965

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at March 31, 2010 and December 31, 2009 are summarized as follows:

	March 31, 2010	December 31, 2009
Land	\$ 2,022	\$ 2,112
Building	15,392	15,593
Equipment	54,560	54,068
Construction in progress	3,764	2,676
	75,738	74,449
Less: accumulated depreciation	33,927	32,870
Net property, plant and equipment	\$ 41,811	\$ 41,579

NOTE 5 – INTANGIBLE ASSETS

The Company had goodwill in the amount of \$26,658 as of March 31, 2010 and December 31, 2009 subject to the provisions of ASC 350, “Intangibles-Goodwill and Other” (incorporating former SFAS No. 141, “Business Combinations”; and SFAS No. 142, “Goodwill and Other Intangible Assets”).

As of March 31, 2010 and December 31, 2009, the Company had identifiable intangible assets with finite lives with a gross carrying value of approximately \$37,584 and \$37,592, respectively, less accumulated amortization of \$11,999 and \$11,088, respectively.

Identifiable intangible assets with finite lives at March 31, 2010 and December 31, 2009 are summarized as follows:

	Amortization Period (in years)	Gross Carrying Amount at 3/31/10	Accumulated Amortization at 3/31/10	Gross Carrying Amount at 12/31/09	Accumulated Amortization at 12/31/09
Customer lists	10	\$ 34,150	\$ 10,864	\$ 34,150	\$ 10,011
Regulatory re-registration costs	10	94	13	93	11
Patents & trade secrets	15-17	1,684	529	1,683	504
Trademarks & trade names	17	902	264	911	251
Other	5-10	754	329	755	311
		\$ 37,584	\$ 11,999	\$ 37,592	\$ 11,088

Amortization of identifiable intangible assets was approximately \$912 for each of the three months ended March 31, 2010 and 2009. Assuming no change in the gross carrying value of identifiable intangible assets, the estimated amortization expense for the remainder of 2010 is \$2,729 and approximately \$3,600 per annum for 2011 through 2015. At March 31, 2010, there were no identifiable intangible assets with indefinite useful lives as defined by ASC 350. 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 three months ended March 31, 2010.

NOTE 6 – NET EARNINGS PER SHARE

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

Three months ended March 31, 2010	Net Earnings (Numerator)	Number of Shares (Denominator)	Per Share Amount
Basic EPS – Net earnings and weighted average common shares outstanding	\$ 7,029	27,757,708	\$.25
Effect of dilutive securities – stock options and restricted stock		1,586,190	
Diluted EPS – Net earnings and weighted average common shares outstanding and effect of stock options and restricted stock	\$ 7,029	29,343,898	\$.24
Three months ended March 31, 2009	Net Earnings (Numerator)	Number of Shares (Denominator)	Per Share Amount
Basic EPS – Net earnings and weighted average common shares outstanding	\$ 6,098	27,105,527	\$.23
Effect of dilutive securities – stock options and restricted stock		1,438,517	
Diluted EPS – Net earnings and weighted average common shares outstanding and effect of stock options and restricted stock	\$ 6,098	28,544,044	\$.21

The Company had stock options covering 339,600 and 958,725 shares at March 31, 2010 and 2009, respectively, that could potentially dilute basic earnings per share in future periods that were not included in diluted earnings per share because their effect on the period presented was anti-dilutive.

NOTE 7 – INCOME TAXES

The Company accounts for uncertainty in income taxes in accordance with ASC 740-10 (incorporating former FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes”). ASC 740-10 clarifies whether or not to recognize assets or liabilities for tax positions taken that may be challenged by a tax authority. Upon adoption of ASC 740-10, the Company recognized approximately a \$291 decrease in its retained earnings balance. The charge before federal tax benefits was \$411. The Company includes interest expense or income as well as potential penalties on unrecognized tax positions as a component of income tax expense in the consolidated statements of earnings. The total amount of accrued interest and penalties related to uncertain tax positions at March 31, 2010 was approximately \$270 and is included in other long-term obligations. All of the unrecognized tax benefits, if recognized in future periods, would impact the Company’s effective tax rate. The Company files income tax returns in the U.S. and in various states and foreign countries. As of March 31, 2010, in the major jurisdictions where the Company operates, it is generally no longer subject to income tax examinations by tax authorities for years before 2006. There was not a significant change in the liabilities for unrecognized tax benefits during the three months ended March 31, 2010.

NOTE 8 - SEGMENT INFORMATION

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

Business Segment Net Sales:

	Three Months Ended March 31,	
	2010	2009
Specialty Products	\$9,668	\$8,794
Food, Pharma & Nutrition	9,966	8,304
Animal Nutrition & Health	40,269	35,888
Total	\$59,903	\$52,986

Business Segment Earnings Before Income Taxes:

	Three Months Ended March 31,	
	2010	2009
Specialty Products	\$3,312	\$3,387
Food, Pharma & Nutrition	1,981	959
Animal Nutrition & Health	5,201	4,964
Interest and other income (expense)	167	(144)
Total	\$10,661	\$9,166

The following table summarizes domestic (U.S.) and foreign sales for the three months ended March 31, 2010 and March 31, 2009:

	Three Months Ended March 31,	
	2010	2009
Domestic	\$38,761	\$37,040
Foreign	21,142	15,946
Total	\$59,903	\$52,986

NOTE 9 – SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid during the three months ended March 31, 2010 and 2009 for income taxes and interest is as follows:

	Three months ended March 31,	
	2010	2009
Income taxes	\$ 444	