

BALCHEM CORP
Form 10-Q
May 09, 2008

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

(Mark One)

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Quarterly Report Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934
For The Quarterly Period Ended March 31, 2008

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)
P.O. Box 600 New Hampton,
New York
(Address of principal
executive offices)

13-2578432
(I.R.S. Employer
Identification Number)

10958

(Zip Code)

845-326-5600

Registrant's telephone number,
including area code:

Indicate by a check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to filing requirements for the past 90 days.

Yes ☒

No ☐

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

Large accelerated filer ☐
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 5, 2008 the registrant had 18,117,111 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)
Unaudited

Assets	March 31, 2008	December 31, 2007
Current assets:		
Cash and cash equivalents	\$ 3,922	\$ 2,307
Accounts receivable, net	29,838	29,640
Inventories	18,841	15,680
Prepaid expenses	1,727	2,456
Deferred income taxes	620	515
Other current assets	1,652	1,871
Total current assets	56,600	52,469
Property, plant and equipment, net	43,065	42,080
Goodwill	26,376	26,363
Intangible assets with finite lives, net	32,561	33,451
Other assets	66	61
Total assets	\$ 158,668	\$ 154,424
Liabilities and Stockholders' Equity		
Current liabilities:		
Trade accounts payable	\$ 10,073	\$ 11,190
Accrued expenses	11,737	10,516
Customer deposits and other deferred revenue	-	42
Current portion of long-term debt	7,493	7,379
Dividends payable	-	1,975
Income tax payable	4,432	2,019
Revolver borrowings	3,160	3,209
Total current liabilities	36,895	36,330
Long-term debt	15,146	17,398
Deferred income taxes	5,939	6,087
Other long-term obligations	1,569	1,529
Total liabilities	59,549	61,344
Commitments and contingencies (note 13)		

Stockholders' equity:		
Preferred stock, \$25 par value. Authorized 2,000,000 shares; none issued and outstanding	-	-
Common stock, \$.0667 par value. Authorized 25,000,000 shares; 18,106,189 shares issued and outstanding at March 31, 2008 and 17,979,353 shares issued and outstanding at December 31, 2007	812	804
Additional paid-in capital	15,672	14,286
Retained earnings	82,481	77,840
Accumulated other comprehensive income	154	150
Total stockholders' equity	99,119	93,080
Total liabilities and stockholders' equity	\$ 158,668	\$ 154,424

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,	
	2008	2007
Net sales	\$ 56,861	\$ 27,599
Cost of sales	43,378	17,858
Gross margin	13,483	9,741
Operating expenses:		
Selling expenses	3,319	2,128
Research and development expenses	782	569
General and administrative expenses	1,978	1,702
	6,079	4,399
Earnings from operations	7,404	5,342
Other expenses (income):		
Interest income	(25)	(45)
Interest expense	323	84
Other, net	(85)	(11)
Earnings before income tax expense	7,191	5,314
Income tax expense	2,550	1,873
Net earnings	\$ 4,641	\$ 3,441
Net earnings per common share - basic	\$ 0.26	\$ 0.19
Net earnings per common share - diluted	\$ 0.25	\$ 0.19

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,
2008 2007

Cash flows from operating activities:		
Net earnings	\$ 4,641	\$ 3,441
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	1,901	952
Shares issued under employee benefit plans	140	130
Deferred income taxes	(244)	(168)
Foreign currency transaction (gain) loss	(88)	-
Stock compensation expense	622	392
Gain on sale of equipment	-	(11)
Changes in assets and liabilities net of effects of acquisition:		
Accounts receivable	421	(2,244)
Inventories	(2,891)	(692)
Prepaid expenses and other current assets	1,058	180
Income taxes	2,364	1,573
Customer deposits and other deferred revenue	(42)	(329)
Accounts payable and accrued expenses	(673)	(40)
Other long-term obligations	23	13
Net cash provided by operating activities	7,232	3,197
Cash flows from investing activities:		
Capital expenditures	(1,236)	(649)
Proceeds from sale of property, plant and equipment	-	11
Intangible assets acquired	(17)	(116)
Acquisition of assets	(14)	(32,085)
Net cash used in investing activities	(1,267)	(32,839)
Cash flows from financing activities:		
Proceeds from long-term borrowings	-	29,000
Revolver borrowings	735	-
Revolver repayments	(1,000)	-
Principal payments on long-term debt	(2,851)	-
Proceeds from stock options & warrants exercised	413	353
Excess tax benefits from stock compensation	217	386
Dividends paid	(1,975)	(1,596)
Net cash (used in) provided by financing activities	(4,461)	28,143
Effect of exchange rate changes on cash	111	-

Increase (decrease) in cash and cash equivalents	1,615	(1,499)
Cash and cash equivalents beginning of period	2,307	5,189
Cash and cash equivalents end of period	\$ 3,922	\$ 3,690

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,	
	2008	2007
Net earnings	\$ 4,641	\$ 3,441
Other comprehensive income, net of tax:		
Unfunded postretirement benefit plan - prior service cost and gain amortized during period	(5)	(3)
Other	9	3
Comprehensive income	\$ 4,645	\$ 3,441

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, 2007 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, 2007. References in this report to the “Company” mean either Balchem Corporation or Balchem Corporation and its subsidiaries, including BCP Ingredients, Inc., Balchem Minerals Corporation, and Balchem B.V., on a consolidated basis, as the context requires.

In the opinion of management, the unaudited condensed consolidated financial statements furnished in this Form 10-Q include all adjustments necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented. All such adjustments are of a normal recurring nature. The condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles governing interim financial statements and the instructions to Form 10-Q and Article 10 of Regulation S-X under the Securities Exchange Act of 1934 and therefore do not include some information and notes necessary to conform to annual reporting requirements. Certain prior year amounts have been reclassified to conform to current year presentation. The results of operations for the three months ended March 31, 2008 are not necessarily indicative of the operating results expected for the full year or any interim period.

NOTE 2 - STOCKHOLDERS' EQUITY

STOCK-BASED COMPENSATION

The Company records stock-based compensation in accordance with the provisions of Statement of Financial Accounting Standards (“SFAS”) No. 123 (revised 2004), “Share Based Payment” (“SFAS 123R”). The Company’s results for the three months ended March 31, 2008 and 2007 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, 2008	Three Months Ended March 31, 2007
Cost of sales	\$ 66	\$ 44
Operating expenses	556	348
Net earnings	(412)	(269)
Basic earnings per common share	(0.02)	(0.02)
Diluted earnings per common share	\$ (0.02)	\$ (0.01)

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

Additionally, since adoption of SFAS 123R, excess tax benefits related to stock compensation are presented as a cash inflow from financing activities. This change had the effect of decreasing cash flows from operating activities and increasing cash flows from financing activities by \$217 and \$386 for the three months ended March 31, 2008 and 2007, respectively.

The Company's stock incentive plans allow for the granting of restricted stock awards and options to purchase common stock. Both incentive stock options and nonqualified stock options can be awarded under the plans. No option will be exercisable for longer than ten years after the date of grant. The Company has approved and reserved a number of shares to be issued upon exercise of the outstanding options that is adequate to cover all exercises. As of March 31, 2008, the plans had 343,328 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, 2008 and 2007 is summarized below:

For the three months ended March 31, 2008	Shares (000s)	Weighted Average Exercise Price	Aggregate Intrinsic Value (\$000s)	Weighted Average Remaining Contractual Term
Outstanding as of December 31, 2007	1,944	\$ 10.66	\$ 22,786	
Granted	307	20.41		
Exercised	(47)	8.78		
Expired	-	-		
Forfeited	-	-		
Outstanding as of March 31, 2008	2,204	\$ 12.05	\$ 23,947	6.9
Exercisable as of March 31, 2008	1,456	\$ 9.12	\$ 20,088	6.0

For the three months ended March 31, 2007	Shares (000s)	Weighted Average Exercise Price	Aggregate Intrinsic Value (\$000s)	Weighted Average Remaining Contractual Term
Outstanding as of December 31, 2006	2,170	\$ 10.13	\$ 15,357	
Granted	-	-		
Exercised	(101)	3.49		
Expired	-	-		
Forfeited	(4)	13.65		
Outstanding as of March 31, 2007	2,065	\$ 10.45	\$ 14,920	7.3
Exercisable as of March 31, 2007	1,187	\$ 7.77	\$ 11,770	6.3

SFAS 123R requires companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions: dividend yields of 0.4% and 0.3%; expected volatilities of 33% and 27%; risk-free interest rates of 3.7% and 4.1%; and expected lives of 3.4 and 3.7, in each case for the three months ended March 31, 2008 and 2007, respectively.

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

Other information pertaining to option activity during the three months ended March 31, 2008 and 2007 was as follows:

	Three Months Ended March 31,	
	2008	2007
Weighted-average fair value of options granted	\$ 6.38	\$ N/A
Total intrinsic value of stock options exercised (\$000s)	\$ 610	\$ 1,201

Non-vested restricted stock activity for the three months ended March 31, 2008 and 2007 is summarized below:

	Shares (000s)	Weighted Average Grant Date Fair Value
Three Months ended March 31, 2008		
Non-vested balance as of December 31, 2007	118	\$ 16.49
Granted	73	20.77
Vested	-	-
Forfeited	-	-
Non-vested balance as of March 31, 2008	191	\$ 18.10

	Shares (000s)	Weighted Average Grant Date Fair Value
Three Months ended March 31, 2007		
Non-vested balance as of December 31, 2006	113	\$ 16.40
Granted	-	-
Vested	-	-
Forfeited	-	-
Non-vested balance as of March 31, 2007	113	\$ 16.40

As of March 31, 2008 and 2007, there was \$5,347 and \$3,619, respectively, of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the plans. As of March 31, 2008, 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, 2008 will be approximately \$2,343.

STOCK SPLITS AND REPURCHASE OF COMMON STOCK

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

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

In June 2005, the board of directors approved an extension of and an increased authorization to the Company's stock repurchase program. The total authorization under this program is 2,508,692 shares. Since the inception of the program, a total of 1,307,867 shares have been purchased, none of which remained in treasury at March 31, 2008 or 2007. During the three months ended March 31, 2008, 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.

