

Balchem Corporation

2008 Annual Report

A stylized world map in light blue and white, overlaid with a network of white lines connecting various points across the globe. The background is a gradient of blue, with a bright sunburst effect in the upper right quadrant.

Building *on a Solid Foundation*

Company Profile

Founded in 1967, Balchem Corporation provides state-of-the-art solutions and the finest quality products for a range of industries worldwide. The Company consists primarily of three business segments: Food, Pharma and Nutrition; ARC Specialty Products; and Animal Nutrition and Health. Balchem employs numerous technologies and over 300 people worldwide who are engaged in the many diverse activities of developing the Company into a global market leader.

Financial Highlights 2008

Statement of Operations Data

(In thousands, except per share data)

| Year Ended December 31, | 2008 | 2007 | 2006 | 2005 | 2004 |
|-------------------------------------|------------------|-----------|-----------|----------|----------|
| Net sales | \$232,050 | \$176,201 | \$100,905 | \$83,095 | \$67,406 |
| Earnings before income tax expense | 28,431 | 24,829 | 19,101 | 17,191 | 12,715 |
| Income tax expense | 9,381 | 8,711 | 6,823 | 6,237 | 4,689 |
| Net earnings | 19,050 | 16,118 | 12,278 | 10,954 | 8,026 |
| Basic net earnings per common share | \$1.06 | \$.91 | \$.70 | \$.63 | \$.48 |
| Diluted earnings per common share | \$1.00 | \$.87 | \$.67 | \$.61 | \$.46 |

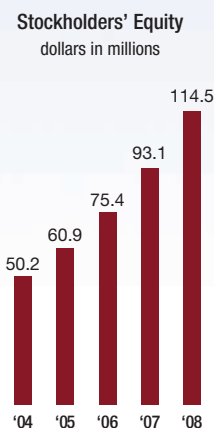
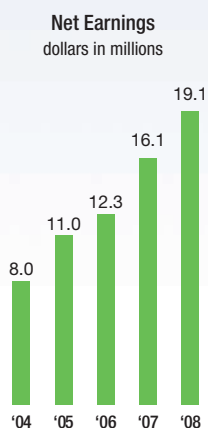
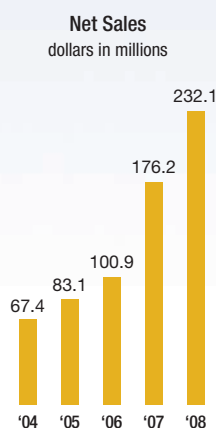
Balance Sheet Data

(In thousands, except per share data)

| At December 31, | 2008 | 2007 | 2006 | 2005 | 2004 |
|-----------------------------|------------------|-----------|-----------|----------|----------|
| Total assets | \$154,474 | \$154,424 | \$ 92,333 | \$75,141 | \$60,405 |
| Debt | 11,575 | 27,986 | — | — | — |
| Other long-term obligations | 1,609 | 1,529 | 784 | 1,043 | 1,003 |
| Total stockholders' equity | 114,506 | 93,080 | 75,362 | 60,933 | 50,234 |
| Dividend per common share | \$.11 | \$.11 | \$.09 | \$.06 | \$.04 |

Quarterly Stock Prices

| | 2008 | | 2007 | | 2006 | |
|----|----------------|----------------|---------|---------|---------|---------|
| | High | Low | High | Low | High | Low |
| 1Q | \$23.34 | \$19.05 | \$18.56 | \$14.09 | \$15.99 | \$13.57 |
| 2Q | 26.44 | 22.16 | 19.17 | 17.15 | 15.85 | 13.41 |
| 3Q | 29.50 | 24.17 | 21.25 | 15.60 | 15.93 | 13.07 |
| 4Q | 26.86 | 21.16 | 24.00 | 20.16 | 19.25 | 12.80 |



Balchem Corporation At A Glance



Food, Pharma and Nutrition

The F,P&N segment is one of the world's leading providers of microencapsulated, granulated and agglomerated ingredient solutions. Broadly applied across a spectrum of food, nutritional and pharmaceutical markets, our technology is bringing solutions that differentiate products for a variety of applications.



Animal Nutrition and Health

Our ANH segment provides the animal nutrition market with specialty nutritional products derived from our encapsulation and chelation technologies, predominantly for dairy cows, to boost health and milk production. It also manufactures and markets basic choline chloride—an essential nutrient for the poultry and swine industries. Derivatives of choline chloride are also manufactured and sold into numerous industrial applications.



ARC Specialty Products

Through ARC Specialty Products, Balchem provides select specialty-packaged chemicals for use by contract sterilizers of medical devices in the healthcare industry. In addition to drummed 100% ethylene oxide, ARC markets ethylene oxide blends and propylene oxide in two-way environmentally safe containers.

To Our Shareholders, Customers and Associates:



Reflecting on 2008, we are extremely pleased to have completed another successful, record-setting year despite a number of difficult business and global economic challenges. We realized the full-year effects of our 2007 acquisitions, increasing our global presence while contributing nicely to our bottom-line growth. As we continue to leverage the

knowledge and intellectual capital from these acquisitions, in combination with our core technologies, we are discovering new applications for our current products and derivative products across our business lines. Our focus as a wellness provider has opened up new markets for us, including the development of encapsulation technology supporting the food industry label-friendly requirements. As awareness to the health benefits of human grade choline grows, we have launched new product applications both domestically and abroad. Our animal nutrition and health business is progressively a global leader, fueled by strong growth in our chelated minerals, encapsulated specialty product applications, and choline chloride. In 2008, through technology, integration and an expanding knowledge base, we were able to develop new markets and applications, including development work for the specialized delivery of certain industrial gases and pharmaceuticals. We also improved our strong financial position by aggressively managing working capital and reducing our long-term debt.

Financial Results

In spite of the well publicized economic issues and truly unexpected bumps (hurricanes, significant raw material cost escalation, etc.), we were able to achieve record sales and profit results. For fiscal 2008, sales were \$232.1 million, up 31.7% over 2007 sales of \$176.2 million. Net earnings were a record \$19.1 million in 2008, an 18.2% increase over 2007 earnings of \$16.1 million. Our diluted earnings per share was \$1.00/share, a 14.9% increase over \$0.87/share in 2007.

Our balance sheet ratios and cash flow remain strong. We have aggressively paid down the debt used to fund the Chinook and Akzo acquisitions of early 2007; hence at December 31, 2008, our outstanding borrowings were \$11.6 million, reflecting accelerated payments of \$17.5 million. Given our quality accounts receivable and reduced inventory levels, we are well positioned to continue to aggressively reduce our debt in 2009.

Although we did not complete a major acquisition in 2008, we did experience significant integration benefits in the production and distribution of our choline products from our most recent acquisitions. Along with the increased manufacturing capacity of liquid choline in our St. Gabriel, LA plant, the Marano, Italy operation has helped solidify us as the global leader of choline products. The improved cross business integration of our core business and technology, in combination with these prior year strategic acquisitions, has allowed us to grow within our existing customer base, while also facilitating our expansion and penetration into international markets.

Quality and Safety at the Forefront

Our quality and safety programs continued to flourish in 2008. Last year marked the fourth year of our Lean, Six Sigma and Profit Enhancement Program (PEP), as we saw tangible benefits across all our domestic and overseas plants. We continue to drive education and thought processes across functional lines, positively impacting cost structures, quality and efficiency. Our two largest and multi-product facilities, in Verona, Missouri and Marano, Italy, underwent modernization focused on achieving operational efficiencies and increasing return on investment. We also developed more environmentally friendly manufacturing processes, which in the long run will provide us with a more favorable cost structure. Safety continues to be paramount in all our operations, and 2008 extended our multi-year run of safety improvements. Through awareness, training and formal audits, our significant incident rate fell to a world-class level. We

We have, once again, been recognized throughout the business community for our achievements. We were ranked number 31 on *Forbes'* list of the **200 Best Small Companies**. Membership here is based on a comprehensive set of criteria, including current and past performance. *Fortune Magazine* has also recognized us on its list of **100 Fastest Growing Companies**, where we were ranked number 60. This ranking is based on a three-year history of revenue, earnings and stock performance. We are proud to be included in these prestigious rankings as one of the best, and we owe this recognition to the dedication, commitment and hard work of everyone within our organization.

are very proud of this accomplishment, and we will remain focused on reducing operating costs while maintaining the highest level of safety.

Expanding our Technology

In 2008, we continued to see the benefits of our strong commitment to research and development. Our innovative efforts and intellectual capital, further enhanced by recent acquisitions, have allowed us to creatively build improved technologies for new and existing market applications. Infusing knowledge into the dairy production market, we launched AminoShure™-L, which utilizes a proprietary rumen bypass technology to deliver nutrients to cows. AminoShure was launched late last year, and has already generated great interest and new sales. We now expect to expand this improved rumen bypass technology to other nutrients. As we continue to promote wellness, we are being successful in creating an encapsulation technology for clean label technology, allowing us to develop new products in our Food, Pharma and Nutrition segment. In our human nutrition sector, we now utilize encapsulation technology to incorporate choline in pre-natal vitamins, further enhancing the health benefits of choline. We have also developed a sustained release powder technology that can be applied to many nutritional and pharma products. Finally, we are actively seeking new industrial applications for our technology. Going forward, we will leverage our technology and knowledge base to develop new, innovative and “greener” products, effecting unique and novel changes in the future.

Broadening our Scope

The strong performance across all of Balchem’s operational units reflects the value in our diversified base of business. We continue to build on our technology, sales and marketing efforts to maintain an aggressive organic growth strategy, pursuing new product and market applications.

ARC Specialty Products had another solid year, growing 8% over 2007, as we strengthened our position as the industry leader in the repackaging and distribution

of 100% Ethylene Oxide. We increased both revenue and earnings over 2007, despite significant volatility of raw materials throughout the year. We expect Ethylene Oxide, used primarily for the sterilization of medical devices, to generate steadily growing results, with an aging demographic as the key driver. We are also developing a new technology for packaging of another gas to be used for fruit ripening.

Our Animal Nutrition and Health segment grew an acquisition-aided 44% over the prior year, to approximately \$160 million, complementarily fueled by solid organic growth within the feed grade choline sector. Strong domestic sales of our specialty encapsulated and chelated mineral products, along with initial market penetration in Europe, further solidified our position as a global leader in animal health. Reashure, an encapsulated choline product, and Nitroshure, a nutritional supplement, are both now mainstream products in the dairy industry. AminoShure, a break-through encapsulated lysine to strengthen amino acid ration balancing, was launched late last year, further broadening this segment portfolio. We continue research to further validate our existing specialty ANH products, while simultaneously leveraging our technology platform to explore and develop new market opportunities.

We have established long-term partnerships with key animal health customers in the United States and Europe, as we look for new opportunities and more international markets for our choline products.





The strong performance across all of Balchem's operational units reflects the value in our diversified base of business. We continue to build on our technology, sales and marketing efforts to maintain an aggressive organic growth strategy, pursuing new product and market applications.

Balchem remains the leading supplier of choline chloride products around the world, in part due to the successful integration of the choline business from recent acquisitions. We are now realizing greater production efficiencies, new global market opportunities, and increased manufacturing capacity. We have established long-term partnerships with key animal health customers in the United States and Europe, as we look for new opportunities and more international markets for our choline products. As we continue to capitalize on economies of scale, cross-integration, and superior technology, we will focus on new opportunities and growth areas, while maintaining profitability and cash flow in our existing operations.

Our Food, Pharma and Nutrition business experienced an 11% year-over-year increase in sales. We remain focused as a wellness provider, using our developed and acquired technologies to provide innovative solutions for our customers. We have collaborated with various consumer product manufacturers to increase the health benefits of their products, using our granulation, agglomeration, and encapsulation technologies in the food and nutrition sectors. We have developed and applied our sustained release technologies to nutritional products, as we realize increasing awareness of the human benefits of choline. Our human grade choline is now included in mainline food products, such as energy and nutrition

drinks, and cereal products. We have also seen an increase internationally in the use of human choline, including use in "growing up" (adolescent) formulas in Asia. Finally, we will build on our success in developing "clean" label coating technology, as we look to transition more of our business into label-friendly applications. We will execute our current strategy of focusing on wellness, perpetuating improvements to increase market share with existing clients, expanding domestically and internationally.

Maintaining our Discipline

As we complete another successful year, we are confident that Balchem will meet the challenges of an uncertain global economy in 2009. Our focus on innovation and technology, along with our increased global presence, will allow us to broaden product applications and increase market penetration. We continue to implement lean programs, de-bottleneck production capabilities, and leverage our existing business and research infrastructure, expecting sales and earnings to grow. We will monitor the development of desired innovative activities of our customers as we seek to expand our portfolio of products. Our healthy financial situation has positioned us to capitalize on acquisition opportunities that could likely arise in the current economic environment. I would like to thank our Board of Directors, our employees, our customers and our shareholders for their continued loyalty and support.

Sincerely,

Dino A. Rossi
Chairman, President and Chief Executive Officer

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

FORM 10-K

(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, 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

13-2578432

(State or other jurisdiction of incorporation or organization)

(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

Nasdaq Global Market

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

Indicate by check mark whether the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark whether the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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.

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.

(Check one): 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

The aggregate market value of the common stock issued and outstanding and held by non-affiliates of the Registrant, based upon the closing price for the common stock on the NASDAQ Global Market on June 30, 2008 was approximately \$412,781,000. 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 18,293,631 as of March 3, 2009.

DOCUMENTS INCORPORATED BY REFERENCE

Selected portions of the Registrant's proxy statement for its 2009 Annual Meeting of Stockholders (the "2009 Proxy Statement") to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after Registrant's fiscal year-end of December 31, 2008 are incorporated by reference in Part III of this Report.

Cautionary Statement Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are not statements of historical facts, but rather reflect our current expectations or beliefs concerning future events and results. We generally use the words "believes," "expects," "intends," "plans," "anticipates," "likely," "will" and similar expressions to identify forward-looking statements. Such forward-looking statements, including those concerning our expectations, involve risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The risks, uncertainties and factors that could cause our results to differ materially from our expectations and beliefs include, but are not limited to, those factors set forth in this Annual Report on Form 10-K under "Item 1A. - Risk Factors" below, including the following:

- changes in laws or regulations affecting our operations;
- changes in our business tactics or strategies;
- acquisitions of new or complementary operations;
- sales of any of our existing operations;
- changing market forces or contingencies that necessitate, in our judgment, changes in our plans, strategy or tactics; and
- fluctuations in the investment markets or interest rates, which might materially affect our operations or financial condition.

We cannot assure you that the expectations or beliefs reflected in these forward-looking statements will prove correct. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. You are cautioned not to unduly rely on such forward-looking statements when evaluating the information presented in this Annual Report on Form 10-K and all subsequent written and oral forward-looking statements made by us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained herein.

Part I

Item 1. Business

General:

Balchem Corporation (“Balchem,” the “Company,” “we” or “us”), incorporated in the State of Maryland in 1967, is engaged in the development, manufacture and marketing of specialty performance ingredients and products for the food, nutritional, feed, pharmaceutical and medical sterilization industries. Effective with the quarter ending March 31, 2008, we have realigned our business segment reporting structure to appropriately reflect the internal management of the businesses, largely due to the impact of acquisitions in 2007. We will continue to report three segments: Specialty Products; Food, Pharma & Nutrition; and Animal Nutrition & Health. Changes to the reporting segments are as follows: chelated minerals and specialty nutritional products for the animal health industry, formerly reported as a part of the encapsulated/nutritional products segment, are now combined with the choline business (formerly BCP Ingredients) into a consolidated Animal Nutrition & Health segment. The encapsulated/nutritional products segment has been renamed Food, Pharma & Nutrition, focusing on human health. There are no changes to the Specialty Products segment. Business segment net sales and earnings from operations have been reclassified for all periods presented to reflect the segment changes.

The Company sells its products through its own sales force, independent distributors and sales agents. Financial information concerning the Company's business, business segments and geographic

information appears in the Notes to our Consolidated Financial Statements included under Item 8 below, which information is incorporated herein by reference.

The Company operates four domestic subsidiaries, all of which are wholly-owned: BCP Ingredients, Inc. (“BCP”), Balchem Minerals Corporation (“BMC”), BCP Saint Gabriel, Inc. (“BCP St. Gabriel”), each a Delaware corporation, and Chelated Minerals Corporation (“CMC”), a Utah corporation. We also operate three wholly-owned subsidiaries in Europe: Balchem BV and Balchem Trading BV, both Dutch limited liability companies, and Balchem Italia Srl, an Italian limited liability company. Unless otherwise stated to the contrary, or unless the context otherwise requires, references to the Company in this report includes Balchem Corporation and its subsidiaries.

Food, Pharma & Nutrition

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

Specialty Products

Our Specialty Products segment operates as ARC Specialty Products. The Specialty Products segment repackages and distributes the following specialty gases: ethylene oxide, blends of ethylene oxide, propylene oxide and methyl chloride.

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

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

Animal Nutrition & Health

Our Animal Nutrition & Health (“AN&H”) segment provides the animal nutrition market with nutritional products derived from our encapsulation and chelation technologies in addition to basic choline

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

Raw Materials:

The raw materials utilized by the Company in the manufacture of its products are generally available from a number of commercial sources. Such raw materials include materials derived from petrochemicals, minerals, metals and other readily available commodities and are subject to price fluctuations due to market conditions. The Company is not experiencing any current difficulties in procuring such materials and does not anticipate any such problems; however, the Company cannot assure that will always be the case.

Intellectual Property:

The Company currently holds 17 patents in the United States and overseas and uses certain trade-names and trademarks. It also uses know-how, trade secrets, formulae, and manufacturing techniques that assist in maintaining competitive positions of certain of its products. Formulae and know-how are of particular importance in the manufacture of a number of the Company's products. The Company believes that certain of its patents, in the aggregate, are advantageous to its business. However, it is believed that no single patent or related group of patents is currently so material to the Company that the expiration or termination of any single patent or group of patents would materially affect its business. The Company believes that its sales and competitive position are dependent primarily upon the quality of its products, its technical sales efforts and market conditions, rather than on any patent protection.

Seasonality:

In general, the businesses of our segments are not seasonal to any material extent.

Backlog:

At December 31, 2008, the Company had a total backlog of \$6,384,000 (including \$4,434,000 for the AN&H segment; \$1,280,000 for the FP&N segment and \$670,000 for Specialty Products segment), as compared to a total backlog of \$7,303,000 at December 31, 2007 (including \$5,226,000 for the AN&H segment; \$1,723,000 for the FP&N segment and \$354,000 for Specialty Products segment). It has generally been the Company's policy and practice to maintain an inventory of finished products and/or component materials for its segments to enable it to ship products within two months after receipt of a product order. All orders in the current backlog are expected to be filled in the 2009 fiscal year.

Competition:

The Company's competitors include many large and small companies, some of which have greater financial, research and development, production and other resources than the Company. Competition in the encapsulation markets served by the Company is based primarily on product performance, customer support, quality, service and price. The development of new and improved products is important to the Company's success. This competitive environment requires substantial investments in product and manufacturing process research and development. In addition, the winning and retention of customer acceptance of the Company's food and nutrition products involve substantial expenditures for application testing and sales efforts. The Company also engages various universities to assist in research and provide independent third-party analysis. In the specialty products business, the Company faces competition from alternative sterilizing technologies and products. Competition in the animal feed markets served by the Company is based primarily on service and price.

Research & Development:

During the years ended December 31, 2008, 2007 and 2006, the Company incurred research and development expense of approximately \$2.9 million, \$2.5 million and \$2.0 million, respectively, on Company-sponsored research and development for new products and improvements to existing products and manufacturing processes, principally in the FP&N and AN&H segments. During the year ended December 31, 2008, an average of 21 employees were devoted full time to research and development activities. The Company has historically funded its research and development programs with funds available from current operations with the intent of recovering those costs from profits derived from future sales of products resulting from, or enhanced by, the research and development effort.

The Company prioritizes its product development activities in an effort to allocate its resources to those product candidates that the Company believes have the greatest commercial potential. Factors considered by the Company in determining the products to pursue include projected markets and needs, status of its proprietary rights, technical feasibility, expected and known product attributes, and estimated costs to bring the product to market.

Acquisitions, Dispositions, and Capital Projects:

In 2007, we made two significant acquisitions.

In April 2007, pursuant to an asset purchase agreement dated March 30, 2007, we acquired the methylamines and choline chloride business and manufacturing facilities of Akzo Nobel Chemicals S.p.A., located in Marano Ticino, Italy, through our affiliate, Balchem BV. Balchem BV subsequently assigned this asset purchase agreement to its wholly-owned subsidiary, Balchem Italia Srl. In this Annual Report on Form 10-K, we refer to this acquisition as the "Akzo Nobel Acquisition".

In March 2007, BCP acquired certain choline chloride business assets of Chinook Global Limited ("Chinook"), a privately held Ontario corporation. In this Annual Report on Form 10-K, we refer to this acquisition as the "Chinook Acquisition".

In February 2006, we acquired all of the outstanding capital stock of CMC, which was then privately held. CMC is a manufacturer and global marketer of chelated mineral nutritional supplements for livestock, pet and swine feeds. In this Annual Report on Form 10-K, we refer to this acquisition as the "CMC Acquisition."

Excluding acquisitions, capital expenditures were approximately \$5.1 million for 2008, as compared to \$4.9 million in 2007. Capital expenditures are projected to be approximately \$5.0 million for 2009.

Environmental / Regulatory Matters:

The Federal Insecticide, Fungicide and Rodenticide Act, as amended (“FIFRA”), a health and safety statute, requires that certain products within our specialty products segment must be registered with the EPA because they are considered pesticides. In order to obtain a registration, an applicant typically must demonstrate, through extensive test data, that its product will not cause unreasonable adverse effects on the environment. We hold an EPA registration permitting us to sell ethylene oxide as a medical device sterilant and spice fumigant.

We are in the process of reregistering this product’s use in compliance with FIFRA re-registration requirements for pesticide products. With respect to the treatment of spices, the EPA prohibited the use of ethylene oxide to treat basil, effective August 1, 2007, but allows the continuing use of ethylene oxide to treat all other spices, provided a mandated treatment method is used beginning August 1, 2008.

Another area of the EPA’s re-registration effort resulted in the April 16, 2008 issuance of the RED (Re-registration Eligibility Decision) for ethylene oxide which permits the continued use of ethylene oxide “to sterilize medical or laboratory equipment, pharmaceuticals, and aseptic packaging, or to reduce microbial load on musical instruments, cosmetics, whole and ground spices and other seasoning materials and artifacts, archival material or library objects.” Given that “the database to support re-registration is substantially complete,” our re-registration effort is similarly substantially completed, which will continue to authorize our ethylene oxide product sales for medical device sterilization. While the EPA may request additional testing, we believe that the use of ethylene oxide will continue to be permitted. The product, when used as a sterilant for certain medical devices, has no known equally effective substitute. Management believes absence of availability of this product could not be easily tolerated by various medical device manufacturers and the health care industry due to the resultant infection potential.

The State of California lists 100% ethylene oxide, when used as a sterilant or fumigant, as a carcinogen and reproductive toxin under California's Proposition 65 (Safe Drinking Water and Toxic Enforcement Act of 1986). As a result, the Company is required to provide a prescribed warning to any person in California who may be exposed to this product. Failure to provide such warning would result in liability of up to \$2,500 per day per person exposed.

The Company’s facility in Verona, Missouri, 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 for contamination for certain organic chemicals. No ground water or surface water treatment has been required. In 1998, the EPA certified the work on the contaminated soils to be complete. In February 2000, after the conclusion of two years of monitoring groundwater and surface water, the former owner submitted a draft third party risk assessment report to the EPA and MDNR recommending no further action. The prior owner is awaiting the response of the EPA and MDNR to the draft risk assessment.

While the Company must maintain the integrity of the capped areas in the remediation areas on the site, the prior owner is responsible for completion of any further Superfund remedy. The Company is indemnified by the sellers under its May 2001 asset purchase agreement covering its acquisition of the Verona 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 executed the above-described Superfund remedy.

In connection with normal operations at its plant facilities, the Company is required to maintain environmental and other permits, including those relating to the ethylene oxide operations.

The Company believes it is in compliance in all material respects with federal, state, local and international provisions that have been enacted or adopted regulating the discharge of materials into the environment or otherwise relating to the protection of the environment. Such compliance includes the maintenance of required permits under air pollution regulations and compliance with requirements of the Occupational Safety and Health Administration. The cost of such compliance has not had a material effect upon the results of operations or financial condition of the Company. 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 remediated the area and removed soil from the drum burial site. This proceeding has been substantially completed (see Item 3).

The Channahon, Illinois manufacturing facility manufactures a calcium carbonate line of pharmaceutical grade ingredients. This facility is registered with the United States Food and Drug Administration ("FDA") as a drug manufacturing facility. These products must be manufactured in conformity with current Good Manufacturing Practice (cGMP) regulations as interpreted and enforced by the FDA. Modifications, enhancements or changes in manufacturing facilities or procedures of our pharmaceutical products are, in many circumstances, subject to FDA approval, which may be subject to a lengthy application process or which we may be unable to obtain. The Channahon, Illinois facility, as well as those of any third-party cGMP manufacturers that we may use, are periodically subject to inspection by the FDA and other governmental agencies, and operations at these facilities could be interrupted or halted if the results of these inspections are unsatisfactory.

Employees:

As of March 1, 2009, the Company employed approximately 332 persons. Approximately 73 employees at our Marano, Ticino, Italy facility are covered by a national collective bargaining agreement, which expires in 2010. Approximately 55 employees at the Company's Verona, Missouri facility are covered by a collective bargaining agreement, which expires in 2012.

Available Information:

The Company's headquarters is located at 52 Sunrise Park Road, P.O. Box 600, New Hampton, NY 10958. The Company's telephone number is (845) 326-5600 and its Internet website address is www.balchem.com. The Company makes available through its website, free of charge, its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments to such reports, as soon as reasonably practicable after they have been electronically filed with the Securities and Exchange Commission. Such reports are available via a link from the Investor Information page on the Company's website to a list of the Company's reports on the Securities and Exchange Commission's EDGAR website.

Item 1A. Risk Factors

Our business involves a high degree of risk and uncertainty, including the following risks and uncertainties:

Our operating results may be adversely impacted by macro-economic uncertainties and fears.

Recently, general worldwide economic conditions have experienced a significant downturn due to the credit conditions impacted by factors such as the subprime-mortgage turmoil, slower economic activity, concerns about inflation and deflation, increased energy costs, decreased consumer confidence, reduced corporate profits and capital spending, adverse business conditions and liquidity and the impact of natural disasters. These conditions make it extremely difficult for our customers, our vendors and us to accurately forecast and plan future business activities, and they could cause U.S. and foreign businesses to slow

spending on our products which would reduce our revenues and profitability. Furthermore, during challenging economic times our customers may face issues gaining timely access to sufficient credit, which could result in an impairment of their ability to make timely payments to us. If that were to occur, we may be required to increase our allowance for doubtful accounts and our days sales outstanding would be negatively impacted. We cannot predict the timing, depth or duration of any economic slowdown or subsequent economic recovery, worldwide, or in the markets in which we operate.

Increased competition could hurt our business and financial results.

We face competition in our markets from a number of large and small companies, some of which have greater financial, research and development, production and other resources than we do. Our competitive position is based principally on performance, quality, customer support, service, breadth of product line, manufacturing or packaging technology and the selling prices of our products. Our competitors might be expected to improve the design and performance of their products and to introduce new products with competitive price and performance characteristics. We expect to do the same to maintain our current competitive position and market share.

The loss of governmental permits and approvals would materially harm some of our businesses.

Pursuant to applicable environmental and safety laws and regulations, we are required to obtain and maintain certain governmental permits and approvals, including an EPA registration for our ethylene oxide sterilant product. We maintain an EPA registration of ethylene oxide as a medical device sterilant and fumicide. We are in the process of re-registering this product in accordance with FIFRA. The EPA may not allow re-registration of ethylene oxide for the uses mentioned above. The failure of the EPA to allow re-registration of ethylene oxide would have a material adverse effect on our business and financial results.

The Channahon, Illinois facility manufactures a calcium carbonate line of pharmaceutical ingredients. This facility is registered with the FDA as a drug manufacturing facility. These products must be manufactured in conformity with current Good Manufacturing Practice (cGMP) regulations as interpreted and enforced by the FDA. Modifications, enhancements or changes in manufacturing facilities or procedures of our pharmaceutical products are, in many circumstances, subject to FDA approval, which may be subject to a lengthy application process or which we may be unable to obtain. Our Channahon, Illinois facility, as well as those of any third-party cGMP manufacturers that we may use, are periodically subject to inspection by the FDA and other governmental agencies, and operations at these facilities could be interrupted or halted if the results of these inspections are unsatisfactory. Failure to comply with the FDA or other governmental regulations can result in fines, unanticipated compliance expenditures, recall or seizure of products, total or partial suspension of production, enforcement actions, injunctions and criminal prosecution, which could have a material adverse effect on our business and financial results.

Permits and approvals may be subject to revocation, modification or denial under certain circumstances. Our operations or activities (including the status of compliance by the prior owner of the Verona, Missouri facility under Superfund remediation) could result in administrative or private actions, revocation of required permits or licenses, or fines, penalties or damages, which could have an adverse effect on us. In addition, we can not predict the extent to which any legislation or regulation may affect the market for our products or our cost of doing business.

Raw material shortages or price increases could adversely affect our business and financial results.

The principal raw materials that we use in the manufacture of our products can be subject to price fluctuations due to market conditions. Such raw materials include materials derived from petrochemicals, minerals, metals and other commodities. While the selling prices of our products tend to increase or decrease over time with the cost of raw materials, these changes may not occur simultaneously or to the same degree. At times, we may be unable to pass increases in raw material costs through to our customers

due to certain contractual obligations. Such increases in the price of raw materials, if not offset by product price increases, or substitute raw materials, would have an adverse impact on our profitability. We believe we have reliable sources of supply for our raw materials under normal market conditions. We cannot, however, predict the likelihood or impact of any future raw material shortages. Any shortages could have a material adverse impact on our results of operations.

Our financial success depends in part on the reliability and sufficiency of our manufacturing facilities.

Our revenues depend on the effective operation of our manufacturing, packaging, and processing facilities. The operation of our facilities involves risks, including the breakdown, failure, or substandard performance of equipment, power outages, the improper installation or operation of equipment, explosions, fires, natural disasters, failure to achieve or maintain safety or quality standards, work stoppages, supply or logistical outages, and the need to comply with environmental and other directives of governmental agencies. The occurrence of material operational problems, including, but not limited to, the above events, could adversely affect our profitability during the period of such operational difficulties.

Our failure or inability to protect our intellectual property could harm our business and financial results.

We hold 17 patents in the United States and overseas. Third parties could seek to challenge, invalidate or circumvent our patents. Moreover, there could be successful claims against us alleging that we infringe the intellectual property rights of others. If we are unable to protect all of our intellectual property rights, or if we are found to be infringing the intellectual property rights of others, there could be an adverse effect on our business and financial results. Our competitive position also depends on our use of unpatented trade secrets. Competitors could independently develop substantially equivalent proprietary information, which could hurt our business and financial results.

We face risks associated with our sales to customers and manufacturing operations outside the United States.

For the year ended December 31, 2008, approximately 37% of our net sales consisted of sales outside the United States, predominately to Europe, Japan and China. In addition, we conduct a portion of our manufacturing outside the United States. International sales are subject to inherent risks. The majority of our foreign sales occur through our foreign sales subsidiaries and the remainder of our foreign sales result from exports to foreign distributors, resellers and customers. Our foreign sales and operations are subject to a number of risks, including: longer accounts receivable collection periods; the impact of recessions and other economic conditions in economies outside the United States; export duties and quotas; unexpected changes in regulatory requirements; certification requirements; environmental regulations; reduced protection for intellectual property rights in some countries; potentially adverse tax consequences; political and economic instability; and preference for locally produced products. These factors could have a material adverse impact on our ability to increase or maintain our international sales.

We may, from time to time, experience problems in our labor relations.

In North America, approximately 55 employees, or 22% of our North American workforce, as of December 31, 2008, are represented by a union under a single collective bargaining agreement. This agreement expires in 2012. In Europe, approximately 73 employees are covered by a collective bargaining agreement. This agreement expires in 2010. We believe that our present labor relations with all of our unionized employees are satisfactory, however, our failure to renew these agreements on reasonable terms could result in labor disruptions and increased labor costs, which could adversely affect our financial performance. Similarly, if our relations with the unionized portion of our workforce do not remain positive, such employees could initiate a strike, work stoppage or slowdown in the future. In the event of such an action, we may not be able to adequately meet the needs of our customers using our remaining workforce and our operations and financial condition could be adversely affected.

Our international operations subject us to currency translation risk and currency transaction risk which could cause our results to fluctuate from period to period.

The financial condition and results of operations of our foreign subsidiaries are reported in Euros and then translated into U.S. dollars at the applicable currency exchange rate for inclusion in our consolidated financial statements. Exchange rates between these currencies in recent years have fluctuated significantly and may do so in the future. In the past year, as a result of the strength of the Euro compared to the U.S. dollar, our operating results in U.S. dollars were positively affected upon translation. The positive impact of a strengthening Euro may not continue in the future and may even reverse if the Euro declines in value compared to the U.S. dollar. Furthermore, we incur currency transaction risk whenever we enter into either a purchase or a sales transaction using a currency different than the functional currency. Given the volatility of exchange rates, we may not be able to effectively manage our currency transactions and/or translation risks. Volatility in currency exchange rates could impact our business and financial results.

Our success depends in large part on our key personnel.

Our operations significantly depend on the continued efforts of our senior executives. The loss of the services of certain executives for an extended period of time could have a material adverse effect on our business and financial results.

Litigation could be costly and can adversely affect our business and financial results.

We, like all companies involved in the food and pharmaceutical industries, are subject to potential claims for product liability relating to our products. Such claims, irrespective of their outcomes or merits, could be time-consuming and expensive to defend, and could result in the diversion of management time and attention. Any of these situations could have a material adverse effect on our business and financial results.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

In February 2002, the Company entered into a ten (10) year lease for approximately 20,000 square feet of office space in New Hampton, New York. The office space is serving as the Company's general offices and as laboratory facilities for the Company's encapsulated / nutritional products business.

Manufacturing facilities owned by the Company for its encapsulated products business and a blending, drumming and terminal facility for the Company's ethylene oxide business, are presently housed in three buildings located in Slate Hill, New York comprising a total of approximately 51,000 square feet. The Company owns a total of approximately 16 acres of land on two parcels in this community.

The Company owns a facility located on an approximately 24 acre parcel of land in Green Pond, South Carolina. The site consists of a drumming facility, a canister filling facility, a maintenance building and an office building comprising a total of approximately 34,000 square feet. The Company uses this site for repackaging products in its specialty products segment.

The Company's Verona, Missouri site, which is located on approximately 100 acres, consists of manufacturing facilities relating to animal feed grade choline, human choline nutrients, a drumming facility for the Company's ethylene oxide business, together with buildings utilized for warehousing such products. The Verona operation buildings comprise a total of approximately 151,000 square feet. The

facility, while under prior ownership, was designated by the EPA as a Superfund site (see Item 1 – “Business - Environmental / Regulatory Matters”).

The Company leases production and warehouse space in Channahon, Illinois. The Company uses this facility for production related to the Company’s calcium carbonate line of business. The initial term of the lease is effective through September 30, 2010, subject to earlier termination by Balchem upon sixty days notice, or by the landlord upon sixty days notice. The Company’s leased space in Channahon, Illinois totals approximately 26,000 square feet.

The Company, through CMC, owns a manufacturing facility and warehouse, comprising approximately 16,500 square feet, located on approximately 5 acres of land in Salt Lake City, Utah. The Company manufactures and distributes its chelated mineral nutrients for animal feed products at this location.

The Company, through BCP, owns a manufacturing facility located upon approximately 11 acres of leased realty in St. Gabriel, Louisiana. The Company manufactures and distributes animal feed grade choline chloride at this location.

The Company, through its European subsidiary, Balchem Italia Srl, owns a facility located on an approximately 30 acre parcel of land in Marano Ticino, Italy. The Company manufactures and distributes methylamines, animal feed grade choline and human choline nutrients at this location.

Item 3. Legal Proceedings

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 remediated the area and removed soil from the drum burial site. Clean-up was completed in 1996, and NYDEC required the Company to monitor the site through 1999. The Company continues to be involved in discussions with NYDEC to evaluate monitoring 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 \$5,000 per year.

The Company is also involved in other legal proceedings through the normal course of business. Management believes that any unfavorable outcome related to these proceedings will not have a material effect on the Company’s financial position, results of operations or liquidity.

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

None.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

(a) Market Information.

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

On December 15, 2005, the Board of Directors of the Company approved a three-for-two split of the Company's common stock to be effected in the form of a stock dividend to shareholders of record on December 30, 2005. Such stock dividend was made on January 20, 2006. The stock split was recognized by reclassifying the par value of the additional shares resulting from the split, from additional paid-in capital to common stock.

Since December 22, 2006, the Company's common stock has traded on the Nasdaq Global Market under the trading symbol BCPC. Prior to that, our common stock traded on the American Stock Exchange under the trading symbol BCP. The high and low closing prices for the common stock as recorded for each quarterly period during the years ended December 31, 2008 and 2007 were as follows:

| Quarterly Period | High | Low |
|--------------------------|----------|----------|
| Ended March 31, 2008 | \$ 23.34 | \$ 19.05 |
| Ended June 30, 2008 | 26.44 | 22.16 |
| Ended September 30, 2008 | 29.50 | 24.17 |
| Ended December 31, 2008 | 26.86 | 21.16 |

| Quarterly Period | High | Low |
|--------------------------|----------|----------|
| Ended March 31, 2007 | \$ 18.56 | \$ 14.09 |
| Ended June 30, 2007 | 19.17 | 17.15 |
| Ended September 30, 2007 | 21.25 | 15.60 |
| Ended December 31, 2007 | 24.00 | 20.16 |

On March 3, 2009 the closing price for the common stock on the Nasdaq Global Market was \$19.25.

(b) Record Holders.

As of March 3, 2009, the approximate number of holders of record of the Company's common stock was 192. Such number does not include stockholders who hold their stock in street name. The total number of beneficial owners of the Company's common stock is estimated to be approximately 12,399.

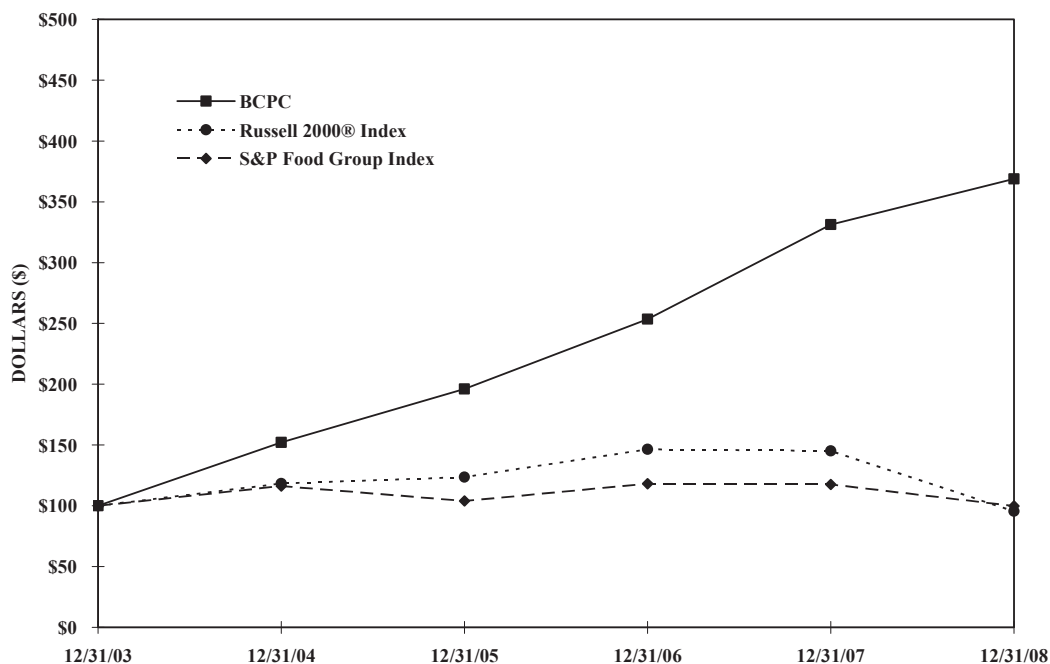
(c) Dividends.

The Company declared cash dividends of \$0.11 per share on its common stock during its fiscal years ended December 31, 2008 and 2007.

For information concerning prior stockholder approval of and other matters relating to our equity incentive plans, see Item 12 in this Annual Report on Form 10-K.

(d) Performance Graph.

The graph below sets forth the cumulative total stockholder return on the Company's Common Stock (referred to in the table as "BCPC") for the five years ended December 31, 2008, the overall stock market return during such period for shares comprising the Russell 2000® Index (which the Company believes includes companies with market capitalization similar to that of the Company), and the overall stock market return during such period for shares comprising the Standard & Poor's 500 Food Group Index, in each case assuming a comparable initial investment of \$100 on December 31, 2003 and the subsequent reinvestment of dividends. The Russell 2000® Index measures the performance of the shares of the 2000 smallest companies included in the Russell 3000® Index. In light of the Company's industry segments, the Company does not believe that published industry-specific indices are necessarily representative of stocks comparable to the Company. Nevertheless, the Company considers the Standard & Poor's 500 Food Group Index to be potentially useful as a peer group index with respect to the Company in light of the Company's Food, Pharma & Nutrition segment. The performance of the Company's Common Stock shown on the graph below is historical only and not indicative of future performance.



Item 6. Selected Financial Data

The selected statements of operations data set forth below for the three years in the period ended December 31, 2008 and the selected balance sheet data as of December 31, 2008 and 2007 have been derived from our Consolidated Financial Statements included elsewhere herein. The selected financial data as of December 31, 2006, 2005 and 2004 and for the years ended December 31, 2005 and 2004 have been derived from audited Consolidated Financial Statements not included herein, but which were previously filed with the SEC. The following information should be read in conjunction with Item 7 — “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the Consolidated Financial Statements and notes thereto included elsewhere herein.

Earnings per share and dividend amounts have been adjusted for the December 2006 and 2005 three-for-two stock splits (effected by means of stock dividends).

(In thousands, except per share data)

| Year ended December 31, | 2008 | 2007 | 2006 | 2005 | 2004 |
|---------------------------------------|--------------|--------------|------------|-----------|-----------|
| | (1)(2)(3)(4) | (1)(2)(3)(4) | (1)(2) | (1) | |
| Statement of Operations Data | | | | | |
| Net sales | \$ 232,050 | \$ 176,201 | \$ 100,905 | \$ 83,095 | \$ 67,406 |
| Earnings before income tax expense | 28,431 | 24,829 | 19,101 | 17,191 | 12,715 |
| Income tax expense | 9,381 | 8,711 | 6,823 | 6,237 | 4,689 |
| Net earnings | 19,050 | 16,118 | 12,278 | 10,954 | 8,026 |
| Basic net earnings per common share | \$ 1.06 | \$.91 | \$.70 | \$.63 | \$.48 |
| Diluted net earnings per common share | \$ 1.00 | \$.87 | \$.67 | \$.61 | \$.46 |
| At December 31, | | | | | |
| Balance Sheet Data | | | | | |
| Total assets | \$ 154,474 | \$ 154,424 | \$ 92,333 | \$ 75,141 | \$ 60,405 |
| Long-term debt | 6,671 | 17,398 | - | - | - |
| Other long-term obligations | 1,609 | 1,529 | 784 | 1,043 | 1,003 |
| Total stockholders' equity | 114,506 | 93,080 | 75,362 | 60,933 | 50,234 |
| Dividends per common share | \$.11 | \$.11 | \$.09 | \$.06 | \$.04 |

- (1) Includes the operating results, cash flows, and assets relating to the Loders Croklaan Acquisition from the date of acquisition (July 1, 2005) forward.
- (2) Includes the operating results, cash flows, and assets relating to the CMC Acquisition from the date of acquisition (February 8, 2006) forward.
- (3) Includes the operating results, cash flows, and assets relating to the Chinook Acquisition from the date of acquisition (March 19, 2007) forward.
- (4) Includes the operating results, cash flows, and assets relating to the Akzo Nobel Acquisition from the date of acquisition (May 1, 2007) forward.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

We develop, manufacture, distribute and market specialty performance ingredients and products for the food, nutritional, pharmaceutical, animal health and medical device sterilization industries. Our reportable segments are strategic businesses that offer products and services to different markets. Effective with the quarter ending March 31, 2008, the Company has realigned its business segment reporting structure to more appropriately reflect the internal management of the businesses, largely due to the impact of acquisitions in 2007. The Company will continue to report three segments: Specialty Products; Food, Pharma & Nutrition; and Animal Nutrition & Health. Changes to the reporting segments are as follows: chelated minerals and specialty nutritional products for the animal health industry, formerly reported as a part of the encapsulated/nutritional products segment, are now combined with the choline business (formerly BCP Ingredients) into a consolidated Animal Nutrition & Health segment. The encapsulated/nutritional products segment has been renamed Food, Pharma & Nutrition, focusing on human health. There are no changes to the Specialty Products segment. Business segment net sales and earnings from operations have been reclassified for all periods presented to reflect the segment changes.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with Item 6 — “Selected Financial Data” and our Consolidated Financial Statements and the related notes included in this report. Those statements in the following discussion that are not

historical in nature should be considered to be forward-looking statements that are inherently uncertain. See “Cautionary Statement Regarding Forward-Looking Statements”.

Specialty Products

The specialty products segment repackages and distributes the following specialty gases: ethylene oxide, blends of ethylene oxide, propylene oxide and methyl chloride.

Ethylene oxide, at the 100% level, is sold as a chemical sterilant gas, primarily for use in the health care industry to sterilize medical devices. Contract sterilizers, medical device manufacturers and medical gas distributors are the Company’s principal customers for this product. Blends of ethylene oxide are sold as fumigants and are highly effective in killing bacteria, fungi, and insects in spices and other seasoning type materials. Propylene oxide and methyl chloride are also sold, principally to customers seeking smaller (as opposed to bulk) quantities.

Management believes that future success in this segment is highly dependent on the Company’s ability to maintain its strong reputation for excellent quality, safety and customer service.

Food, Pharma & Nutrition

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

Management believes this segment’s key strengths are its proprietary technology and end-product application capabilities. The success of the Company’s efforts to increase revenue in this segment is highly dependent on the timing of marketing launches of new products in the U.S. and international food and nutrition markets by the Company’s customers and prospects. The Company, through its innovative proprietary technology and applications expertise, continues to develop new products designed to solve and respond to customer problems and innovative needs.

Animal Nutrition & Health

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

health condition in swine. Certain derivatives of choline chloride are also manufactured and sold into industrial applications. The AN&H segment also includes the manufacture and sale of methylamines. Methylamines are a primary building block for the manufacture of choline products and are also used in a wide range of industrial applications.

Sales of specialty products for the animal nutrition and health industry are highly dependent on dairy industry economics as well as the ability of the Company to leverage the results of existing successful university research on the animal health benefits of the Company's products. Management believes that success in the commodity-oriented basic choline chloride marketplace is highly dependent on the Company's ability to maintain its strong reputation for excellent product quality and customer service. In addition, the Company must continue to increase production efficiencies in order to maintain its low-cost position to effectively compete in a highly competitive global marketplace.

The Company sells products for all three segments through its own sales force, independent distributors, and sales agents.

The following tables summarize consolidated net sales by segment and business segment earnings from operations for the three years ended December 31, 2008, 2007 and 2006 (in thousands):

Business Segment Net Sales:

| | 2008 | 2007 | 2006 |
|---------------------------|------------|------------|------------|
| Specialty Products | \$ 35,835 | \$ 33,057 | \$ 32,026 |
| Food, Pharma & Nutrition | 35,702 | 32,052 | 28,702 |
| Animal Nutrition & Health | 160,513 | 111,092 | 40,177 |
| Total | \$ 232,050 | \$ 176,201 | \$ 100,905 |

Business Segment Earnings From Operations:

| | 2008 | 2007 | 2006 |
|---------------------------|-----------|-----------|-----------|
| Specialty Products | \$ 12,545 | \$ 11,824 | \$ 11,315 |
| Food, Pharma & Nutrition | 5,469 | 4,144 | 2,162 |
| Animal Nutrition & Health | 11,334 | 9,938 | 5,685 |
| Total | \$ 29,348 | \$ 25,906 | \$ 19,162 |

Fiscal Year 2008 compared to Fiscal Year 2007

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

Net Sales

Net sales for 2008 were \$232,050, as compared with \$176,201 for 2007, an increase of \$55,849 or 31.7%. Net sales for the specialty products segment were \$35,835 for 2008, as compared with \$33,057 for 2007, an increase of \$2,778 or 8.4%. This increase was due principally to greater sales volumes of ethylene oxide for medical device sterilization and propylene oxide for starch modification as well as a modest price increase adopted to help offset rising raw material costs during 2008. Net sales for the Food, Pharma & Nutrition segment were \$35,702 for 2008, as compared with \$32,052 for 2007, an increase of \$3,650 or 11.4%. This result was driven principally by increased sales of calcium and nutritional products, as well as increased product sales in both the domestic and international food markets. Net sales of \$160,513 were realized in 2008 for the Animal Nutrition & Health segment, as compared with \$111,092 for 2007, an increase of \$49,421 or 44.5%. This result reflects incremental sales of approximately \$40,000 from the customer list acquisition of Chinook Group Limited ("Chinook") and from the Akzo Nobel Acquisition, as described in Note 5. For the twelve months ending December 31, 2008, sales of our specialty animal nutrition and health products, targeted for ruminant production animals and companion animals, increased 32.9% or approximately 12% of the overall AN&H growth.

Operating Expenses

Operating expenses for 2008 were \$23,230, as compared to \$21,024 for 2007, an increase of \$2,206 or 10.5%. This increase was due primarily to \$736 of additional amortization expense, plus sales and technical personnel expense associated with the Chinook and Akzo Nobel acquisitions, as well as higher expenses relating to accounting, tax services, and non-cash stock-based compensation recognition. With these increases, operating expenses were 10.0% of sales or 1.9 percentage points less than the operating expenses as a percent of sales incurred in 2007. During 2008 and 2007, the Company spent \$2,877 and \$2,514, respectively, on research and development, substantially all of which pertained to the Food, Pharma, Nutrition, and Animal Nutrition & Health segments.

Business Segment Earnings From Operations

Earnings from operations for 2008 increased to \$29,348 compared to \$25,906 for 2007, an increase of \$3,442 or 13.3%, due largely to the above-noted increase in sales. Earnings from operations as a percentage of sales (“operating margin”) for 2008 decreased to 12.6% compared to 14.7% for 2007, principally a result of the previously-noted acquisition-related sales which carry a lower profit margin than the Company’s other business segments. In addition, despite the implementation of price increases, we were not able to fully recover cost increases in certain petro-chemical raw materials, which continued or trended up within the year. We did begin to see a reduction in certain raw material costs late in the third quarter 2008. The Company is continuing to focus on implementing price increases, productivity improvements, and, most importantly, growth through new product development which should result in improved operating margins. Earnings from operations for the Specialty Products segment were \$12,545, an increase of \$721 or 6.1%, a result of increases in sales volume and modest sales price increases offset by higher raw material costs and the previously-noted increased expenses relating to accounting, tax services, and non-cash stock-based compensation recognition. Earnings from operations for Food, Pharma & Nutrition were \$5,469, an increase of \$1,325 or 32.0%, due largely to increased sales of calcium and nutritional products. Earnings from operations for Animal Nutrition & Health, while unfavorably impacted by the noted petro-chemical raw material cost increases, improved to \$11,334, an increase of \$1,396 or 14.0%, and were favorably affected by organic growth and the previously-noted increased sales volumes derived from the acquisitions.

Other Expenses (Income)

Interest income for 2008 totaled \$107 as compared to \$166 for 2007. Interest expense, net of capitalized interest, was \$963 for 2008 compared to \$1,562 for 2007. This decrease is primarily attributable to lower interest rates and the decrease in average current and long-term debt resulting from both normal recurring principal payments as well as accelerated payments of the term loan used to fund the Chinook Acquisition. Other expense of \$61 for 2008 is primarily the result of unfavorable fluctuations in foreign currency exchange rates between the U.S. dollar (the reporting currency) and functional foreign currencies.

Income Tax Expense

The Company’s effective tax rate 2008 and 2007 was 33.0% and 35.1%, respectively. This decrease in the effective tax rate is primarily attributable to a change in apportionment factors relating to state income taxes, as well as a change in the income proportion towards jurisdictions with lower tax rates.

Net Earnings

Primarily as a result of the above-noted increase in sales and the noted raw material and operating expense increases, net earnings were \$19,050 for 2008, as compared with \$16,118 for 2007, an increase of 18.2%.

Fiscal Year 2007 compared to Fiscal Year 2006

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

Net Sales

Net sales for 2007 were \$176,201, as compared with \$100,905 for 2006, an increase of \$75,296 or 74.6%. Net sales for the specialty products segment were \$33,057 for 2007, as compared with \$32,026 for 2006, an increase of \$1,031 or 3.2%. This increase was principally due to an increase in sales volume, along with modest price increases for products in this segment. Net sales for the Food, Pharma & Nutrition segment were \$32,052 for 2007, as compared with \$28,702 for 2006, an increase of \$3,350 or 11.7%. This result was driven principally by increased global sales of human nutritional and choline products, and includes growth of \$1,952 relating to the Akzo Nobel Acquisition. Net sales for the Animal Nutrition & Health segment were \$111,092 in 2007, as compared with \$40,177 for 2006, an increase of \$70,915 or 176.5%. This result reflects sales from the Chinook Acquisition and the Akzo Nobel Acquisition in 2007, which contributed in the aggregate approximately \$62,495 of the revenue in this segment. The remaining increase was due to increased volumes sold in the core dry and aqueous choline, as well as the specialty industrial product lines. Sales of REASHURE®, Niashure and chelated minerals, our specialty animal nutrition and health products targeted for ruminant animals, and increases in the companion animal market also contributed to this growth.

Operating Expenses

Operating expenses for 2007 increased to \$21,024 from \$14,844 for 2006, an increase of \$6,180 or 41.6%. This increase was due primarily to \$2,300 of additional amortization expense, plus sales and technical personnel expense associated with the Chinook and Akzo Nobel acquisitions. We also incurred approximately \$1,224 of commercial development expenses toward our pharmaceutical market initiatives in 2007. With these increases, operating expenses were 11.9% of sales or 2.8 percentage points less than the operating expenses as a percent of sales incurred in 2006. During 2007 and 2006, the Company spent \$2,514 and \$2,019 respectively, on research and development, substantially all of which pertained to the Company's encapsulated / nutritional products for both human and animal health.

Business Segment Earnings From Operations

As a result of the foregoing, earnings from operations for 2007 were \$25,906 as compared to \$19,162 for 2006, reflecting a 35.2% increase from year to year. Earnings from operations for the specialty products segment increased to \$11,824 in 2007 from \$11,315 in 2006, an increase of \$509 or 4.5%, due largely to increases in sales volume and modest sales price increases. These increases were partially offset by higher raw material costs. Earnings from operations for the Food, Pharma & Nutrition segment increased to \$4,144 in 2007 from \$2,162 in 2006, an increase of \$1,981 or 91.6%, as this segment was favorably affected by the Akzo Nobel Acquisition and increased volumes sold principally in the human choline markets. Earnings from operations for the Animal Nutrition & Health segment, increased to \$9,938 in 2007 from \$5,684 in 2006, an increase of \$4,254 or 74.8%, as a result of the previously noted increased sales volumes and improved productivity, partially offset by certain petro-chemical raw material cost increases.

Other Expenses (Income)

Interest income for 2007 totaled \$166, as compared to \$128 for 2006. This increase is attributable to an increase in the Company's average cash balance during 2007. Interest expense, net of capitalized interest, was \$1,562 for 2007, as compared to \$189 for 2006. This increase is attributable to the increase in average current and long-term debt resulting from the Chinook Acquisition and Akzo Nobel Acquisition. Other income of \$319 for 2007 is the result of favorable fluctuations in foreign currency exchange rates between the U.S. dollar (the reporting currency) and functional foreign currencies.

Income Tax Expense

The Company's effective tax rate for 2007 and 2006 was 35.1% and 35.7%, respectively. This decrease in the effective tax rate is primarily attributable to a domestic manufacturer's deduction and to a change in allocation relating to state income taxes. The adoption of Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48") adversely affected the 2007 income tax expense by \$220 and the effective tax rate by 0.9%.

Net Earnings

Primarily as a result of the above-noted increase in sales, net earnings were \$16,118 for 2007, as compared with \$12,278 for 2006, an increase of 31.3%.

LIQUIDITY AND CAPITAL RESOURCES

Contractual Obligations

The Company's contractual obligations and debt obligations, excluding revolver borrowings, as of December 31, 2008, are summarized in the table below:

| Contractual Obligations | Payments due by period | | | | |
|---------------------------------|------------------------|---------------------|-----------|-----------|----------------------|
| | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| Long-term debt obligations | \$ 9,531 | \$ 2,860 | \$ 6,671 | \$ - | \$ - |
| Operating lease obligations (1) | 2,590 | 1,128 | 894 | 347 | 221 |
| Purchase obligations (2) | 8,048 | 8,048 | - | - | - |
| Total | \$ 20,169 | \$ 12,036 | \$ 7,565 | \$ 347 | \$ 221 |

(1) Principally includes obligations associated with future minimum non-cancelable operating lease obligations (including the headquarters office space entered into in 2002).

(2) Principally includes open purchase orders with vendors for inventory not yet received or recorded on our balance sheet.

The table above excludes a \$581 liability for uncertain tax positions, including the related interest and penalties, recorded in accordance with the Financial Accounting Standards Board's Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FAS Statement No. 109" ("FIN 48") as we are unable to reasonably estimate the timing of settlement (see Note 8 for a further discussion on FIN 48).

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

The Company expects its operations to continue generating sufficient cash flow to fund working capital requirements and necessary capital investments. The Company is actively pursuing additional acquisition candidates. The Company could seek additional bank loans or access to financial markets to fund such acquisitions, its operations, working capital, necessary capital investments or other cash requirements should it deem it necessary to do so.

Acquisitions and Dispositions

Effective April 30, 2007, pursuant to an asset purchase agreement dated March 30, 2007 (the "Akzo Nobel Asset Purchase Agreement"), the Company, through its European subsidiary, Balchem B.V.,

completed an acquisition of the methylamines and choline chloride business and manufacturing facilities of Akzo Nobel Chemicals S.p.A., located in Marano Ticino, Italy (the "Akzo Nobel Acquisition") for a purchase price, including acquisition costs, of approximately \$8,000.

On March 16, 2007, the Company, through BCP, entered into an asset purchase agreement (the "Asset Purchase Agreement") with Chinook Global Limited ("Chinook"), a privately held Ontario corporation, pursuant to which BCP acquired certain of Chinook's choline chloride business assets (the "Chinook Acquisition") for a purchase price, including acquisition costs, of approximately \$33,000. The Chinook Acquisition closed effective the same date.

On February 8, 2006, the Company, through its wholly owned subsidiary Balchem Minerals Corporation, acquired all of the outstanding capital stock of CMC, for a purchase price, including acquisition costs, of approximately \$17,900. CMC is a manufacturer and global marketer of chelated mineral nutritional supplements for livestock, pet and swine feeds.

Cash

Cash and cash equivalents increased to \$3,422 at December 31, 2008 from \$2,307 at December 31, 2007 primarily resulting from the information detailed below. Working capital amounted to \$29,566 at December 31, 2008 as compared to \$16,139 at December 31, 2007, an increase of \$13,427.

Operating Activities

Cash flows from operating activities provided \$22,897 for 2008 compared to \$15,637 for 2007. The increase in cash flows from operating activities was primarily due to an increase in net earnings, depreciation and amortization, and stock compensation. The aforementioned increase in cash flows was partially offset by an increase in inventories, accounts receivable and a reduction in accounts payable and accrued expenses.

Investing Activities

Capital expenditures were \$5,080 for 2008 compared to \$4,858 for 2007. Assets acquired in 2007 totaled \$40,744, which was principally related to the Chinook Acquisition and the Akzo Nobel Acquisition (see Note 5).

Financing Activities

The Company has an approved stock repurchase program. The total authorization under this program is 2,508,692 shares. Since the inception of the program, a total of 1,307,867 shares have been purchased, none of which remained in treasury at December 31, 2008 or 2007. During 2008, no additional shares were purchased. The Company intends to acquire shares from time to time at prevailing market prices if and to the extent it deems it advisable to do so based on its assessment of corporate cash flow, market conditions and other factors.

On April 30, 2007, the Company, and its principal bank entered into a Loan Agreement (the "European Loan Agreement") providing for an unsecured term loan of €7,500, translated to approximately \$10,573 of December 31, 2008 (the "European Term Loan"), the proceeds of which were used to fund the Akzo Nobel Acquisition (see Note 5) and initial working capital requirements. The European Term Loan is payable in equal monthly installments of principal, each equal to 1/84th of the principal of the European Term Loan, together with accrued interest, with remaining principal and interest payable at maturity. The European Term Loan has a maturity date of May 1, 2010 and is subject to a monthly interest rate equal to EURIBOR plus 1%. At December 31, 2008, this interest rate was 4.61%. At December 31, 2008, the European Term Loan had an outstanding balance of €5,804 translated to \$8,181. The European Loan Agreement also initially provided for a short-term revolving credit facility of €2,000 (the "European Revolving Facility"). The European Revolving Facility has been renewed for a period of one year as of

May 1, 2008. As part of this renewal, the European Loan Agreement was amended to increase the European Revolving Facility to €3,000, translated to \$4,229 as of December 31, 2008. The European Revolving Facility is subject to a monthly interest rate equal to EURIBOR plus 1.25%, and accrued interest is payable monthly. The Company has drawn down €1,450, or \$2,044 as translated at December 31, 2008, of the European Revolving Facility as of December 31, 2008.

On March 16, 2007, the Company and its principal bank entered into a Loan Agreement (the "Loan Agreement") providing for an unsecured term loan of \$29,000 (the "Term Loan"), the proceeds of which were used to fund the Chinook Acquisition (see Note 5). The Term Loan is payable in equal monthly installments of principal, each equal to 1/60th of the principal of the Term Loan, together with accrued interest, with remaining principal and interest payable at maturity. The Term Loan has a maturity date of March 16, 2010 and is subject to a monthly interest rate equal to LIBOR plus 1%. At December 31, 2008, this interest rate was 2.20%. As of December 31, 2008, the Company has prepaid \$17,500 of the Term Loan. At December 31, 2008, the Term Loan had an outstanding balance of \$1,350. The Loan Agreement also provides for a short-term revolving credit facility of \$6,000 (the "Revolving Facility"). The Revolving Facility is subject to a monthly interest rate equal to LIBOR plus 1%, and accrued interest is payable monthly. No amounts are outstanding on the Revolving Facility as of the date hereof. The Revolving Facility has a maturity date of May 31, 2009. Management believes that such facility will be renewed in the normal course of business.

Indebtedness under the Company's loan agreements are secured by assets of the Company.

Proceeds from stock options exercised totaled \$1,050 and \$1,217 for 2008 and 2007, respectively. Dividend payments were \$1,975 and \$1,596 for 2008 and 2007, respectively.

Other Matters Impacting Liquidity

The Company currently provides postretirement benefits in the form of a retirement medical plan under a collective bargaining agreement covering eligible retired employees of its Verona, Missouri facility. The amount recorded on the Company's balance sheet as of December 31, 2008 for this obligation is \$801. The postretirement plan is not funded. Historical cash payments made under such plan have approximated \$50 per year.

Critical Accounting Policies

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.

The Company's "critical accounting policies" are those that require application of management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and that may change in subsequent periods. Management considers the following accounting policies to be critical.

Revenue Recognition

Revenue is recognized upon product shipment, passage of title and risk of loss, and when collection is reasonably assured. 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. Amounts received for unshipped merchandise are principally not recognized as revenue but rather they are recorded as customer deposits and are included in current liabilities. In addition, the Company follows the

provisions of the Securities and Exchange Commission's (SEC) Staff Accounting Bulletin (SAB) No. 104, "Revenue Recognition," which sets forth guidelines on the timing of revenue recognition based upon factors such as passage of title, installation, payments and customer acceptance.

Inventories

Inventories are valued at the lower of cost (first in, first out or average) or market value and have been reduced by an allowance for excess or obsolete inventories. Inventory reserves are generally recorded when the inventory for a product exceeds twelve months of demand for that product and/or when individual products have been in inventory for greater than six months. In November 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 151, "Inventory Costs." The new statement amends Accounting Research Bulletin No. 43, Chapter 4, "Inventory Pricing", to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material. This statement requires that those items be recognized as current period charges and requires that allocation of fixed production overheads to the cost of conversion be based on the normal capacity of the production facilities. The provisions of this statement were applied prospectively for inventory costs incurred beginning in our fiscal year 2006. The adoption of this statement did not have a material impact on our results of operations, financial position or cash flow.

Long-lived assets

Long-lived assets, such as property, plant, and equipment and intangible assets with finite lives, 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.

Goodwill, which is not subject to amortization, is tested annually for impairment, and more frequently if events and circumstances indicate that the asset might be impaired. If an indicator of impairment exists, the Company determines the amount of impairment based on a comparison of the implied fair value of its goodwill to its carrying value.

Accounts Receivable

We market our products to a diverse customer base, principally throughout the United States, Europe, China and Japan. We grant credit terms in the normal course of business to our customers. We perform on-going credit evaluations of our customers and adjust credit limits based upon payment history and the customer's current credit worthiness, as determined through review of their current credit information. We continuously monitor collections and payments from customers and maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. Estimated losses are based on historical experience and any specific customer collection issues identified. If the financial condition of our customers were to deteriorate resulting in an impairment of their ability to make payments, additional allowances and related bad debt expense may be required.

Post-employment Benefits

The Company provides life insurance and health care benefits for eligible retirees and health care benefits for retirees' eligible survivors. The costs and obligations related to these benefits reflect the Company's assumptions as to general economic conditions and health care cost trends. The cost of providing plan benefits also depends on demographic assumptions including retirements, mortality, turnover, and plan participation. If actual experience differs from these assumptions, the cost of providing these benefits could increase or decrease.

In September 2006, the FASB issued FASB Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." This Statement requires an employer to recognize the over funded or under funded status of a defined benefit post retirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position, and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. As a result of adopting SFAS No. 158 on December 31, 2006, we recorded \$300 as a reduction to the benefit obligation and \$200, net of tax, as a one-time adjustment to accumulated other comprehensive income in stockholders' equity.

Intangible Assets with Finite Lives

The useful life of an intangible asset is based on the Company's assumptions regarding expected use of the asset; the relationship of the intangible asset to another asset or group of assets; any legal, regulatory or contractual provisions that may limit the useful life of the asset or that enable renewal or extension of the asset's legal or contractual life without substantial cost; the effects of obsolescence, demand, competition and other economic factors; and the level of maintenance expenditures required to obtain the expected future cash flows from the asset and their related impact on the asset's useful life. If events or circumstances indicate that the life of an intangible asset has changed, it could result in higher future amortization charges or recognition of an impairment loss.

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 earnings in the period that includes the enactment date. The Company regularly reviews its deferred tax assets for recoverability and would establish a valuation allowance if it believed that such assets may not be recovered, taking into consideration historical operating results, expectations of future earnings, changes in its operations and the expected timing of the reversals of existing temporary differences.

Beginning in fiscal 2007, we account for uncertainty in income taxes utilizing the Financial Accounting Standards Board's Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FAS Statement No. 109" ("FIN 48"). This interpretation clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS 109. It prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, and disclosures. The application of FIN 48 requires judgment related to the uncertainty in income taxes and could impact our effective tax rate.

Stock-based Compensation

Beginning in fiscal 2006, we account for stock-based compensation in accordance with SFAS No. 123R (revised 2004), “Share-Based Payment” (“SFAS 123R”) as interpreted by SEC Staff Accounting Bulletin (“SAB”) No. 107. Under the fair value recognition provisions of this statement, share-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the vesting period. Determining the fair value of share-based awards at the grant date requires judgment, including estimating our stock price volatility, employee stock option exercise behaviors and employee option forfeiture rates. Expected volatilities are based on historical volatility of the Company’s stock. The expected term of the options is based on the Company’s historical experience of employees’ exercise behavior. As stock-based compensation expense recognized in the Consolidated Statement of Earnings is based on awards ultimately expected to vest, the amount of expense has been reduced for estimated forfeitures. SFAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on historical experience. As a result of adopting SFAS 123R, we recorded \$900 of compensation expense, net of tax, in 2006. If factors change and we employ different assumptions in the application of SFAS 123R, the compensation expense that we record in future periods may differ significantly from what we have recorded in the current period. See Note 2 to the Consolidated Financial Statements for additional information.

New Accounting Pronouncements:

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

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

In March 2008, FASB issued Statement of Financial Accounting Standards No. 161, “Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133” (“SFAS 161”). SFAS 161 requires enhanced disclosures regarding derivatives and hedging activities, including: (a) the manner in which an entity uses derivative instruments; (b) the manner in which derivative instruments and related hedged items are accounted for under Statement of Financial Accounting Standards No. 133, “Accounting for Derivative Instruments and Hedging Activities”; and (c) the effect of derivative instruments and related hedged items on an entity’s financial position, financial performance, and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. As SFAS 161 relates specifically to disclosures, the statement will have no impact on our financial condition, results of operations or cash flows.

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

separately from the acquisition; (2) known contractual contingencies at the time of the acquisition will be considered part of the liabilities acquired measured at their fair value; all other contingencies will be part of the liabilities acquired measured at their fair value only if it is more likely than not that they meet the definition of a liability; (3) contingent consideration based on the outcome of future events will be recognized and measured at the time of the acquisition; (4) business combinations achieved in stages (step acquisitions) will need to recognize the identifiable assets and liabilities, as well as noncontrolling interests, in the acquiree, at the full amounts of their fair values; and (5) a bargain purchase (defined as a business combination in which the total acquisition-date fair value of the identifiable net assets acquired exceeds the fair value of the consideration transferred plus any noncontrolling interest in the acquiree) will require that excess to be recognized as a gain attributable to the acquirer. SFAS 141R will be effective for any business combinations that occur after January 1, 2009. The Company is currently evaluating the impact that SFAS 141R will have on its financial statements and disclosures.

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

In June 2007, FASB ratified the consensus reached by the EITF on EITF Issue No. 07-3, "Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities" ("EITF 07-3"). EITF 07-3 addresses the diversity that exists with respect to the accounting for the non-refundable portion of a payment made by a research and development entity for future research and development activities. Under EITF 07-3, an entity would defer and capitalize non-refundable advance payments made for research and development activities until the related goods are delivered or the related services are performed. The Company has adopted the provisions of EITF 07-3 as of January 1, 2008 and it has not had a material impact on its financial condition or results of operations.

In February 2007, FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115” (“SFAS 159”). SFAS 159 permits an entity to measure certain financial assets and financial liabilities at fair value. Entities electing the fair value option will report unrealized gains and losses in earnings as of each subsequent reporting date. The fair value option may be elected on an instrument-by-instrument basis with few exceptions, as long as it is applied to the instrument in its entirety. SFAS 159 establishes presentation and disclosure requirements to help financial statement users understand the effect of an entity’s election on its earnings. SFAS 159 requires prospective application. If an entity elects the fair value option for items existing as of the date of adoption, the difference between their carrying amount and fair value should be included in a cumulative-effect adjustment to the opening balance of retained earnings. The provisions of SFAS 159 are effective for fiscal years beginning after November 15, 2007. The Company has adopted the provisions of this statement as of January 1, 2008 and it did not have a material impact on its financial condition or results of operations.

In September 2006, FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. The Company has adopted the provisions of this statement for its financial assets and liabilities as of January 1, 2008 and it did not have a material impact on its financial condition or results of operations. As permitted by FASB Staff Position (“FSP”) No. FAS 157-2, “Effective Date of FASB Statement No. 157”, the Company elected to defer the adoption of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, until January 1, 2009. Effective January 1, 2009, we will adopt the provision for nonfinancial assets and liabilities that are not required or permitted to be measured at fair value on a

recurring basis, which include those measured at fair value in impairment testing and those initially measured at fair value in a business combination. We do not expect the provisions of SFAS No. 157 related to these items to have a material impact on our consolidated financial statements. In October 2008, FASB issued FSP No. 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active." FSP No. 157-3 clarifies the application of SFAS No. 157 in a market that is not active and provides an example of key considerations in determining the fair value of a financial asset when the market for that asset is not active. FSP No. 157-3 was effective on October 10, 2008, including prior periods for which financial statements have not been issued. Revisions resulting from a change in the valuation technique or its application should be accounted for as a change in accounting estimate following the guidance in SFAS No. 154, "Accounting Changes and Error Corrections." The Company adopted FSP No. 157-3 on October 10, 2008 and it did not have a material effect on its consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Cash and cash equivalents are invested primarily in money market accounts. The money market funds in which the Company invests are participants in the United States Treasury Department's Temporary Guarantee Program for Money Market Funds. This program provides coverage for amounts held in money market funds as of the close of business on September 19, 2008. The Company has no derivative financial instruments or derivative commodity instruments, nor does the Company have any financial instruments entered into for trading or hedging purposes. As of December 31, 2008, the Company's borrowings were under a bank term loan bearing interest at LIBOR plus 1.00%, a second bank term loan bearing interest at EURIBOR plus 1.00%, a revolving line of credit bearing interest at LIBOR plus 1.00% and a second revolving line of credit bearing interest at EURIBOR plus 1.25%. A 100 basis point increase or decrease in interest rates, applied to the Company's borrowings at December 31, 2008, would result in an increase or decrease in annual interest expense and a corresponding reduction or increase in cash flow of approximately \$115. The Company is exposed to market risks for changes in foreign currency rates and has exposure to commodity price risks, including prices of our primary raw materials. Our objective is to seek a reduction in the potential negative earnings impact of changes in foreign exchange rates and raw material pricing arising in our business activities. The Company manages these financial exposures, where possible, through pricing and operational means. Our practices may change as economic conditions change.

Item 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Balchem Corporation

We have audited the accompanying consolidated balance sheets of Balchem Corporation and Subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. Our audits also included the financial statement schedule of Balchem Corporation listed in the Index at Item 8. We also have audited Balchem Corporation's internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Balchem Corporation's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America. 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 the information set forth therein. Also in our opinion, Balchem Corporation maintained, in all material respects, effective internal

control over financial reporting as of December 31, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ McGladrey & Pullen LLP
New York, New York
March 12, 2009

BALCHEM CORPORATION

Consolidated Balance Sheets

December 31, 2008 and 2007

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

| <u>Assets</u> | <u>2008</u> | <u>2007</u> |
|--|-----------------------|-----------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 3,422 | \$ 2,307 |
| Accounts receivable, net of allowance for doubtful accounts of \$50 and \$50 at December 31, 2008 and 2007, respectively | 30,250 | 29,640 |
| Inventories | 16,618 | 15,680 |
| Prepaid expenses | 2,581 | 2,456 |
| Deferred income taxes | 649 | 515 |
| Other current assets | 1,731 | 1,871 |
| Total current assets | 55,251 | 52,469 |
| Property, plant and equipment, net | 42,513 | 42,080 |
| Goodwill | 26,658 | 26,363 |
| Intangible assets with finite lives, net | 29,993 | 33,451 |
| Other assets | 59 | 61 |
| Total assets | \$ 154,474 | \$ 154,424 |
| <u>Liabilities and Stockholders' Equity</u> | | |
| Current liabilities: | | |
| Trade accounts payable | \$ 10,336 | \$ 11,190 |
| Accrued expenses | 3,948 | 7,311 |
| Accrued compensation and other benefits | 2,501 | 3,205 |
| Customer deposits and other deferred revenue | - | 42 |
| Dividends payable | 2,008 | 1,975 |
| Income taxes payable | 1,988 | 2,019 |
| Current portion of long-term debt | 2,860 | 7,379 |
| Revolver borrowings | 2,044 | 3,209 |
| Total current liabilities | 25,685 | 36,330 |
| Long-term debt | 6,671 | 17,398 |
| Deferred income taxes | 6,003 | 6,087 |
| Other long-term obligations | 1,609 | 1,529 |
| Total liabilities | 39,968 | 61,344 |
| 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 60,000,000 shares; 18,249,347 shares issued and outstanding at December 31, 2008 and 17,979,353 shares issued and outstanding at December 31, 2007 | 823 | 804 |
| Additional paid-in capital | 18,809 | 14,286 |
| Retained earnings | 94,882 | 77,840 |
| Accumulated other comprehensive income (loss) | (8) | 150 |
| Total stockholders' equity | 114,506 | 93,080 |
| Total liabilities and stockholders' equity | \$ 154,474 | \$ 154,424 |

See accompanying notes to consolidated financial statements.

BALCHEM CORPORATION
Consolidated Statements of Earnings
Years Ended December 31, 2008, 2007 and 2006
(In thousands, except per share data)

| | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|--|------------------|------------------|------------------|
| Net sales | \$ 232,050 | \$ 176,201 | \$ 100,905 |
| Cost of sales | <u>179,472</u> | <u>129,271</u> | <u>66,899</u> |
| Gross margin | 52,578 | 46,930 | 34,006 |
| Operating expenses: | | | |
| Selling expenses | 12,560 | 11,930 | 6,907 |
| Research and development expenses | 2,877 | 2,514 | 2,019 |
| General and administrative expenses | <u>7,793</u> | <u>6,580</u> | <u>5,918</u> |
| | 23,230 | 21,024 | 14,844 |
| Earnings from operations | <u>29,348</u> | <u>25,906</u> | <u>19,162</u> |
| Other expenses (income): | | | |
| Interest income | (107) | (166) | (128) |
| Interest expense | 963 | 1,562 | 189 |
| Other, net | 61 | (319) | - |
| Earnings before income tax expense | <u>28,431</u> | <u>24,829</u> | <u>19,101</u> |
| Income tax expense | <u>9,381</u> | <u>8,711</u> | <u>6,823</u> |
| Net earnings | <u>\$ 19,050</u> | <u>\$ 16,118</u> | <u>\$ 12,278</u> |
| Basic net earnings per common share | <u>\$ 1.06</u> | <u>\$ 0.91</u> | <u>\$ 0.70</u> |
| Diluted net earnings per common share | <u>\$ 1.00</u> | <u>\$ 0.87</u> | <u>\$ 0.67</u> |

BALCHEM CORPORATION
Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2008, 2007 and 2006
(Dollars in thousands, except share and per share data)

| | Common Stock | | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income | Treasury Stock | | Total Stockholders' Equity |
|--|--------------|--------|----------------------------------|----------------------|---|----------------|------------|----------------------------------|
| | Shares | Amount | | | | Shares | Amount | |
| Balance - December 31, 2005 | 17,461,447 | \$ 776 | \$ 8,008 | \$ 53,306 | \$ - | (96,024) | \$ (1,157) | \$ 60,933 |
| Net earnings | - | - | - | 12,278 | - | - | - | 12,278 |
| Dividends (\$.09 per share) | - | - | - | (1,596) | - | - | - | (1,596) |
| Shares issued under employee benefit plans and other | 1,079 | - | 70 | - | - | 21,933 | 264 | 334 |
| Shares and options issued under stock option plans and an income tax benefit of \$878 | 271,323 | 12 | 2,315 | - | - | 74,091 | 893 | 3,220 |
| Adjustment to initially apply FASB Statement No. 158, net of tax | - | - | - | - | 193 | - | - | 193 |
| Balance - December 31, 2006 | 17,733,849 | 788 | 10,393 | 63,988 | 193 | - | - | 75,362 |
| Net earnings | - | - | - | 16,118 | - | - | - | 16,118 |
| Dividends (\$.11 per share) | - | - | - | (1,975) | - | - | - | (1,975) |
| Shares issued under employee benefit plans and other | 20,869 | 1 | 378 | - | - | - | - | 379 |
| Shares and options issued under stock option plans and an income tax benefit of \$677 | 224,635 | 15 | 3,515 | - | - | - | - | 3,530 |
| Cumulative effect of adjustment from adoption of FIN 48 | - | - | - | (291) | - | - | - | (291) |
| Net change in pension asset/liability, net of taxes of \$26 | - | - | - | - | (43) | - | - | (43) |
| Balance - December 31, 2007 | 17,979,353 | 804 | 14,286 | 77,840 | 150 | - | - | 93,080 |
| Net earnings | - | - | - | 19,050 | - | - | - | 19,050 |
| Dividends (\$.11 per share) | - | - | - | (2,008) | - | - | - | (2,008) |
| Shares issued under employee benefit plans and other | 17,218 | 1 | 405 | - | - | - | - | 406 |
| Shares and options issued under stock option plans and an income tax benefit of \$672 | 252,776 | 18 | 4,118 | - | - | - | - | 4,136 |
| Net change in pension asset/liability, net of taxes of \$8 | - | - | - | - | 48 | - | - | 48 |
| Equity adjustment from translation | - | - | - | - | (206) | - | - | (206) |
| Balance - December 31, 2008 | 18,249,347 | \$ 823 | \$ 18,809 | \$ 94,882 | \$ (8) | - | \$ - | \$ 114,506 |

BALCHEM CORPORATION
Consolidated Statements of Cash Flows
Years Ended December 31, 2008, 2007 and 2006
(In thousands)

| | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|---|-----------------|-----------------|-----------------|
| Cash flows from operating activities: | | | |
| Net earnings | \$ 19,050 | \$ 16,118 | \$ 12,278 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | | |
| Depreciation and amortization | 7,786 | 6,376 | 3,445 |
| Stock compensation expense | 2,414 | 1,636 | 1,097 |
| Shares issued under employee benefit plans | 406 | 379 | 343 |
| Deferred income tax expense | (238) | (617) | 104 |
| Foreign currency transaction (gain) loss | 31 | (195) | - |
| Other | - | 15 | - |
| Changes in assets and liabilities | | | |
| Accounts receivable | (1,058) | (15,409) | (57) |
| Inventories | (974) | 481 | (827) |
| Prepaid expenses | (17) | (2,218) | 36 |
| Accounts payable and accrued expenses | (4,593) | 7,634 | (212) |
| Income taxes | 6 | 1,803 | 218 |
| Customer deposits and other deferred revenue | (42) | (1,030) | (101) |
| Other long-term obligations | 126 | 664 | 46 |
| Net cash provided by operating activities | <u>22,897</u> | <u>15,637</u> | <u>16,370</u> |
| Cash flows from investing activities: | | | |
| Capital expenditures | (5,080) | (4,858) | (2,279) |
| Intangible assets acquired | (182) | (172) | (81) |
| Acquisition of assets | (296) | (40,744) | (22,872) |
| Net cash used in investing activities | <u>(5,558)</u> | <u>(45,774)</u> | <u>(25,232)</u> |
| Cash flows from financing activities: | | | |
| Proceeds from long-term debt | - | 38,946 | 10,000 |
| Principal payments on long-term debt | (14,876) | (15,106) | (10,000) |
| Proceeds from short-term obligations | 3,516 | 3,684 | - |
| Repayments of short-term obligations | (4,507) | (733) | - |
| Proceeds from stock options exercised | 1,050 | 1,217 | 1,239 |
| Excess tax benefits from stock compensation | 672 | 677 | 878 |
| Dividends paid | (1,975) | (1,596) | (1,045) |
| Other financing activities | - | - | (17) |
| Net cash provided by (used in) financing activities | <u>(16,120)</u> | <u>27,089</u> | <u>1,055</u> |
| Effect of exchange rate changes on cash | (104) | 166 | - |
| Increase (decrease) in cash and cash equivalents | 1,115 | (2,882) | (7,807) |
| Cash and cash equivalents beginning of year | 2,307 | 5,189 | 12,996 |
| Cash and cash equivalents end of year | <u>\$ 3,422</u> | <u>\$ 2,307</u> | <u>\$ 5,189</u> |

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 (including, unless the context otherwise requires, its wholly-owned subsidiaries, BCP Ingredients, Inc., Balchem Minerals Corporation, BCP St. Gabriel, Inc., Chelated Minerals Corporation, Balchem BV, Balchem Trading BV, and Balchem Italia Srl (“Balchem” or the “Company”)), incorporated in the State of Maryland in 1967, is engaged in the development, manufacture and marketing of specialty performance ingredients and products for the food, nutritional, feed, pharmaceutical 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, and when collection is reasonably assured. 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. Amounts received for unshipped merchandise are principally not recognized as revenue but rather they are recorded as customer deposits and are included in current liabilities. In addition, the Company follows the provisions of the Securities and Exchange Commission’s (SEC) Staff Accounting Bulletin (SAB) No. 104, “*Revenue Recognition*,” which sets forth guidelines on the timing of revenue recognition based upon factors such as passage of title, installation, payments and customer acceptance.

Cash and Cash Equivalents

The Company considers all highly liquid investments 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. In November 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (“SFAS”) No. 151, “Inventory Costs.” The new statement amends Accounting Research Bulletin No. 43, Chapter 4, “Inventory Pricing,” to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material. This statement requires that those items be recognized as current period charges and requires that allocation of fixed production overheads to the cost of conversion be based on the normal capacity of the production facilities. The provisions of this statement were applied prospectively for inventory costs incurred beginning in fiscal year 2006. The adoption of this statement did not have a material impact on the Company’s results of operations, financial position or cash flow.

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 |

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. The Company capitalized interest costs of \$158, \$150 and \$-0- in 2008, 2007 and 2006, respectively.

Business Concentrations

Financial instruments that subject the Company to credit risk consist primarily of investments and accounts receivable. Investments are managed within established guidelines to mitigate risks. Accounts receivable subject the Company to credit risk partially due to the concentration of amounts due from customers. 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. In 2008, 2007 and 2006, no customer accounted for more than 10% of total net sales.

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

As 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 unit's 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, 2008 and 2007, the Company also performed an impairment test of its goodwill balance. As of such dates 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 further impairment tests. The Company performs its impairment test each December 31.

The Company had unamortized goodwill in the amount of \$26,658 at December 31, 2008 and \$26,363 at December 31, 2007, subject to the provisions of SFAS Nos. 141 and 142. Unamortized goodwill is allocated to the Company's reportable segments as follows:

| | 2008 | 2007 |
|-----------------------------|-----------|-----------|
| Specialty Products | \$ 5,089 | \$ 5,089 |
| Food, Pharma and Nutrition | 8,607 | 8,533 |
| Animal Nutrition and Health | 12,962 | 12,741 |
| Total | \$ 26,658 | \$ 26,363 |

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

| | Amortization period (in years) |
|----------------------------------|--------------------------------------|
| Customer lists | 10 |
| Regulatory re-registration costs | 10 |
| Patents & trade secrets | 15 - 17 |
| Trademarks & trade names | 17 |
| Other | 5 - 10 |

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 carry-forwards. 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.

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 and revenues and expenses during the reporting period. 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, 2008 and 2007 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 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. The fair value of the Company's obligations under its long-term debt and credit agreements approximates their carrying value as the stated interest rates of these instruments are variable and reflect rates which are otherwise currently available to the Company.

Cost of Sales

Cost of sales are primarily comprised of raw materials and supplies consumed in the manufacture of product, as well as manufacturing labor, maintenance labor, depreciation expense, and direct overhead expense necessary to convert purchased materials and supplies into finished product. Cost of sales also includes inbound freight costs, outbound freight costs for shipping products to customers, warehousing costs, quality control and obsolescence expense.

Selling, General and Administrative Expenses

Selling expenses consist primarily of compensation and benefit costs, trade promotions, advertising, commissions and other marketing costs. General and administrative expenses consist primarily of payroll and benefit costs, occupancy and operating costs of corporate offices, depreciation and amortization expense on non-manufacturing assets, information systems costs and other miscellaneous administrative costs.

Research and Development

Research and development costs are expensed as incurred.

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 and unvested restricted stock (using the treasury stock method).

Stock-based Compensation

The Company has stock-based employee compensation plans, which are described more fully in Note 2. On January 1, 2006, the Company was required to adopt SFAS No. 123R (revised 2004), "Share-Based Payment" ("SFAS 123R"), which requires all share-based payments, including grants of stock options, to be recognized in the income statement as an operating expense, based on their fair values. The Company estimates the fair value of each option award on the date of grant using a Black-Scholes based option-pricing model.

Prior to adopting SFAS 123R, the Company accounted for stock-based compensation under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", as permitted by SFAS No. 123, "Accounting for Stock-Based Compensation". The modified prospective method was applied in adopting SFAS 123R and, accordingly, periods prior to adoption have not been restated.

The implementation of SFAS 123R has had no adverse effect on the Company's balance sheet or total cash flows, but it does impact cash flows from operations, cash flows from financing activities, cost of sales, gross profit, operating expenses, net income and earnings per share. Because periods prior to adoption have not been restated, comparability between periods has been affected. Additionally, estimates of and assumptions about forfeiture rates, terms, volatility, interest rates and dividend yields are used to calculate stock-based compensation. A significant change to these estimates could materially affect the Company's operating results.

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 May 2008, FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS 162"). SFAS 162 is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are

presented in conformity with U.S. generally accepted accounting principles (“GAAP”) for nongovernmental entities. Prior to the issuance of SFAS No. 162, the GAAP hierarchy was defined in the American Institute of Certified Public Accountants’ (AICPA) Statement on Auditing Standards (SAS) No. 69, “The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles.” SFAS No. 162 is effective November 15, 2008. The adoption of this statement was not significant to the Company’s consolidated financial statements.

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

In March 2008, FASB issued Statement of Financial Accounting Standards No. 161, “Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133” (“SFAS 161”). SFAS 161 requires enhanced disclosures regarding derivatives and hedging activities, including: (a) the manner in which an entity uses derivative instruments; (b) the manner in which derivative instruments and related hedged items are accounted for under Statement of Financial Accounting Standards No. 133, “Accounting for Derivative Instruments and Hedging Activities”; and (c) the effect of derivative instruments and related hedged items on an entity’s financial position, financial performance, and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. As SFAS 161 relates specifically to disclosures, the statement will have no impact on our financial condition, results of operations or cash flows.

In December 2007, the FASB issued SFAS No.141 (revised 2007), “Business Combinations”, or SFAS 141R. The purpose of issuing the statement is to replace current guidance in SFAS No.141 to better represent the economic value of a business combination transaction. The changes to be effected with SFAS 141R from the current guidance include, but are not limited to: (1) acquisition costs will be recognized separately from the acquisition; (2) known contractual contingencies at the time of the acquisition will be considered part of the liabilities acquired measured at their fair value; all other contingencies will be part of the liabilities acquired measured at their fair value only if it is more likely than not that they meet the definition of a liability; (3) contingent consideration based on the outcome of future events will be recognized and measured at the time of the acquisition; (4) business combinations achieved in stages (step acquisitions) will need to recognize the identifiable assets and liabilities, as well as noncontrolling interests, in the acquiree, at the full amounts of their fair values; and (5) a bargain purchase (defined as a business combination in which the total acquisition-date fair value of the identifiable net assets acquired exceeds the fair value of the consideration transferred plus any noncontrolling interest in the acquiree) will require that excess to be recognized as a gain attributable to the acquirer. SFAS 141R will be effective for any business combinations that occur after January 1, 2009. The Company is currently evaluating the impact that SFAS 141R will have on its financial statements and disclosures.

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

In June 2007, FASB ratified the consensus reached by the EITF on EITF Issue No. 07-3, "Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities" ("EITF 07-3"). EITF 07-3 addresses the diversity that exists with respect to the accounting for the non-refundable portion of a payment made by a research and development entity for future research and development activities. Under EITF 07-3, an entity would defer and capitalize non-refundable advance payments made for research and development activities until the related goods are delivered or the related services are performed. The Company has adopted the provisions of EITF 07-3 as of January 1, 2008 and it has not had a material impact on its financial condition or results of operations.

In February 2007, FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115" ("SFAS 159"). SFAS 159 permits an entity to measure certain financial assets and financial liabilities at fair value. Entities electing the fair value option will report unrealized gains and losses in earnings as of each subsequent reporting date. The fair value option may be elected on an instrument-by-instrument basis with few exceptions, as long as it is applied to the instrument in its entirety. SFAS 159 establishes presentation and disclosure requirements to help financial statement users understand the effect of an entity's election on its earnings. SFAS 159 requires prospective application. If an entity elects the fair value option for items existing as of the date of adoption, the difference between their carrying amount and fair value should be included in a cumulative-effect adjustment to the opening balance of retained earnings. The provisions of SFAS 159 are effective for fiscal years beginning after November 15, 2007. The Company has adopted the provisions of this statement as of January 1, 2008 and it did not have a material impact on its financial condition or results of operations.

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

Reclassifications

Certain reclassifications have been made to the prior years' financial statements to conform to the current year's presentation with no impact on net earnings or stockholders' equity.

NOTE 2 - STOCKHOLDERS' EQUITY

STOCK-BASED COMPENSATION

On January 1, 2006, the Company adopted SFAS 123R, which requires all share-based payments, including grants of stock options, to be recognized in the income statement as an operating expense, based on their fair values.

Prior to adopting SFAS 123R, the Company accounted for stock-based compensation under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("Opinion 25"), as permitted by SFAS No. 123, "Accounting for Stock-Based Compensation," ("SFAS 123"). The Company has applied the modified prospective method in adopting SFAS 123R. Accordingly, periods prior to adoption have not been restated. Under the modified prospective method, compensation cost recognized in the years ended December 31, 2008, 2007 and 2006 include (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all share-

based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R.

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 \$672, \$677 and \$878 for the years ended December 31, 2008, 2007 and 2006, respectively.

The Company's results for the years ended December 31, 2008, 2007 and 2006 reflected the following compensation cost as a result of adopting SFAS 123R and such compensation cost had the following effects on net earnings and basic and diluted earnings per share:

| | Year Ended | | |
|--------------------|------------|--------|--------|
| | 2008 | 2007 | 2006 |
| Cost of sales | \$ 273 | \$ 187 | \$ 115 |
| Operating expenses | 2,141 | 1,449 | 982 |
| Net earnings | 1,614 | 1,118 | 888 |
| Basic EPS | .09 | .06 | .05 |
| Diluted EPS | \$.08 | \$.06 | \$.05 |

On December 31, 2008, the Company had one share-based compensation plan, which is described below (the "1999 Stock Plan").

In June 1999, the Company adopted the Balchem Corporation 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. Options granted under the 1999 Stock Plan expire ten years from the date of the grant. The 1999 Stock Plan initially reserved an aggregate of 600,000 shares (unadjusted for the stock splits) 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 (the "Amended Plan") which amended 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 (unadjusted for the stock splits), to a total of 1,200,000 shares (unadjusted for the stock splits) 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 Amended Plan was scheduled to expire in April, 2009. In April, 2008, the Board of Directors of the Company adopted and stockholders subsequently approved, the adoption of an amendment and restatement of the Amended Plan (collectively to be referred to as the "Second Amended Plan"), which provides as follows: (i) for a termination date of April 9, 2018; (ii) to authorize 4,000,000 shares reserved for future grants under the Second Amended Plan; (iii) for the making of grants of stock appreciation rights, restricted stock and performance awards; (iv) for immediate acceleration of vesting of awards issued under the plan in the event of a change in control of the Company; and (v) for compliance with the requirements of Sections 409A and 162(m) of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code" or the "Code"). 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.

The shares to be issued upon exercise of the outstanding options have been approved, reserved and are adequate to cover all exercises. As of December 31, 2008, the plans had 3,664,350 shares available for future awards.

The Company has Restricted Stock Purchase Agreements (the "RSP Agreements") with its non-employee directors and certain employees of the Company to purchase the Company's common stock pursuant to the Company's 1999 Stock Plan. Under the RSP Agreements, certain shares have been purchased, ranging from 1,000 shares to 13,500 shares, of the Company's common stock at purchase prices ranging from approximately \$.03 per share to \$.07 per share. The purchased stock is subject to a repurchase option in favor of the Company and to restrictions on transfer until it vests in accordance with the provisions of the Agreements.

The fair value of each option award issued under the 1999 Stock Plan is estimated on the date of grant using a Black-Scholes based option-pricing model that uses the assumptions noted in the following table. Expected volatilities are based on historical volatility of the Company's stock. The expected term of the options is based on the Company's historical experience of employees' exercise behavior. 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.

| Weighted Average Assumptions: | Year Ended | | |
|-------------------------------|----------------------|----------------------|----------------------|
| | December 31, 2008 | December 31, 2007 | December 31, 2006 |
| Expected Volatility | 32.8% | 27.0% | 26.4% |
| Expected Term (in years) | 3.4 | 3.7 | 4.5 |
| Risk-Free Interest Rate | 3.7% | 4.1% | 3.8% |
| Dividend Yield | 0.4% | 0.3% | 0.4% |

The value of the restricted shares is based on the intrinsic value of the award at the date of grant.

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.

A summary of stock option plan activity for 2008, 2007, and 2006 for all plans is as follows:

| 2008 | # of Shares (000s) | Weighted Average Exercise Price |
|----------------------------------|--------------------------|------------------------------------|
| Outstanding at beginning of year | 1,944 | \$ 10.66 |
| Granted | 584 | 23.02 |
| Exercised | (131) | 7.97 |
| Cancelled | (1) | 20.41 |
| Outstanding at end of year | 2,396 | \$ 13.82 |
| Exercisable at end of year | 1,687 | \$ 10.34 |

| 2007 | # of Shares (000s) | Weighted Average Exercise Price |
|----------------------------------|--------------------------|------------------------------------|
| Outstanding at beginning of year | 2,170 | \$ 10.13 |
| Granted | 10 | 18.00 |
| Exercised | (220) | 5.54 |
| Cancelled | (16) | 14.34 |
| Outstanding at end of year | 1,944 | \$ 10.66 |
| Exercisable at end of year | 1,488 | \$ 9.09 |

| 2006 | # of Shares (000s) | Weighted Average Exercise Price |
|----------------------------------|--------------------------|------------------------------------|
| Outstanding at beginning of year | 2,153 | \$ 8.38 |
| Granted | 305 | 17.67 |
| Exercised | (267) | 4.64 |
| Cancelled | (21) | 9.64 |
| Outstanding at end of year | 2,170 | \$ 10.13 |
| Exercisable at end of year | 1,277 | \$ 7.40 |

The aggregate intrinsic value for outstanding stock options was \$26,873, \$22,786 and \$15,357 at December 31, 2008, 2007 and 2006, respectively, with a weighted average remaining contractual term of 6.7 years at December 31, 2008. Exercisable stock options at December 31, 2008 had an aggregate intrinsic value of \$24,581 with a weighted average remaining contractual term of 5.6 years.

Other information pertaining to option activity during the years ended December 31, 2008, 2007 and 2006 was as follows:

| | Year Ended December 31, | | |
|---|----------------------------|----------|----------|
| | 2008 | 2007 | 2006 |
| Weighted-average fair value of options granted | \$ 7.48 | \$ 6.44 | \$ 4.91 |
| Total intrinsic value of stock options exercised (\$000s) | \$ 2,023 | \$ 2,721 | \$ 2,929 |

Additional information related to stock options outstanding under all plans at December 31, 2008 is as follows:

| Range of Exercise Prices | Shares Outstanding (000s) | Options Outstanding | | Options Exercisable | |
|-----------------------------|---------------------------------|---|--|---------------------------------|--|
| | | Weighted Average Remaining Contractual Term | Weighted Average Exercise Price | Number Exercisable (000s) | Weighted Average Exercise Price |
| \$ 1.88 - \$ 8.89 | 929 | 4.5 years | \$ 7.16 | 929 | \$ 7.16 |
| 9.87 - 17.81 | 880 | 7.0 years | 14.71 | 757 | 14.22 |
| 18.17 - 25.92 | 587 | 9.4 years | 23.00 | 1 | 18.75 |
| | 2,396 | 6.7 years | \$ 13.82 | 1,687 | \$ 10.34 |

Non-vested restricted stock activity for the years ended December 31, 2008, 2007 and 2006 is summarized below:

| | Shares (000s) | Weighted Average Grant Date Fair Value |
|--|---------------|---|
| Non-vested balance as of December 31, 2007 | 118 | \$ 16.49 |
| Granted | 132 | 22.94 |
| Vested | (18) | 17.04 |
| Forfeited | - | - |
| Non-vested balance as of December 31, 2008 | 232 | \$ 20.08 |

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

| | Shares (000s) | Weighted Average Grant Date Fair Value |
|--|---------------|---|
| Non-vested balance as of December 31, 2005 | 34 | \$ 13.22 |
| Granted | 79 | 17.76 |
| Vested | - | - |
| Forfeited | - | - |
| Non-vested balance as of December 31, 2006 | 113 | \$ 16.40 |

As of December 31, 2008, 2007 and 2006, there was \$7,248, \$2,586 and \$4,036, respectively, of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the plans. As of December 31, 2008, the unrecognized compensation cost is expected to be recognized over a weighted-average period of 2 years. We estimate that share-based compensation expense for the year ended December 31, 2009 will be approximately \$3,200.

STOCK SPLITS AND REPURCHASE OF COMMON STOCK

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

On December 15, 2005, the Board of Directors of the Company approved a three-for-two split of the Company's common stock to be effected in the form of a stock dividend to shareholders of record on December 30, 2005. Such stock dividend was made on January 20, 2006. The stock split was recognized by reclassifying the par value of the additional shares resulting from the split, from additional paid-in capital to common stock.

In June 1999, the board of directors authorized the repurchase of shares of the Company's outstanding common stock over a two-year period commencing July 2, 1999. Under this program, which was subsequently extended, the Company had, as of December 31, 2004, repurchased a total 1,158,692 shares

at an average cost of \$2.74 per share, none of which remained in treasury at December 31, 2004. In June 2005, the board of directors authorized another extension of the stock repurchase program for up to an additional 1,350,000 shares, over and above those 1,158,692 shares previously repurchased under the program. Under this extension, a total of 149,175 shares were purchased in 2005 at an average cost of \$8.03 per share, none of which remained in treasury at December 31, 2008 or 2007. During 2008 and 2007, no additional shares were 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 December 31, 2008 and 2007 consisted of the following:

| | 2008 | 2007 |
|-------------------|-----------|-----------|
| Raw materials | \$ 5,931 | \$ 6,522 |
| Work in progress | 540 | 818 |
| Finished goods | 10,147 | 8,340 |
| Total inventories | \$ 16,618 | \$ 15,680 |

On a regular basis, the Company evaluates its inventory balances for excess quantities and obsolescence by analyzing demand, inventory on hand, sales levels and other information. Based on these evaluations, inventory balances are reduced, if necessary. The reserve for inventory was \$94 and \$174 at December 31, 2008 and 2007, respectively.

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at December 31, 2008 and 2007 are summarized as follows:

| | 2008 | 2007 |
|------------------------------------|-----------|-----------|
| Land | \$ 2,088 | \$ 2,152 |
| Building | 15,426 | 15,520 |
| Equipment | 50,719 | 45,599 |
| Construction in progress | 2,654 | 3,067 |
| | 70,887 | 66,338 |
| Less: Accumulated depreciation | 28,374 | 24,258 |
| Property, plant and equipment, net | \$ 42,513 | \$ 42,080 |

Depreciation expense was \$4,144, \$3,466 and \$2,842 for the years ended December 31, 2008, 2007 and 2006, respectively.

NOTE 5 - ACQUISITIONS

Akzo Nobel Acquisition

Effective April 30, 2007, pursuant to an asset purchase agreement dated March 30, 2007, the Company, through its European subsidiary, Balchem B.V., completed an acquisition of the methylamines and choline chloride business and manufacturing facilities of Akzo Nobel Chemicals S.p.A., located in Marano Ticino, Italy (the "Akzo Nobel Acquisition") for a purchase price, including acquisition costs, of approximately \$8,000. The intent of the Akzo Nobel Acquisition was to provide a direct platform for the Company to meet the growing market needs of methylamines, choline chloride and derivative products for customers via improved global sourcing, regulatory support, marketing and distribution capabilities.

The Akzo Nobel Acquisition has been accounted for using the purchase method of accounting and the purchase price of the acquisition has been assigned to the net assets acquired based on the fair value of such assets at the date of acquisition. The allocation of the total purchase price, including acquisition costs, was based on the estimated fair values as of April 30, 2007. The purchase price including certain working capital acquired has been allocated as follows:

| | Fair Value Recorded in Purchase Accounting |
|---------------------------------------|---|
| Property plant & equipment | \$ 7,994 |
| Short-term receivable | 2,462 |
| Inventories | 4,323 |
| Goodwill | 1,383 |
| Other | 83 |
| Accounts payable and accrued expenses | (8,213) |
| Total | \$ 8,032 |

The consolidated financial statements include the results of operations of the Akzo Nobel Acquisition from the date of purchase. Pro forma results for the years ended December 31, 2007 and 2006 are not materially different from the results reported herein.

Chinook Acquisition

On March 16, 2007, the Company, through its wholly-owned subsidiary BCP Ingredients, Inc. ("BCP"), entered into an asset purchase agreement with Chinook Global Limited ("Chinook"), a privately held Ontario corporation, pursuant to which BCP acquired certain of Chinook's choline chloride business assets (the "Chinook Acquisition") for a purchase price, including acquisition costs, of approximately \$33,000. The acquisition closed effective the same date. The intent of the Chinook Acquisition was to gain scale in order for the Company to more effectively and economically produce and distribute choline chloride worldwide.

The Chinook Acquisition has been accounted for using the purchase method of accounting and the purchase price of the acquisition has been assigned to the net assets acquired based on the fair value of such assets at the date of acquisition. The allocation of the total purchase price, including acquisition costs, was based on the estimated fair values as of March 16, 2007. The purchase price has been allocated as follows:

| | Fair Value Recorded in Purchase Accounting |
|-----------------------|---|
| Customer list | \$ 29,262 |
| Inventory | 1,840 |
| Short-term receivable | 1,850 |
| Other | 73 |
| Total | \$ 33,025 |

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

Pro Forma Summary of Operations

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

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

| | Pro Forma Year Ended December 31, 2007 | |
|--------------|---|---------|
| Net sales | \$ | 185,188 |
| Net earnings | | 16,595 |
| Basic EPS | | .93 |
| Diluted EPS | \$ | .89 |

CMC Acquisition

On February 8, 2006, the Company, through its wholly owned subsidiary Balchem Minerals Corporation (“BMC”), completed an acquisition (the “CMC Acquisition”) of all of the outstanding capital stock of Chelated Minerals Corporation (“CMC”), a privately held Utah corporation, for a purchase price, including acquisition costs, of approximately \$17,900. The intent of the CMC Acquisition was to provide synergies in animal markets via the addition of a key nutrient delivery technology, chelation, to our existing encapsulation technology, as well as a complementary portfolio of products.

The CMC Acquisition has been accounted for using the purchase method of accounting and the purchase price of the acquisition has been assigned to the net assets acquired based on the fair value of such assets and liabilities at the date of acquisition. The allocation of the total purchase price, including acquisition costs, of CMC’s net tangible and intangible assets was based on the estimated fair values as of February 8, 2006. The excess of the purchase price over the identifiable intangible and net tangible assets was allocated to goodwill. The purchase price has been allocated as follows:

| | Fair Value Recorded in Purchase Accounting | |
|-------------------------------|---|---------|
| Accounts receivable | \$ | 884 |
| Inventory | | 552 |
| Property, plant and equipment | | 1,980 |
| Current liabilities | | (388) |
| Other long-term liabilities | | (2,368) |
| Goodwill | | 11,925 |
| Other intangible assets | | 5,334 |
| Total | \$ | 17,919 |

The consolidated financial statements include the results of operations of CMC from the date of purchase.

Pro Forma Summary of Operations

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

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

| | Pro Forma Year Ended December 31, 2006 | |
|--------------|---|---------|
| Net sales | \$ | 101,639 |
| Net earnings | | 12,284 |
| Basic EPS | | .70 |
| Diluted EPS | \$ | .67 |

NOTE 6 - INTANGIBLE ASSETS WITH FINITE LIVES

As of December 31, 2008 and 2007, the Company had identifiable intangible assets as follows:

| | Amortization Period (In years) | 2008 Gross Carrying Amount | 2008 Accumulated Amortization | 2007 Gross Carrying Amount | 2007 Accumulated Amortization |
|----------------------------------|--------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Customer lists | 10 | \$ 34,150 | \$ 6,595 | \$ 34,150 | \$ 3,178 |
| Regulatory re-registration costs | 10 | 85 | 3 | 28 | - |
| Patents & trade secrets | 15-17 | 1,673 | 406 | 1,621 | 311 |
| Trademarks & trade names | 17 | 904 | 198 | 884 | 146 |
| Other | 5-10 | 619 | 236 | 565 | 162 |
| | | \$ 37,431 | \$ 7,438 | \$ 37,248 | \$ 3,797 |

Amortization of identifiable intangible assets was approximately \$3,642, \$2,910 and \$603 for 2008, 2007 and 2006, respectively. Assuming no change in the gross carrying value of identifiable intangible assets, the estimated amortization expense is approximately \$3,600 per annum for 2009 through 2013. At December 31, 2008 and 2007, there were no identifiable intangible assets with indefinite useful lives as defined by SFAS No. 142. Identifiable intangible assets are reflected in the Company's consolidated balance sheets under Intangible assets, net. There were no changes to the useful lives of intangible assets subject to amortization in 2008 and 2007.

At December 31, 2007, the gross carrying amount included a customer list acquired as part of the Chinook Acquisition, a customer list, trade name and trade secrets acquired as part of the CMC Acquisition, as well as a customer list and patent acquired as part of the Loders Croklaan Acquisition.

The Federal Insecticide, Fungicide and Rodenticide Act, as amended ("FIFRA"), a health and safety statute, requires that certain products within our specialty products segment must be registered with the U.S. Environmental Protection Agency ("EPA") because they are considered pesticides. Costs of such registration are included as regulatory re-registration costs in the table above.

NOTE 7 - LONG-TERM DEBT & CREDIT AGREEMENTS

On April 30, 2007, the Company, and its principal bank entered into a Loan Agreement (the "European Loan Agreement") providing for an unsecured term loan of €7,500, translated to approximately \$10,573 as of December 31, 2008 (the "European Term Loan"), the proceeds of which were used to fund the Akzo Nobel Acquisition (see Note 5) and initial working capital requirements. The European Term Loan is payable in equal monthly installments of principal, each equal to 1/84th of the principal of the European Term Loan, together with accrued interest, with remaining principal and interest payable at maturity. The European Term Loan has a maturity date of May 1, 2010 and is subject to a monthly interest rate equal to EURIBOR plus 1%. At December 31, 2008, this interest rate was 4.61%. At December 31, 2008, the European Term Loan had an outstanding balance of €5,804 translated to \$8,181. The European Loan Agreement also initially provided for a short-term revolving credit facility of €2,000 (the "European Revolving Facility"). The European Revolving Facility has been renewed for a period of one year as of May 1, 2008. As part of this renewal, the European Loan Agreement was amended to increase the European Revolving Facility to €3,000, translated to \$4,229 as of December 31, 2008. The European

Revolving Facility is subject to a monthly interest rate equal to EURIBOR plus 1.25%, and accrued interest is payable monthly. The Company has drawn down €1,450, or \$2,044 as translated at December 31, 2008, of the European Revolving Facility as of December 31, 2008.

On March 16, 2007, the Company and its principal bank entered into a Loan Agreement (the "Loan Agreement") providing for an unsecured term loan of \$29,000 (the "Term Loan"), the proceeds of which were used to fund the Chinook Acquisition (see Note 5). The Term Loan is payable in equal monthly installments of principal, each equal to 1/60th of the principal of the Term Loan, together with accrued interest, with remaining principal and interest payable at maturity. The Term Loan has a maturity date of March 16, 2010 and is subject to a monthly interest rate equal to LIBOR plus 1%. At December 31, 2008, this interest rate was 2.20%. As of December 31, 2008, the Company has prepaid \$17,500 of the Term Loan. At December 31, 2008, the Term Loan had an outstanding balance of \$1,350. The Loan Agreement also provides for a short-term revolving credit facility of \$6,000 (the "Revolving Facility"). The Revolving Facility is subject to a monthly interest rate equal to LIBOR plus 1%, and accrued interest is payable monthly. No amounts are outstanding on the Revolving Facility as of the date hereof. The Revolving Facility has a maturity date of May 31, 2009. Management believes that such facility will be renewed in the normal course of business.

At December 31, 2008, we had a total of \$11,575 of debt outstanding, as compared to a total of \$27,986 debt outstanding at December 31, 2007. Indebtedness under the Company's loan agreements are secured by assets of the Company.

The Company's debt obligations, excluding revolver borrowings, as of December 31, 2008, are summarized in the table below:

| | Payments due by period | | |
|----------------------------|------------------------|----------|----------|
| | Total | Year 1 | Year 2 |
| Long-term debt obligations | \$ 9,531 | \$ 2,860 | \$ 6,671 |

NOTE 8 - INCOME TAXES

Income tax expense consists of the following:

| | 2008 | 2007 | 2006 |
|----------------------------|----------|----------|----------|
| Current: | | | |
| Federal | \$ 9,757 | \$ 7,983 | \$ 6,295 |
| State | 107 | 1,299 | 534 |
| Deferred: | | | |
| Federal | (442) | (420) | (1) |
| State | (41) | (151) | (5) |
| Total income tax provision | \$ 9,381 | \$ 8,711 | \$ 6,823 |

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:

| | 2008 | 2007 | 2006 |
|---|----------|----------|----------|
| Income tax at Federal statutory rate | \$ 9,951 | \$ 8,690 | \$ 6,685 |
| State income taxes, net of Federal income tax benefit | - | 603 | 344 |
| Other | (570) | (582) | (206) |
| Total income tax provision | \$ 9,381 | \$ 8,711 | \$ 6,823 |

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2008 and 2007 were as follows:

| | 2008 | 2007 |
|---|----------|----------|
| Deferred tax assets: | | |
| Inventories | \$ 474 | \$ 388 |
| Restricted stock and stock options | 1,429 | 702 |
| Other | 505 | 389 |
| Total deferred tax assets | 2,408 | 1,479 |
| Deferred tax liabilities: | | |
| Customer list and goodwill amortization | \$ 1,851 | \$ 1,782 |
| Depreciation | 4,430 | 3,886 |
| Prepaid expense | 765 | 525 |
| Trade names and trademarks | 199 | 239 |
| Technology and trade secrets | 224 | 269 |
| Other | 293 | 350 |
| Total deferred tax liabilities | 7,762 | 7,051 |
| Net deferred tax liability | \$ 5,354 | \$ 5,572 |

There is no valuation allowance for deferred tax assets at December 31, 2008 and 2007. 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.

The Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes", or FIN 48, on January 1, 2007. FIN 48 clarifies whether or not to recognize assets or liabilities for tax positions taken that may be challenged by a tax authority. Upon adoption of FIN 48, the Company recognized approximately a \$291 decrease in its retained earnings balance. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

| | Liability for Unrecognized Tax Benefits | |
|---|--|--------|
| | 2008 | 2007 |
| Balance at beginning of period | \$ 733 | \$ 411 |
| Increases for tax positions of prior years | - | 320 |
| Decreases for tax positions of prior years | (151) | (225) |
| Increases for tax positions related to the current year | 231 | 227 |
| Balance at end of period | \$ 813 | \$ 733 |

All of the Company's unrecognized tax benefits, if recognized in future periods, would impact the Company's effective tax rate in such future periods.

The Company recognizes both interest and penalties as part of the income tax provision. During the years ended December 31, 2008 and 2007, the Company recognized approximately \$22 and \$52 in interest and penalties, respectively. As of December 31, 2008 and 2007, accrued interest and penalties were \$152 and \$130, respectively.

The Company files income tax returns in the U.S. and in various states and foreign countries. In the major jurisdictions where the Company operates, it is generally no longer subject to income tax examinations by

tax authorities for years before 2005. The Company does not anticipate any material change in the total amount of unrecognized tax benefits to occur within the next twelve months.

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:

| 2008 | Earnings (Numerator) | Number of Shares (Denominator) | Per Share Amount |
|--|-------------------------|-----------------------------------|---------------------|
| Basic EPS – Net earnings and weighted average common shares outstanding | \$ 19,050 | 17,966,833 | \$1.06 |
| Effect of dilutive securities – stock options and restricted stock | | <u>1,047,324</u> | |
| Diluted EPS – Net earnings and weighted average common shares outstanding and effect of stock options and restricted stock | \$ 19,050 | 19,014,157 | \$1.00 |
| 2007 | Earnings (Numerator) | Number of Shares (Denominator) | Per Share Amount |
| Basic EPS – Net earnings and weighted average common shares outstanding | \$ 16,118 | 17,771,521 | \$.91 |
| Effect of dilutive securities – stock options and restricted stock | | <u>839,011</u> | |
| Diluted EPS – Net earnings and weighted average common shares outstanding and effect of stock options and restricted stock | \$ 16,118 | 18,610,532 | \$.87 |
| 2006 | Earnings (Numerator) | Number of Shares (Denominator) | Per Share Amount |
| Basic EPS – Net earnings and weighted average common shares outstanding | \$ 12,278 | 17,427,857 | \$.70 |
| Effect of dilutive securities – stock options and restricted stock | | <u>819,384</u> | |
| Diluted EPS – Net earnings and weighted average common shares outstanding and effect of stock options and restricted stock | \$ 12,278 | 18,247,241 | \$.67 |

The Company had 276,900, 9,100 and 307,875 stock options outstanding at December 31, 2008, 2007 and 2006, respectively that could potentially dilute basic earnings per share in future periods that were not included in diluted earnings per share because their effect on the period presented was anti-dilutive.

NOTE 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 \$624 and \$406 in 2008, \$503 and \$379 in 2007 and \$395 and \$343 in 2006, 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 Company uses a December 31 measurement date for its postretirement medical plan. In accordance with SFAS No. 158, the Company is required to recognize the over funded or under funded status of a defined benefit post retirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position, and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. On December 31, 2006, as a result of adopting SFAS No. 158, the Company recorded \$0.3 million as a reduction to the benefit obligation and \$0.2 million, net of tax, as a one-time adjustment to its stockholders' equity, recorded under accumulated other comprehensive income.

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

Change in benefit obligation:

| | 2008 | 2007 |
|---|--------|--------|
| Benefit obligation at beginning of year | \$ 805 | \$ 729 |
| Service cost with interest to end of year | 28 | 29 |
| Interest cost | 40 | 41 |
| Participant contributions | 13 | 12 |
| Benefits paid | (30) | (57) |
| Actuarial (gain) or loss | (55) | 51 |
| Benefit obligation at end of year | \$ 801 | \$ 805 |

Change in plan assets:

| | 2008 | 2007 |
|--|------|------|
| Fair value of plan assets at beginning of year | \$ - | \$ - |
| Employer contributions | 17 | 45 |
| Participant contributions | 13 | 12 |
| Benefits paid | (30) | (57) |
| Fair value of plan assets at end of year | \$ - | \$ - |

Amounts recognized in consolidated balance sheet:

| | 2008 | 2007 |
|---|----------|----------|
| Accumulated postretirement benefit obligation | \$ (801) | \$ (805) |
| Fair value of plan assets | - | - |
| Funded status | (801) | (805) |
| Unrecognized prior service cost | N/A | N/A |
| Unrecognized net (gain)/loss | N/A | N/A |
| Net amount recognized in consolidated balance sheet (after SFAS 158) (included in other long-term obligations) | \$ 801 | \$ 805 |
| Accrued postretirement benefit cost (included in other long-term obligations) | \$ N/A | \$ N/A |

Components of net periodic benefit cost:

| | 2008 | 2007 | 2006 |
|---|-------|-------|-------|
| Service cost with interest to end of year | \$ 28 | \$ 29 | \$ 28 |
| Interest cost | 40 | 41 | 39 |
| Amortization of prior service cost | (18) | (18) | (18) |
| Amortization of gain | (6) | (3) | (3) |
| Total net periodic benefit cost | \$ 44 | \$ 49 | \$ 46 |

Estimated future employer contributions and benefit payments are as follows:

| Year | |
|-----------------|-------|
| 2009 | \$ 42 |
| 2010 | 38 |
| 2011 | 49 |
| 2012 | 40 |
| 2013 | 24 |
| Years 2014-2018 | 266 |

Assumed health care cost trend rates have been used in the valuation of postretirement health insurance benefits. The trend rate is 10 percent in 2009 declining to 5 percent in 2014 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, 2008 by \$97 and the net periodic postretirement benefit cost for 2008 by \$9. 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, 2008 by \$84 and the net periodic postretirement benefit cost for 2008 by \$8. The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 5.50% in 2008 and 5.75% in 2007.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

In February 2006, the Company entered into a lease agreement under which the Company leases a portion of a Channahon, Illinois facility where it conducts manufacturing and utilizes certain warehouse space. The term of the lease runs through September 30, 2010, subject to earlier termination.

In February 2002, the Company entered into a ten (10) year lease which is cancelable in 2009 for approximately 20,000 square feet of office space. The office space is now serving as the Company's general offices and as a laboratory facility. The Company leases most of its vehicles and office equipment under non-cancelable operating leases, which primarily expire at various times through 2013. Rent expense charged to operations under such lease agreements for 2008, 2007 and 2006 aggregated approximately \$1,284, \$1,047 and \$595, respectively. Aggregate future minimum rental payments required under non-cancelable operating leases at December 31, 2008 are as follows:

| Year | |
|------------------------------|----------|
| 2009 | \$ 1,128 |
| 2010 | 543 |
| 2011 | 351 |
| 2012 | 241 |
| 2013 | 106 |
| Thereafter | 221 |
| Total minimum lease payments | \$ 2,590 |

In 1982, the Company discovered and thereafter removed a number of buried drums containing unidentified waste material from the Company's site in Slate Hill, New York. The Company thereafter entered into a Consent Decree to evaluate the drum site with the New York Department of Environmental Conservation ("NYDEC") and performed a Remedial Investigation/Feasibility Study that was approved by NYDEC in February 1994. Based on NYDEC requirements, the Company cleaned the area and removed additional soil from the drum burial site, which was completed in 1996. The Company continues to be involved in discussions with NYDEC to evaluate test results and determine what, if any, additional actions will be required on the part of the Company to close out the remediation of this site. Additional actions, if any, would likely require the Company to continue monitoring the site. The cost of such monitoring has been less than \$5 per year for the period 2004 – 2008.

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

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

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

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

NOTE 12 - SEGMENT INFORMATION

The Company's reportable segments are strategic businesses that offer products and services to different markets. Effective with the quarter ending March 31, 2008, the Company has realigned its business segment reporting structure to more appropriately reflect the internal management of the businesses, largely due to the impact of acquisitions in 2007. The Company will continue to report three segments: Specialty Products; Food, Pharma & Nutrition; and Animal Nutrition & Health. Changes to the reporting segments are as follows: chelated minerals and specialty nutritional products for the animal health industry, formerly reported as a part of the encapsulated/nutritional products segment, are now combined with the choline business (formerly BCP Ingredients) into a consolidated Animal Nutrition & Health segment. The encapsulated/nutritional products segment has been renamed Food, Pharma & Nutrition, focusing on human health. There are no changes to the Specialty Products segment. Business segment net sales and earnings from operations have been reclassified for all periods presented to reflect the segment changes.

The Specialty Products segment consists of three specialty chemicals: ethylene oxide, propylene oxide and methyl chloride. Human choline nutrient products, pharmaceutical products and encapsulated products are reported in the Food, Pharma & Nutrition segment. This segment provides microencapsulation, granulation and agglomeration solutions to a variety of applications in food, pharmaceutical and nutritional ingredients to enhance performance of nutritional fortification, processing, mixing, packaging applications and shelf-life. The Animal Nutrition & Health 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 this segment. Chelated minerals and specialty nutritional products for the animal health industry are also reported in this 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:

| | 2008 | 2007 | 2006 |
|-----------------------------|-------------------|-------------------|-------------------|
| Specialty Products | \$ 35,835 | \$ 33,057 | \$ 32,026 |
| Food, Pharma and Nutrition | 35,702 | 32,052 | 28,702 |
| Animal Nutrition and Health | 160,513 | 111,092 | 40,177 |
| Total | \$ 232,050 | \$ 176,201 | \$ 100,905 |

Business Segment Earnings Before Income Taxes:

| | 2008 | 2007 | 2006 |
|-------------------------------------|-----------|-----------|-----------|
| Specialty Products | \$ 12,545 | \$ 11,824 | \$ 11,315 |
| Food, Pharma and Nutrition | 5,469 | 4,144 | 2,162 |
| Animal Nutrition and Health | 11,334 | 9,938 | 5,685 |
| Interest and other income (expense) | (917) | (1,077) | (61) |
| Total | \$ 28,431 | \$ 24,829 | \$ 19,101 |

Depreciation/Amortization:

| | 2008 | 2007 | 2006 |
|-----------------------------|----------|----------|----------|
| Specialty Products | \$ 913 | \$ 876 | \$ 941 |
| Food, Pharma and Nutrition | 1,316 | 1,206 | 1,171 |
| Animal Nutrition and Health | 5,557 | 4,294 | 1,333 |
| Total | \$ 7,786 | \$ 6,376 | \$ 3,445 |

Business Segment Assets:

| | 2008 | 2007 | 2006 |
|-----------------------------|------------|------------|-----------|
| Specialty Products | \$ 21,394 | \$ 18,583 | \$ 18,446 |
| Food, Pharma and Nutrition | 22,081 | 22,426 | 20,780 |
| Animal Nutrition and Health | 105,296 | 108,125 | 45,524 |
| Other Unallocated | 5,703 | 5,290 | 7,583 |
| Total | \$ 154,474 | \$ 154,424 | \$ 92,333 |

Other unallocated assets consist of certain cash, receivables, prepaid expenses, equipment and leasehold improvements, net of accumulated depreciation, and deferred income taxes, which the Company does not allocate to its individual business segments.

Capital Expenditures:

| | 2008 | 2007 | 2006 |
|-----------------------------|----------|----------|----------|
| Specialty Products | \$ 612 | \$ 307 | \$ 195 |
| Food, Pharma and Nutrition | 955 | 776 | 485 |
| Animal Nutrition and Health | 3,513 | 3,786 | 1,599 |
| Total | \$ 5,080 | \$ 4,869 | \$ 2,279 |

Geographic Revenue Information:

| | 2008 | 2007 | 2006 |
|-------------------|------------|------------|------------|
| United States | \$ 146,753 | \$ 132,632 | \$ 91,042 |
| Foreign Countries | 85,297 | 43,569 | 9,863 |
| Total | \$ 232,050 | \$ 176,201 | \$ 100,905 |

NOTE 13 - SUPPLEMENTAL CASH FLOW INFORMATION**Cash paid during the year for:**

| | 2008 | 2007 | 2006 |
|--------------|----------|----------|----------|
| Income taxes | \$ 9,379 | \$ 6,718 | \$ 5,621 |
| Interest | \$ 958 | \$ 1,466 | \$ 189 |

Cash paid during the year for acquisition of assets:

| | 2008 | 2007 | 2006 |
|----------------------------|--------|-----------|-----------|
| Assets acquired | \$ 296 | \$ 48,957 | \$ 25,628 |
| Less: liabilities assumed | - | (8,213) | (2,756) |
| Cash paid for acquisitions | \$ 296 | \$ 40,744 | \$ 22,872 |

Non-cash financing activities:

| | 2008 | 2007 | 2006 |
|-------------------|----------|----------|----------|
| Dividends payable | \$ 2,008 | \$ 1,975 | \$ 1,596 |

NOTE 14 - QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

(In thousands, except per share data)

| | 2008 | | | | 2007 | | | |
|--|---------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| Net sales | \$56,861 | \$ 62,901 | \$58,235 | \$54,053 | \$27,599 | \$ 44,371 | \$50,498 | \$53,733 |
| Gross profit | 13,483 | 12,951 | 12,712 | 13,432 | 9,741 | 12,182 | 12,609 | 12,398 |
| Earnings before income taxes | 7,191 | 7,001 | 6,936 | 7,303 | 5,314 | 6,367 | 6,772 | 6,376 |
| Net earnings | 4,641 | 4,724 | 4,793 | 4,892 | 3,441 | 4,065 | 4,457 | 4,155 |
| Basic net earnings per common share | \$.26 | \$.26 | \$.27 | \$.27 | \$.19 | \$.23 | \$.25 | \$.23 |
| Diluted net earnings per common share | \$.25 | \$.25 | \$.25 | \$.26 | \$.19 | \$.22 | \$.24 | \$.22 |

BALCHEM CORPORATION
Valuation and Qualifying Accounts
Years Ended December 31, 2008, 2007 and 2006
(In thousands)

| <u>Description</u> | <u>Balance at Beginning of Year</u> | <u>Additions</u> | | <u>Deductions</u> | <u>Balance at End of Year</u> |
|---------------------------------|---|--|--|-------------------|-----------------------------------|
| | | <u>Charges to Costs and Expenses</u> | <u>Charges to Other Accounts</u> | | |
| Year ended December 31, 2008 | | | | | |
| Allowance for doubtful accounts | \$ 50 | \$ - | \$ - | \$ - | \$ 50 |
| Inventory reserve | 174 | 58 | - | (138) (a) | 94 |
| Year ended December 31, 2007 | | | | | |
| Allowance for doubtful accounts | \$ 50 | \$ - | \$ - | \$ - | \$ 50 |
| Inventory reserve | 147 | 20 | 7 | - | 174 |
| Year ended December 31, 2006 | | | | | |
| Allowance for doubtful accounts | \$ 50 | \$ - | \$ - | \$ - | \$ 50 |
| Inventory reserve | 56 | 91 | - | - | 147 |

(a) represents write-offs.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Annual Report on Form 10-K. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective.

Management's Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed under the supervision of the Company's principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

As of December 31, 2008, management conducted an assessment of the effectiveness of the Company's internal control over financial reporting based on the framework established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company's internal control over financial reporting was effective as of December 31, 2008.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on our financial statements.

Attestation Report of Registered Public Accounting Firm

The independent registered public accounting firm of McGladrey & Pullen, LLP, has issued an attestation report on the Company's internal control over financial reporting, which is included herein.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting in our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers of the Registrant, and Corporate Governance.

(a) Directors of the Company.

The required information is to be set forth in the Company's Proxy Statement for the 2008 Annual Meeting of Stockholders (the "2009 Proxy Statement") under the caption "Directors and Executive Officers," which information is hereby incorporated herein by reference.

(b) Executive Officers of the Company.

The required information is to be set forth in the 2009 Proxy Statement under the caption "Directors and Executive Officers," which information is hereby incorporated herein by reference.

(c) Section 16(a) Beneficial Ownership Reporting Compliance.

The required information is to be set forth in the 2009 Proxy Statement under the caption "Section 16(a) Beneficial Ownership Reporting Compliance," which information is hereby incorporated herein by reference.

(d) Code of Ethics.

The Company has adopted a Code of Ethics for Senior Financial Officers that applies to its Chief Executive Officer (principal executive officer), Chief Financial Officer (principal financial officer and principal accounting officer) and its Treasurer. The Company's Code of Ethics for Senior Financial Officers is filed as Exhibit 14 to this Annual Report on Form 10-K.

(e) Corporate Governance.

The required information is to be set forth in the 2009 Proxy Statement under the caption "Corporate Governance," which information is hereby incorporated herein by reference.

Item 11. Executive Compensation.

The information required by this Item is to be set forth in the 2009 Proxy Statement under the caption "Directors and Executive Officers," which information is hereby incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this Item is to be set forth in the 2009 Proxy Statement under the caption "Security Ownership of Certain Beneficial Owners and of Management" and the caption "Equity Compensation Plan Information," all of which information is hereby incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions and Director Independence.

The information required by this Item is set forth in the 2009 Proxy Statement under the caption "Directors and Executive Officers," which information is hereby incorporated herein by reference.

Item 14. Principal Accountant Fees and Services.

The information required by this Item is set forth in the 2009 Proxy Statement under the caption “Independent Auditor Fees,” which information is hereby incorporated herein by reference.

Item 15. Exhibits and Financial Statement Schedules.

The following documents are filed as part of this Form 10-K:

| | Form 10-K Page Number |
|---|--------------------------|
| 1. Financial Statements | |
| Report of Independent Registered Public Accounting Firm | 27 |
| Consolidated Balance Sheets as of December 31, 2008 and 2007 | 29 |
| Consolidated Statements of Earnings for the years ended December 31, 2008, 2007 and 2006 | 30 |
| Consolidated Statements of Stockholders' Equity for the years ended December 31, 2008, 2007 and 2006 | 31 |
| Consolidated Statements of Cash Flows for the years ended December 31, 2008, 2007 and 2006 | 32 |
| Notes to Consolidated Financial Statements | 33 |
| 2. Financial Statement Schedules | |
| Schedule II – Valuation and Qualifying Accounts for the years ended December 31, 2008, 2007 and 2006 | 55 |
| 3. Exhibits | |
| 2.1 Sale and Purchase Agreement dated March 30, 2007, by and between Balchem B.V. and Akzo Nobel Chemicals S.p.A. (incorporated by reference to Exhibit 2.1 of the Company’s Current Report on Form 8-K dated March 30, 2007). | |
| 2.2 Asset Purchase Agreement dated March 16, 2007, by and between BCP Ingredients, Inc. and Chinook Global Limited (incorporated by reference to Exhibit 2.1 of the Company’s Current Report on Form 8-K dated March 16, 2007). | |
| 2.3 Stock Purchase Agreement dated November 2, 2005, between Balchem Minerals Corporation and Chelated Minerals Corporation (incorporated by reference to Exhibit 10.1 of the Company’s Current Report on Form 8-K dated November 7, 2005). | |
| 2.4 First Amendment to Stock Purchase Agreement dated January 5, 2006, between Balchem Minerals Corporation and Chelated Minerals Corporation (incorporated by reference to Exhibit 10.1 of the Company’s Current Report on Form 8-K dated January 10, 2006). | |
| 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 dated March 16, 2006 for the year ended December 31, 2005). | |
| 3.2 Balchem Corporation Articles of Amendment (incorporated by reference to Exhibit A to the Company’s definitive proxy statement on Schedule 14A filed with the Commission on April 25, 2008) | |
| 3.3 Composite By-laws of the Company (incorporated by reference to Exhibit 3.2 to the Company’s Current Report on Form 8-K dated January 2, 2008). | |

- 10.1 Tolling Agreement, dated March 16, 2007 between BCP Ingredients, Inc. and Chinook Global Limited (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated March 16, 2007).
- 10.2 Non-Competition Agreement, dated March 16, 2007 between BCP Ingredients, Inc. and Chinook Global Limited; Chinook Services, LLC; Chinook, LLC; Dean R. Lacy; Ronald Breen, and John N. Kennedy (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated March 16, 2007).
- 10.3 Loan Agreement dated March 16, 2007 by and between Bank of America, N.A. and Balchem Corporation (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K dated March 16, 2007).
- 10.4 Promissory Note (Term Loan) dated March 16, 2007 from Balchem Corporation to Bank of America, N.A (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K dated March 16, 2007).
- 10.5 Promissory Note (Revolving Line of Credit) dated March 16, 2007 from Balchem Corporation to Bank of America, N.A. (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K dated March 16, 2007).
- 10.6 Guaranty dated March 16, 2007 from BCP Ingredients, Inc. to Bank of America, N.A. (incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K dated March 16, 2007).
- 10.7 Guaranty dated March 16, 2007 from Balchem Minerals Corporation to Bank of America, N.A. (incorporated by reference to Exhibit 10.7 to the Company's Current Report on Form 8-K dated March 16, 2007).
- 10.8 Loan Agreement dated February 6, 2006 by and between Bank of America, N.A. and Balchem Corporation, Promissory Note dated February 6, 2006 from Balchem Corporation to Bank of America, N.A., and Amended and Restated Promissory Note (Revolving Line of Credit) dated February 6, 2006 from Balchem Corporation to Bank of America, N.A. (incorporated by reference to Exhibits 10.2, 10.3 and 10.4 to the Company's Current Report on Form 8-K dated February 9, 2006).
- 10.9 Amended and Restated Guaranty dated February 6, 2006 from BCP Ingredients, Inc. to Bank of America, N.A. (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K dated February 9, 2006).
- 10.10 Guaranty dated February 6, 2006 from Balchem Minerals Corporation to Bank of America, N.A. (incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K dated February 9, 2006).
- 10.11 Incentive Stock Option Plan of the Company, as amended, (incorporated by reference to the Company's Registration Statement on Form S-8, File No. 333-35910, 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")).*
- 10.12 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. 333-35912, dated October 25, 1996, and to the 1998 Proxy Statement).
- 10.13 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 June 30, 2003).*

- 10.14 Balchem Corporation Second Amended and Restated 1999 Stock Plan, (incorporated by reference to the Company's Registration Statement on Form S-8, File No. 333-155655, dated November 25, 2008, and to Proxy Statement, dated April 25, 2008, for the Company's 2008 Annual Meeting of Stockholders.*
- 10.15 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. 333-118291, dated August 17, 2004).*
- 10.16 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")). *
- 10.17 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).
- 10.18 Form of Restricted Stock Purchase Agreement for Directors (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K dated December 30, 2005).
- 14. Code of Ethics for Senior Financial Officers (incorporated by reference to Exhibit 14 to the Company's Annual Report on Form 10-K dated March 15, 2004 for the year ended December 31, 2003).
- 21. Subsidiaries of Registrant.
- 23.1 Consent of McGladrey & Pullen, LLP, Independent 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.

SIGNATURES

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

Date: March 12, 2009

BALCHEM CORPORATION

By: /s/ Dino A. Rossi

Dino A. Rossi, Chairman, President, and
Chief Executive Officer

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Dino A. Rossi

Dino A. Rossi, Chairman, President,
Chief Executive Officer, and Director (Principal Executive Officer)

Date: March 12, 2009

/s/ Francis J. Fitzpatrick

Francis J. Fitzpatrick, Chief Financial
Officer and Treasurer (Principal Financial and Principal Accounting Officer)

Date: March 12, 2009

/s/ Edward L. McMillan

Edward L. McMillan, Director

Date: March 12, 2009

/s/ Kenneth P. Mitchell

Kenneth P. Mitchell, Director

Date: March 12, 2009

/s/ Perry W. Premdas

Perry W. Premdas, Director

Date: March 12, 2009

/s/ Dr. John Televantos

Dr. John Televantos, Director

Date: March 12, 2009

/s/ Dr. Elaine Wedral

Dr. Elaine Wedral, Director

Date: March 12, 2009

EXHIBIT INDEX

| <u>Exhibit Number</u> | <u>Description</u> |
|-----------------------|--|
| 2.1 | Sale and Purchase Agreement dated March 30, 2007, by and between Balchem B.V. and Akzo Nobel Chemicals S.p.A. (incorporated by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K dated March 30, 2007). |
| 2.2 | Asset Purchase Agreement dated March 16, 2007, by and between BCP Ingredients, Inc. and Chinook Global Limited (incorporated by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K dated March 16, 2007). |
| 2.3 | Stock Purchase Agreement dated November 2, 2005, between Balchem Minerals Corporation and Chelated Minerals Corporation (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K dated November 7, 2005). |
| 2.4 | First Amendment to Stock Purchase Agreement dated January 5, 2006, between Balchem Minerals Corporation and Chelated Minerals Corporation (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K dated January 10, 2006). |
| 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 dated March 16, 2006 for the year ended December 31, 2005). |
| 3.2 | Balchem Corporation Articles of Amendment (incorporated by reference to Exhibit A to the Company's definitive proxy statement on Schedule 14A filed with the Commission on April 25, 2008) |
| 3.3 | Composite By-laws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K dated January 2, 2008). |
| 10.1 | Tolling Agreement, dated March 16, 2007 between BCP Ingredients, Inc. and Chinook Global Limited (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated March 16, 2007). |
| 10.2 | Non-Competition Agreement, dated March 16, 2007 between BCP Ingredients, Inc. and Chinook Global Limited; Chinook Services, LLC; Chinook, LLC; Dean R. Lacy; Ronald Breen, and John N. Kennedy (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated March 16, 2007). |
| 10.3 | Loan Agreement dated March 16, 2007 by and between Bank of America, N.A. and Balchem Corporation (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K dated March 16, 2007). |
| 10.4 | Promissory Note (Term Loan) dated March 16, 2007 from Balchem Corporation to Bank of America, N.A (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K dated March 16, 2007). |
| 10.5 | Promissory Note (Revolving Line of Credit) dated March 16, 2007 from Balchem Corporation to Bank of America, N.A. (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K dated March 16, 2007). |
| 10.6 | Guaranty dated March 16, 2007 from BCP Ingredients, Inc. to Bank of America, N.A. (incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K dated March 16, 2007). |

- 10.7 Guaranty dated March 16, 2007 from Balchem Minerals Corporation to Bank of America, N.A. (incorporated by reference to Exhibit 10.7 to the Company's Current Report on Form 8-K dated March 16, 2007).
- 10.8 Loan Agreement dated February 6, 2006 by and between Bank of America, N.A. and Balchem Corporation, Promissory Note dated February 6, 2006 from Balchem Corporation to Bank of America, N.A., and Amended and Restated Promissory Note (Revolving Line of Credit) dated February 6, 2006 from Balchem Corporation to Bank of America, N.A. (incorporated by reference to Exhibits 10.2, 10.3 and 10.4 to the Company's Current Report on Form 8-K dated February 9, 2006).
- 10.9 Amended and Restated Guaranty dated February 6, 2006 from BCP Ingredients, Inc. to Bank of America, N.A. (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K dated February 9, 2006).
- 10.10 Guaranty dated February 6, 2006 from Balchem Minerals Corporation to Bank of America, N.A. (incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K dated February 9, 2006).
- 10.11 Incentive Stock Option Plan of the Company, as amended, (incorporated by reference to the Company's Registration Statement on Form S-8, File No. 333-35910, 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")).*
- 10.12 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. 333-35912, dated October 25, 1996, and to the 1998 Proxy Statement).
- 10.13 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 June 30, 2003).*
- 10.14 Balchem Corporation Second Amended and Restated 1999 Stock Plan, (incorporated by reference to the Company's Registration Statement on Form S-8, File No. No. 333-155655, dated November 25, 2008, and to Proxy Statement, dated April 25, 2008, for the Company's 2008 Annual Meeting of Stockholders.*
- 10.15 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. 333-118291, dated August 17, 2004).*
- 10.16 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")). *
- 10.17 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).
- 10.18 Form of Restricted Stock Purchase Agreement for Directors (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K dated December 30, 2005).
- 14. Code of Ethics for Senior Financial Officers (incorporated by reference to Exhibit 14 to the Company's Annual Report on Form 10-K dated March 15, 2004 for the year ended December 31, 2003).
- 21. Subsidiaries of Registrant.
- 23.1 Consent of McGladrey & Pullen, LLP, Independent 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.

LIST OF SUBSIDIARIES

| <u>Subsidiaries of the Registrant</u> | <u>Jurisdiction of Organization</u> |
|---------------------------------------|-------------------------------------|
| BCP Ingredients, Inc. | Delaware |
| Balchem Minerals Corporation | Delaware |
| Chelated Minerals Corporation | Utah |
| BCP Saint Gabriel, Inc. | Delaware |
| Balchem BV | Netherlands |
| Balchem Trading BV | Netherlands |
| Balchem Italia Srl | Italy |
| Balchem Ltd. | Canada |

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statements (Nos. 333-155655, 333-118292, 333-118291, 333-78355, 333-44489, 333-5912 and 333-5910) on Form S-8 of Balchem Corporation and subsidiaries of our reports dated March 12, 2009 relating to our audit of the consolidated financial statements, the financial statement schedule and internal control over financial reporting, which appear in this Annual Report on Form 10-K of Balchem Corporation for the year ended December 31, 2008.

/s/McGladrey & Pullen, LLP
New York, New York
March 12, 2009

CERTIFICATIONS

I, Dino A. Rossi, certify that:

1. I have reviewed this annual report on Form 10-K of Balchem Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 12, 2009

/s/ Dino A. Rossi
Dino A. Rossi, Chairman, President, and
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATIONS

I, Francis J. Fitzpatrick, certify that:

1. I have reviewed this annual report on Form 10-K of Balchem Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 12, 2009

/s/ Francis J. Fitzpatrick
Francis J. Fitzpatrick,
Chief Financial Officer and Treasurer
(Principal Financial and Principal
Accounting Officer)

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Balchem Corporation (the "Company") on Form 10-K for the period ended December 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dino A. Rossi, Chairman, President, and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Dino A. Rossi
Dino A. Rossi
Chairman, President, and
Chief Executive Officer
(Principal Executive Officer)
March 12, 2009

This certification accompanies the above-described Report on Form 10-K pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Balchem Corporation (the "Company") on Form 10-K for the period ended December 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Francis J. Fitzpatrick, Chief Financial Officer and Treasurer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Francis J. Fitzpatrick
Francis J. Fitzpatrick
Chief Financial Officer and Treasurer
(Principal Financial and Principal
Accounting Officer)
March 12, 2009

This certification accompanies the above-described Report on Form 10-K pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

Corporate Information

Board of Directors

Dino A. Rossi
*Chairman, President and
Chief Executive Officer*

Kenneth P. Mitchell
*Lead Director
Retired, President and
Chief Executive Officer
Oakite Products, Inc.*

Edward L. McMillan
*Owns McMillan, LLC,
a transaction-consulting firm
Past President and Chief Executive
Officer of Purina Mills*

Perry W. Premdas
*Retired, Chief Financial Officer
of Celanese AG*

Dr. John Y. Televantos
*Executive Vice President
Arsenal Capital Partners*

Dr. Elaine R. Wedral
*Retired, President of Nestle's
Research and Development,
Food Service Systems*

Corporate Officers

Dino A. Rossi
*Chairman, President and
Chief Executive Officer*

Frank J. Fitzpatrick
*Chief Financial Officer
Treasurer and Assistant Secretary*

Matthew D. Houston
*General Counsel
Secretary*

David F. Ludwig
*Vice President/General Manager
ARC Specialty Products*

Paul H. Richardson
*Vice President
Research & Development*

Headquarters

Balchem Corporation
52 Sunrise Park Road
P.O. Box 600
New Hampton, NY 10958

Manufacturing Locations

Slate Hill, NY; Green Pond, SC;
Verona, MO; Channahon, IL;
Salt Lake City, UT; St. Gabriel, LA;
and Marano Ticino, Italy

Exchange

NASDAQ Global Market

Listed Security

BCPC Common Stock

Annual Report

For information relating to the
Annual Report please contact
Karin McCaffery at 845.326.5600.

Investor Relations

Jackie Powell
Virtual Business Solutions
864.486.8065

Transfer Agent

Registrar and Transfer Company
10 Commerce Drive
Cranford, NJ 07016

Corporate Counsel

Duane Morris LLP
470 Atlantic Avenue, Suite 500
Boston, MA 02210

Independent Accountants

McGladrey & Pullen, LLP
1185 Avenue of the Americas, 6th Fl.
New York, NY 10036

Website:

www.balchem.com

Balchem Corporation

P.O. Box 600, 52 Sunrise Park Road, New Hampton, NY 10958

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