

Ticker: BCP

Current Rating: B2 (74)

Valid until Nov 28, 2007

Production Date: Nov 28, 2006

Outlook: Positive

Medium-term rating: A4 (83)

Long-term rating: A4 (83)

Primary Commercial Activity:

Chemicals-Specialty

Industry Sector:

Chemicals and Fibres

Financial Year End: Dec 31, 2005

Financial Data:

USD (mn)	2003	2004	2005
Total Assets	56.91	60.41	75.14
Total Equity	39.78	50.23	60.93
Total Rev	61.88	67.41	83.09
Total Exp	52.73	56.25	69.63

Financial Ratios:

	2003	2004	2005
Cash Flow / Sales	0.18	0.18	0.16
ROCE	16.71	23.84	25.61
ROE	14.20	15.99	17.97
Sales / Equity	1.56	1.34	1.36
EBIT / Sales	13.93	18.99	20.34
TL / TA	0.30	0.17	0.19
CA / CL	3.89	5.12	3.85

Rating Scale

Tier	Rating	Score	Risk
Tier A	A1	95-100	Low
	A2	90-94	
	A3	85-89	
	A4	80-84	
Tier B	B1	75-79	Moderate
	B2	70-74	
	B3	65-69	
	B4	60-64	
Tier C	C1	55-59	Medium
	C2	50-54	
	C3	45-49	
	C4	40-44	
Tier D	D1	35-39	High
	D2	30-34	
	D3	25-29	
	D4	20-24	
Tier E	E1	15-19	Very High
	E2	10-14	
	E3	5-9	
	E4	0-4	

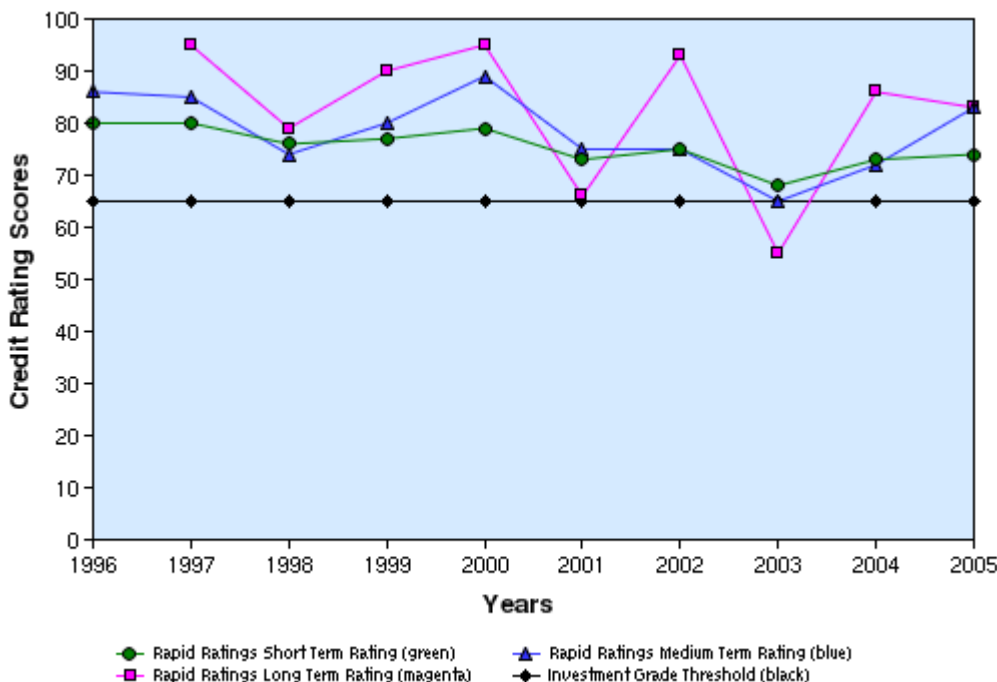
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BALCHEM CORP

FIGURE 1: RATING HISTORY AND FORECAST



CORPORATE RATING TRENDS

Table 1	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Corporate Ratings:										
Current Rating (Short-term) (ST)	A4 80	A4 80	B1 76	B1 77	B1 79	B2 73	B1 75	B3 68	B2 73	B2 74
Rating Outlook:										
Medium-term Rating (MT)	A3 86	A3 85	B2 74	A4 80	A3 89	B1 75	B1 75	B3 65	B2 72	A4 83
Long-term Rating (LT)		A1 95	B1 79	A2 90	A1 95	B3 66	A2 93	C1 55	A3 86	A4 83
Operating Performance Scores:										
Revenue	58	48	22	27	31	10	15	11	14	13
Overall profit	90	89	87	87	89	84	87	74	80	81
Cost structure	85	92	83	83	84	82	84	81	88	90
Financial Position Scores:										
Debt service mgmt	82	83	83	83	83	83	83	83	83	83
Leveraging	28	28	28	28	28	28	28	28	28	28
Solvency	30	40	30	39	46	29	28	34	37	39

ST rating: this is the primary indicator of the overall financial health for next 12 months. MT and LT ratings forecast general directions of the company's ST rating over next 2-3 and 3-5 years, respectively. They are not level indicators *per se*.

1. CURRENT CORPORATE RATING

- The short-term corporate rating is the weighted-average of 62 efficiency ratios measuring financial health. BALCHEM CORP's corporate rating for the year ending Dec 31, 2005 is B2. This means it had a higher performance ranking than 74% of the companies in its global industry reference set.
- This is an increase from the previous year. A credit rating of B2 suggests that the company is generally a moderate risk, and that its assets are of good quality.
- The company's rating outlook is Positive.

2. SUMMARY OF KEY STRENGTHS AND WEAKNESSES

Overall Significant Strengths

- Cost Structure
- Debt Management
- Overall Profit Performance
- Return on Capital Employed
- Return on Equity Invested

Overall Moderate Strengths

- None

Overall Moderate Weaknesses

- None

Overall Significant Weaknesses

- Leveraging Rate
- Sales Performance
- Solvency Position

For more details on these strengths and weaknesses see Appendix 1

3. TRENDS IN KEY FINANCIAL INDICATORS AND RATIOS

TABLE 2	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Assets (USD mn)	15.14	17.59	22.65	22.03	23.22	44.48	53.30	56.91	60.41	75.14
Sales (USD mn)	26.37	28.62	28.72	29.68	33.20	46.14	60.20	61.88	67.41	83.09
Expenditure (USD mn)	23.08	24.74	24.10	24.56	27.56	39.02	49.91	52.73	56.25	69.63
Sales Performance										
Sales Growth (%)		8.53	0.35	3.34	11.86	38.98	30.47	2.79	8.94	23.26
Cashflow / Sales	0.14	0.10	0.14	0.16	0.18	0.07	0.17	0.18	0.18	0.16
Sales / Equity	2.81	2.32	1.82	1.65	1.70	1.82	1.81	1.56	1.34	1.36
Sales / Total Assets	1.74	1.63	1.27	1.35	1.43	1.04	1.13	1.09	1.12	1.11
Profitability										
EBIT / Sales (%)	11.83	13.49	16.74	16.88	17.89	18.73	20.25	13.93	18.99	20.34
Return on Equity	20.55	22.38	18.82	17.22	19.05	20.14	22.31	14.20	15.99	17.97
ROCE +	25.51	26.38	23.98	25.60	29.98	22.30	26.41	16.71	23.84	25.61
Debt and Debt Management										
CACL*	1.58	2.04	2.41	3.22	3.47	2.63	2.37	3.89	5.12	3.85
TLTA**	0.38	0.30	0.30	0.19	0.16	0.43	0.38	0.30	0.17	0.19
Total Liabilities / Sales	0.22	0.18	0.24	0.14	0.11	0.42	0.33	0.28	0.15	0.17
Interest Cover: EBIT / Interest Expense	12.48	27.57	30.06	45.55	118.80	22.15	31.26	31.93	58.18	1690

+ROCE: Return on Capital Employed *CACL: Current Assets divided by Current Liabilities ** TLTA: Total Liabilities divided by Total Assets

3.1 KEY PERFORMANCE TRENDS: BALCHEM CORP exhibits

- weaker performance since 2001 in its sales growth rate (40.32% below previous peak)
- weaker performance since 2003 in its ability to generate cash flow (8.49% below previous peak)
- weaker performance since 1996 in its sales to equity ratio (51.44% below previous peak)
- weaker performance since 1996 sales to assets ratio (36.51% below previous peak)

- stronger performance since 2002 in its before tax profits (EBIT divided by Sales) (0.45% above previous peak)
- weaker performance since 1997 in its return on equity (19.71% below previous peak)
- weaker performance since 2004 in its current operating performance (CACL) (24.65% below previous peak)
- lower performance since 2001 in its liabilities to assets ratio (TLTA) (56.07% below previous peak)
- lower performance since 2001 in its debt to sales performance (Total Liabilities / Sales) (58.79% below previous peak)
- stronger performance since 2000 in its interest cover (EBIT / Interest Expense) (1322.56% above previous peak)

Return on Capital Employed: Over the period 1996-2005, BALCHEM CORP had an average ROCE of 24.63, which is significantly above the global average for the industry. ROCE has fallen since 2000.

3.2. DRILLING DOWN: MAJOR RATING TRENDS INSIDE BALCHEM CORP: Dec 31, 1996 - Dec 31, 2005 - TABLE 3 Scores range from 0 (worst) to 100 (best)

Balance Date	Leveraging Rate	Solvency Position	Debt Service Management	Sales Performance	Gross Profit Margin Performance
1996	28	30	82	58	87
1997	28	40	83	48	84
1998	28	30	83	22	65
1999	28	39	83	27	73
2000	28	46	83	31	78
2001	28	29	83	10	43
2002	28	28	83	15	52
2003	28	34	83	11	27
2004	28	37	83	14	33
2005	28	39	83	13	29

Balance Date	Net Profit Performance	NOPAT Performance	Overall Profit Performance	Cost Structure	Overall
1996	95	85	90	85	80
1997	95	82	89	92	80
1998	95	82	87	83	76
1999	94	81	87	83	77
2000	95	84	89	84	79
2001	95	81	84	82	73
2002	95	86	87	84	75
2003	91	72	74	81	68
2004	93	79	80	88	73
2005	94	81	81	90	74

3.2.1 Financial Position

The Leveraging Rate:

- has remained at a level below B3 (the investment grade/ junk bond cut-off point) since 1996
- has remained stable in the last year

The Solvency Position:

- has been moderately high risk this financial year
- has remained at a level below B3 (the investment grade/ junk bond cut-off point) since 1996
- has improved moderately in the last one year
- has improved sharply in the last three years

Debt Service Management:

- has remained at a level above B4 since 1996 and thus has investment grade status.
- has remained stable in the last year

3.2.2 Operating Performance

Sales Performance:

- has been very high risk this financial year
- BALCHEM CORP has a greater potential for default if the rating remains at a level below D4
- has remained at a level below B3 (the investment grade/ junk bond cut-off point) since 1996
- has deteriorated moderately in the last one year
- has deteriorated moderately in the last three years

Gross Profit Margin Performance (gross revenue minus cost of goods sold):

- has been high risk this financial year
- has remained at a level below B3 (the investment grade/ junk bond cut-off point) since 2001
- has deteriorated moderately in the last one year
- has deteriorated sharply in the last three years

Net Profit Performance:

- has been minimal risk this financial year
- has remained at a level above B4 since 1996 and thus has investment grade status.
- has improved moderately in the last one year
- has deteriorated moderately in the last three years

NOPAT Performance (Net operating profit after tax):

- has been minimal risk this financial year
- has remained at a level above B4 since 1996 and thus has investment grade status.
- has improved moderately in the last one year
- has deteriorated moderately in the last three years

The Cost Structure:

- has been minimal risk this financial year
- has remained at a level above B4 since 1996 and thus has investment grade status.
- has improved moderately in the last one year
- has improved moderately in the last three years

Figure 2 – Overall Profit Performance
Scores range from 0 (worst) to 100 (best)

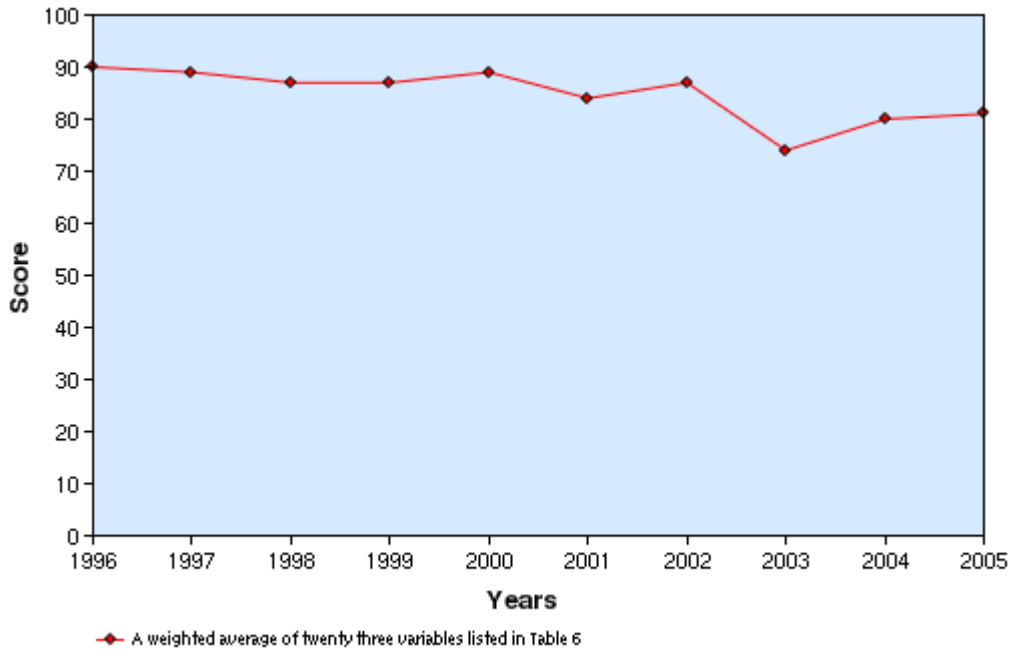


Figure 3 – Current Assets to Current Liabilities (CACL)

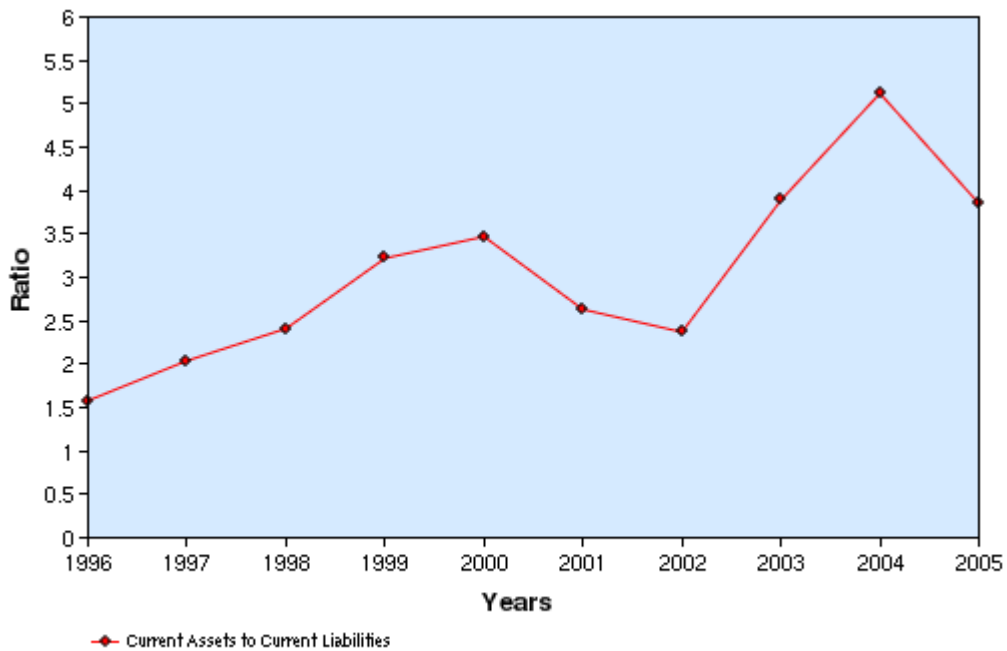


Figure 4 – Sales divided by Total Assets (SALA)

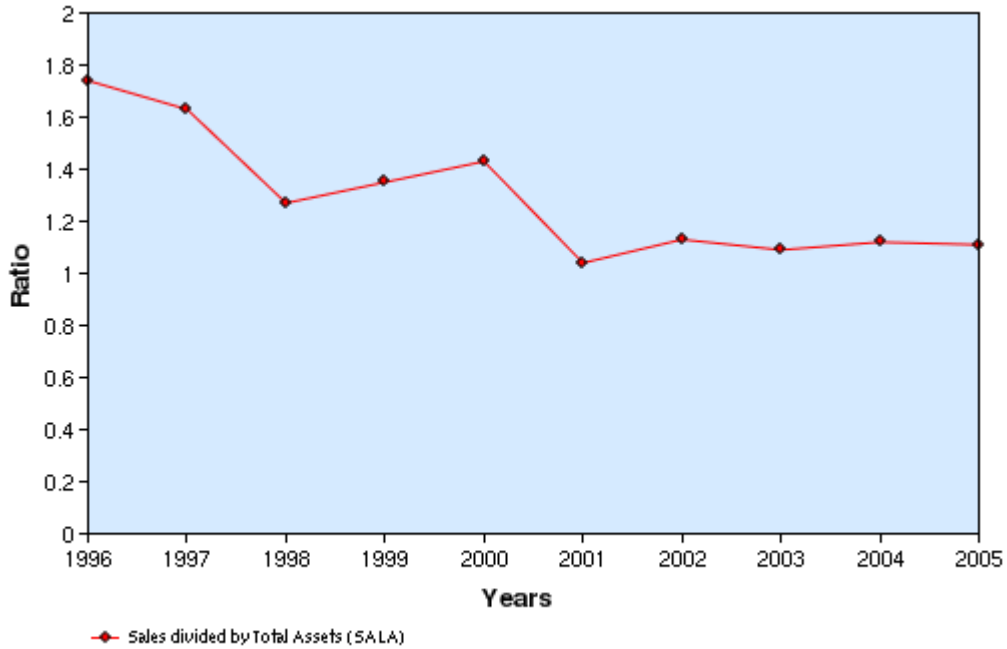
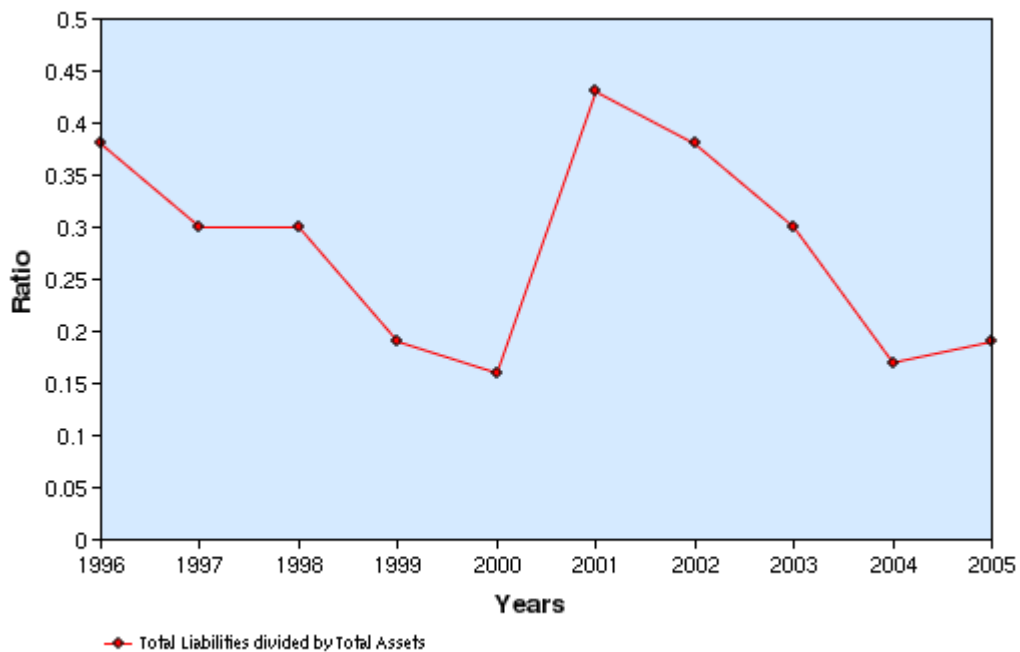


Figure 5 – Total Liabilities divided by Total Assets (TLTA)



APPENDIX 1: Detailed Summary of Current Strengths and Weaknesses

In this section, we look at BALCHEM CORP's financial performance and position during the Dec 31, 2005 financial year in terms of its rate of return, operating performance, financial position and solvency position, in the context of global industry best practice.

Table 4 below identifies the ratings and the degree of strength or weakness key performance areas. When compared to its global industry peers BALCHEM CORP's

- significant strengths are: its Cost Structure, Debt Management, Overall Profit Performance, Return on Capital Employed and Return on Equity Invested
- moderate strengths are: not evident
- significant weaknesses are: its Leveraging Rate, Sales Performance and Solvency Position
- moderate weaknesses are: not evident

TABLE 4: Key summary of strengths and weaknesses for the Financial Year Ending: Dec 31, 2005

Rating Scores in Dec 31, 2005	Risk Rating & Score	Significant Weakness (0 – 49%)	Moderate Weakness (50 – 59%)	Moderate Strength (60 – 74%)	Significant Strength (75 – 100%)
1 Rate of Return					
Return on Capital Employed	95				•
Return on Equity Invested	93				•
2 Operating Performance					
Sales Performance	13	•			
Overall Profit Performance	81				•
Cost Structure	90				•
3 Financial Position					
Leveraging Rate	28	•			
Debt Service Management	83				•
4 Solvency Position					
Solvency / Liquidity Ratios	39	•			

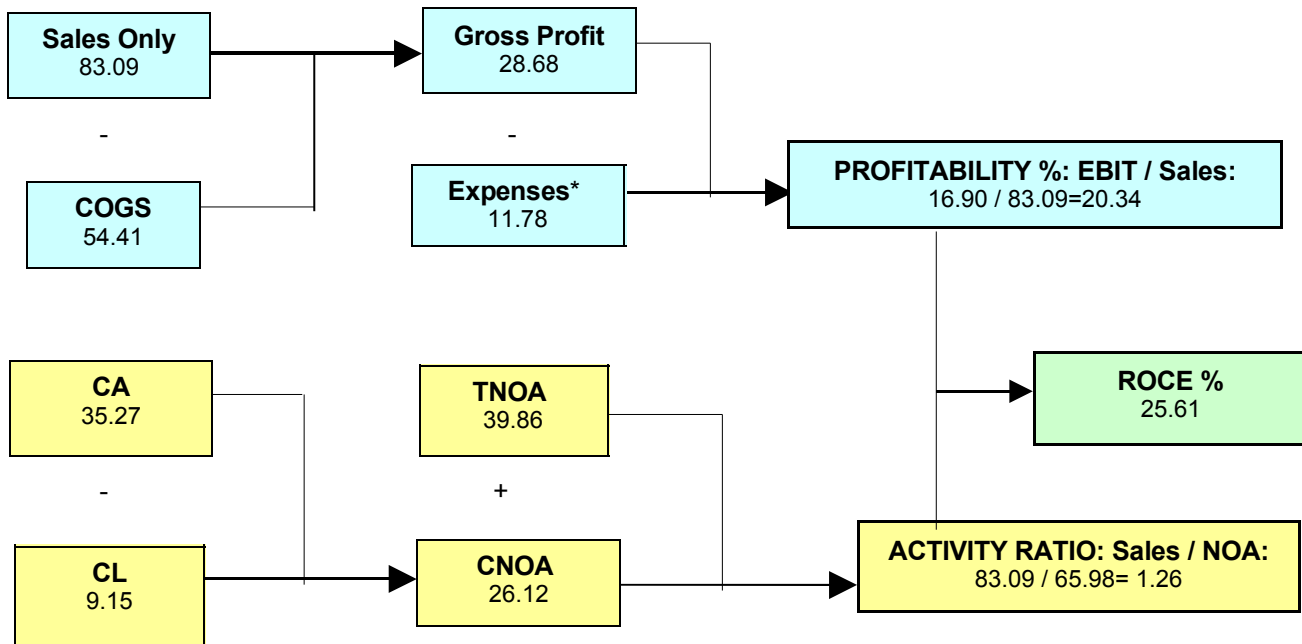
1. Rate of Return: DuPont Analysis for the most recent year

Rapid Ratings uses DuPont analysis (**Figure 6** on next page) to separate the funding side of the business from the operating side to determine the efficiency performance of both. DuPont analysis calculates ROCE, which is a measure of the company's ability to utilise the capital employed in the business to achieve an "appropriate rate of return" which exceeds the weighted cost of capital including both debt and equity. Using the weighted cost of borrowing only as the benchmark imposes a minimum threshold that should not be treated as the definitive threshold.

A top-performing firm has a ROCE% of at least 15% - 20%. In the year ending Dec 31, 2005, BALCHEM CORP had a ROCE% of 25.61% (**Table 2**), which is above the generally accepted threshold range and indicates the company is making efficient use of its assets. General benchmark levels for profitability and activity are around the level of 10% and above 2.0 respectively, however, these do vary from industry to industry. BALCHEM CORP displays excellent performance levels in the profitability to sales ratio and poor performance in activity. BALCHEM CORP has a *weighted cost of borrowing* (WCB) of 0.96%. So as ROCE is greater than WCB, BALCHEM CORP will most likely be able to meet its debt obligations.

ROE is a measure of the company's ability to generate a return on shareholders' funds. In the year ending Dec 31, 2005, BALCHEM CORP had a ROE of 17.97%. This would indicate that the company is making a very good return for shareholders.

Figure 6: DuPont Analysis: For the year ending Dec 31, 2005 USD (mn)



Notes:

* Expenses and other operating items (net)

COGS – Cost of Goods Sold; **NOA** – Net Operating Assets;
CA – Current Assets; **TNOA** – Term Net Operating Assets
CL – Current Non Debt Liabilities; **CNOA** – Current Net Operating Assets

2. Operating Performance

(a) Sales Growth

The rate of sales growth gives an indication of the long-term ability of the company to generate income. BALCHEM CORP's sales grew by 23.26% for the year ending Dec 31, 2005, above its long-term average trend.

(b) Sales Performance – E2 (13)

Sales performance is based on a weighted-average of sales relative to assets, equity, working capital, inventories, capital employed and staff costs. BALCHEM CORP's sales performance was rated E2 (13%) for the year ending Dec 31, 2005, indicating the company's performance was better than only 13% of its global industry reference set. This is an area of high risk weakness for BALCHEM CORP and suggests that this company has been making a very poor gross return on the capital invested in the business relative to its peer group.

TABLE 5 – Sales Performance for the Financial Year Ending: Dec 31, 2005

Areas of Assessment	Ratings & Scores	Significant Weakness (0 – 49%)	Moderate Weakness (50 – 59%)	Moderate Strengths (60 – 74%)	Significant Strengths (75 – 100%)
Sales Performance	13				
Sales / Capital Employed		•			
Sales / Inventories		•			
Sales / Working Capital		•			
Sales / Shareholders' Equity		•			
Sales / Assets		•			
Sales / Salaries and Wages					

(c) Operating Profit Performance – A4 (81)

The overall operating profit performance rating is based on a weighted-average of a variety of profitability measures (including gross profit, EBIT, NPBT and NOPAT relative to several balance sheet items and sales. BALCHEM CORP's operating profit performance rating was A4 (81) in Dec 31, 2005, indicating it outperformed 81% of companies in its global reference set, an area of general strength .

TABLE 6 – Operating Performance for the Financial Year Ending: Dec 31, 2005

Areas of Assessment	Ratings & Scores	Significant Weakness (0 – 49%)	Moderate Weakness (50 – 59%)	Moderate Strengths (60 – 74%)	Significant Strengths (75 – 100%)
Operating Profit Performance	81				
NPAT / Capital Employed					•
NPAT / Shareholders' Equity					•
NPAT / Total Assets					•
NPAT / Sales					•
NPBT / Total Assets					•
NPBT / Sales					•
NOPAT / Capital Employed					•
NOPAT / Sales					•
EBIT / Total Assets					•
EBIT / Sales					•
(EBIT & Depreciation) / Sales					•
Gross Profit / Sales			•		
NPBT / Capital Employed					•
NOPAT / Total Assets					•
NOPAT / Shareholders' Equity				•	
EBIT / Capital Employed					•
EBIT / Shareholders' Equity				•	
(EBIT & Depreciation) / Total Assets					•
NPBT / Shareholders' Equity					•
(EBIT & Depreciation) / Capital Employed					•
(EBIT & Depreciation) / Shareholders' Equity		•			
Gross Profit / Capital Employed		•			
Gross Profit / Total Assets		•			

(d) Cash Flow Performance

BALCHEM CORP's operating cash flow in Dec 31, 2005, was 0.16 of sales, which means that the company will have 16% of sales available for the use of debt repayment, capital expenditure and dividends. The company's performance in this area was above its long-term trend.

(e) Cost Structure – A2 (90)

The overall rating of a company's cost structure is a weighted average of the relative allocation of expenditure across several components such as cost of goods sold, staff costs, depreciation, other asset utilisation costs, other operating expenditure,

gross interest expense and income tax. BALCHEM CORP's cost structure was rated A2 (90) suggesting the company has a very good cost structure compared to its global reference set.

TABLE 7 – Cost Structure Performance for the Financial Year Ending: Dec 31, 2005

Areas of Assessment	Ratings & Scores	Significant Weakness (0 – 49%)	Moderate Weakness (50 – 59%)	Moderate Strengths (60 – 74%)	Significant Strengths (75 – 100%)
Cost Structure	90				
Tax / Total Revenue					•
Other Operating Exp / Total Revenue					•
Depreciation / Total Revenue					•
Salaries and Wages / Total Revenue					
Cost of Goods Sold / Total Revenue			•		
Tax / Total Expenditure					•
Other Operating Expenditure / Total Expenditure					•
Depreciation / Total Expenditure					•
Salaries and Wages / Total Expenditure					
Cost of Goods Sold / Total Expenditure		•			
Total Gross Interest Expenditure / Total Revenue					•
Total Gross Interest Expense / Total Expenditure					•

3. Financial Position

(a) Leveraging Rate – D3 (28)

The overall leveraging rate is based on a weighted-average of a variety of measures of leveraging (see table below). BALCHEM CORP's overall leveraging rating was D3 (28%) in Dec 31, 2005, indicating that the company's overall leverage position is in the lower 28% of its global reference set.

TABLE 8 – Leveraging Rate Performance for the Financial Year Ending Dec 31, 2005

Areas of Assessment	Ratings & Scores	Significant Weakness (0 – 49%)	Moderate Weakness (50 – 59%)	Moderate Strengths (60 – 74%)	Significant Strengths (75 – 100%)
Leverage Rate	28				
Term Liabilities / Capital Employed		•			
Total Liabilities / Sales					•
Shareholders' Equity / Total Assets		•			
Total Liabilities / Total Assets		•			

(b) Debt Service Management – A4 (83)

The overall rating of debt service management is based on a weighted-average of a variety of measures of debt service. This indicates the company's ability to meet principal and interest payments. BALCHEM CORP's overall debt service management rating was A4 (83) in Dec 31, 2005 when compared to its global reference set.

TABLE 9 – Debt Service Management Performance for the financial year ending: Dec 31, 2005

Areas of Assessment	Ratings & Scores	Significant Weakness (0 – 49%)	Moderate Weakness (50 – 59%)	Moderate Strengths (60 – 74%)	Significant Strengths (75 – 100%)
Debt Service Management	83				
Gross Interest Expense / Total Liabilities		•			
NOPAT / Gross Interest Expense					•
EBIT / Gross Interest Expense					•
Gross Interest Expense / Salaries and Wages					

(c) Solvency Position – D1 (39)

The solvency position is based on a weighted-average of a variety of measures of solvency. The solvency position of a company measures its ability to meet short-term obligations with short-term assets. BALCHEM CORP's solvency position rating in Dec 31, 2005 was D1 (39) indicating that the company's solvency position is in the lower 39% of its global reference set, an area of high risk weakness for the company.

TABLE 10 – Solvency Performance for the Financial Year Ending: Dec 31, 2005

Areas of Assessment	Ratings & Scores	Significant Weakness (0 – 49%)	Moderate Weakness (50 – 59%)	Moderate Strengths (60 – 74%)	Significant Strengths (75 – 100%)
Solvency Position	39				
Current Assets / Total Liabilities					•
Quick Assets / Sales		•			
Quick Assets / Current Assets		•			
Current Liabilities / Total Liabilities				•	
Current Liabilities / Total Assets		•			
Current Assets / Total Assets		•			
Quick Assets / Total Assets		•			
Quick Assets / Current Liabilities		•			
Quick Assets / Capital Employed		•			
Working Capital / Total Sales		•			
Working Capital / Total Assets					•
Current Assets / Current Liabilities					•

Definitions

Rates of Return

- *Return on total capital employed and equity*
- *DuPont Analysis* (separating financing from operations)

Operating Performance

- *Sales Performance*: the company's level of sales as a percentage of some specific financial variables;
- *Gross Profit Margin Performance*: profits after cost of goods sold as a percentage of some specific financial variables;
- *EBIT Performance*: profits after operating expenses and before interest and taxes as a percentage of some specific financial variables;
- *Net Profit Performance*: the company's profits after interest but before taxes as a percentage of some specific financial variables;
- *NOPAT Performance*: profits after taxes but before interest as a percentage of some specific financial variables;
- *Expenditure Allocation/Cost Structure*: operating and non-operating costs as a percentage of some specific financial variables.

Financial Position

- *Leveraging Rate*: includes total liability as a percentage of total assets, sales and capital employed;
- *Debt Service Management*: interest obligations as a percentage of some specific financial variables;
- *Solvency/Liquidity Position* relates to a company's current liabilities, current assets, working capital and quick assets in relations to some specific financial variables.

APPENDIX 2: Financial Data

TABLE 11 – Financial Position for the Financial Year Ending: Dec 31, 2005

(in USD mn)	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Assets										
1. Bank, Cash Balances	0.09	0.74	1.35	1.70	3.07	3.12	1.73	9.24	12.73	13.00
2. Accounts Receivable	2.97	3.06	3.28	3.98	5.04	7.13	7.16	7.23	8.00	11.52
3. Total Inventories	1.86	2.51	2.88	2.75	2.55	5.58	7.24	5.96	6.32	8.54
4. Prepayments	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
5. Other Current Assets	0.67	0.98	0.89	0.69	0.71	1.19	2.68	1.20	2.16	2.21
6. Total Current Assets (1+2+3+4+5)	5.59	7.29	8.40	9.12	11.37	17.02	18.81	23.63	29.21	35.27
7. Fixed Assets	7.53	7.34	8.10	7.79	7.76	17.90	25.85	25.64	24.19	24.40
8. Financial Assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
9. Intangible Assets	0.00	2.92	6.14	5.13	4.09	9.55	8.63	7.64	7.00	15.47
10. Other Term Assets	2.02	0.04	0.01	-0.01	0.00	0.01	0.01	0.00	0.01	0.00
11. Total Term Assets (7+8+9+10)	9.55	10.30	14.25	12.91	11.85	27.46	34.49	33.28	31.20	39.87
12. Total Assets (6+11)	15.14	17.59	22.65	22.03	23.22	44.48	53.30	56.91	60.41	75.14
Liabilities										
13. Bank Overdraft	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
14. Accounts Payable	2.54	2.66	1.06	0.56	0.97	2.88	2.78	1.25	1.47	2.56
15. Debt owed within one year	0.71	0.75	1.20	0.60	0.00	1.75	1.74	1.74	0.00	0.00
16. Short-Term Provisions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
17. Other Current Liabilities	0.29	0.16	1.22	1.67	2.31	1.85	3.41	3.09	4.24	6.59
18. Total Current Liabilities (13+14+15+16+17)	3.54	3.57	3.48	2.83	3.28	6.48	7.93	6.08	5.71	9.15
19. Term Loans	1.59	1.07	2.55	0.65	0.00	11.32	9.58	7.84	0.00	1.04
20. Provisions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
21. Deferred Taxation	0.54	0.48	0.53	0.38	0.23	0.35	1.57	2.23	3.46	4.01
22. Other Term Liabilities	0.09	0.14	0.31	0.23	0.13	1.00	0.95	0.98	1.00	0.01
23. Total Term Liabilities (19+20+21+22)	2.22	1.69	3.39	1.26	0.36	12.67	12.10	11.05	4.46	5.06
24. Total Liabilities (18+23)	5.76	5.26	6.87	4.09	3.64	19.15	20.03	17.13	10.17	14.21
Shareholders' Equity										
25. Retained Earnings	7.26	9.86	12.67	14.62	16.17	21.61	29.39	35.55	43.40	52.15
26. Subscribed Capital	2.13	2.46	3.11	3.32	3.41	3.71	3.87	4.23	6.84	8.78
27. Minority Interests	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
28. Other Equity Items	0.00	0.01	0.00	0.00	0.00	0.00	0.00	0.00	-0.01	0.00
29. Total Shareholders' Equity (25+26+27+28)	9.39	12.33	15.78	17.94	19.58	25.32	33.26	39.78	50.23	60.93

TABLE 12 – Financial Performance for the Financial Year Ending: Dec 31, 2005

(in USD mn)	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Revenue										
1. Sales Revenue	26.37	28.62	28.72	29.68	33.20	46.14	60.20	61.88	67.41	83.09
2. Other Income	0.00	0.00	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Total Operating Revenue (1+2)	26.37	28.62	28.73	29.68	33.20	46.14	60.20	61.88	67.41	83.09
Cost of Goods Sold										
4. Cost of Goods Sold	15.07	16.38	17.30	17.56	19.16	28.22	36.89	40.72	43.60	54.41
5. Gross Profit (1-4)	11.30	12.24	11.42	12.12	14.04	17.92	23.31	21.16	23.81	28.68
Operating Expenditure										
6. Salaries and Wages	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
7. Depreciation	1.41	1.13	1.65	2.03	2.02	2.62	2.92	3.52	2.58	2.69
8. Amortization	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.69	0.12
9. Other Operating Expenditure	6.77	6.76	4.97	5.08	6.08	7.15	8.20	8.62	7.74	8.97
10. Total Operating Expenditure (6+7+8+9)	8.18	7.89	6.62	7.11	8.10	9.77	11.12	12.14	11.01	11.78
11. Total Cash Expenditure	23.08	24.74	24.10	24.56	27.56	39.02	49.91	52.73	56.25	69.63
12. Other Income (as per item 2)	0.00	0.00	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00
13. Abnormal Items	0.00	-0.49	0.00	0.00	0.00	0.49	0.00	-0.40	0.00	0.00
14. Other Operating Items (12 + 13)	0.00	-0.49	0.01	0.00	0.00	0.49	0.00	-0.40	0.00	0.00
15. Earnings Before Interest & Tax (5-10+14)	3.12	3.86	4.81	5.01	5.94	8.64	12.19	8.62	12.80	16.90
Net Investment Income										
16. Investment Income	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
17. Interest Received	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
18. Interest Expense	0.25	0.14	0.16	0.11	0.05	0.39	0.39	0.27	0.22	0.01
19. Other Investment Expense	-0.05	-0.50	0.01	0.00	-0.11	-0.11	-0.05	-0.42	-0.14	-0.30
20. Net Investment Income Total (16+17-18-19)	-0.20	0.36	-0.17	-0.11	0.06	-0.28	-0.34	0.15	-0.08	0.29
21. Net Profit Before Tax (NPBT; 15+20)	2.92	4.22	4.64	4.90	6.00	8.36	11.85	8.77	12.72	17.19
22. Company Tax Expense	0.99	1.46	1.67	1.81	2.27	3.26	4.43	3.12	4.69	6.24
23. Net Profit After Tax (NPAT; 21-22)	1.93	2.76	2.97	3.09	3.73	5.10	7.42	5.65	8.03	10.95
24. Minority Interests	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
25. Net Extraordinary Income	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
26. Net Surplus (23-24+25)	1.93	2.76	2.97	3.09	3.73	5.10	7.42	5.65	8.03	10.95

Appendix 3: Rapid Ratings Credit Rating Grade Equivalents and Explanation

Rating Equivalents			Rapid Ratings				
S&P	Moody's	Default Probability	Tier Rank	Rating	Score	Explanation	Asset Quality Brand™ (AQB) Rating
AAA	Aaa	0.02	Tier A	A1	95	Minimal risk of non-payment and insolvency	Exceptionally high quality
AA	Aa2	0.04		A2	90	Exceptionally low risk	Very high quality
AA-	Aa3	0.06		A3	85	Very low risk	High quality
A	A2	0.11		A4	80	Low risk but there are some concerns	Moderately high quality
A-	A3	0.19	Tier B	B1	75	Moderate to low risk and somewhat subject to fluctuations in market conditions	Very good quality
BBB	Baa2	0.31		B2	70	Generally moderate risk	Good quality
BBB-	Baa3	0.5		B3	65	Moderate risk / more subject to market conditions	Reasonably good quality
BB+	Ba1	0.78		B4	60	Moderate risk that can worsen with market conditions	Moderately good quality
BB	Ba2	1.2	Tier C	C1	55	Medium to moderate risk and generally subject to fluctuations in market conditions	Satisfactory quality
BB-	Ba3	1.7		C2	50	Generally medium risk	Reasonable quality
B+	B1	2.6		C3	45	Medium risk / more subject to market conditions	Still medium quality
B	B2	3.6		C4	40	Medium risk that can worsen with market conditions	Periodic concerns
B-	B3	5	Tier D	D1	35	High to medium risk and very subject to fluctuations in market conditions	Questionable quality
CCC+	Caa1	6.7		D2	30	Moderately high risk / increasingly at risk	Seriously questionable
CCC	Caa2	8.8		D3	25	Still high risk	Speculative
CCC-	Caa3	11		D4	20	High risk of non-payment	Very speculative
CC	Ca	14	Tier E	E1	15	High risk of failure which is unlikely to improve with better market conditions	Exceptionally poor quality
C	C	17		E2	10	Very high potential for payment default	Seriously impaired
D	D	20		E3	5	Still trading but likely under extreme pressure	Bad and doubtful
-	-	-		E4	0	Still trading but possibly insolvent	Non-performing

NOTES:

This table shows the equivalents in the rating levels for the corporate ratings scale of Rapid Ratings, Standard and Poor's, Moody's and the related estimated probabilities of default:

While we are confident that there is a reasonable degree of accuracy across the rating levels that we have aligned, the approach is not scientific and it could be argued that there are other similar or proximate alignments that might also be acceptable. The credit rating equivalents table is not intended to imply that there is any correlation between the rating system and methodology of Rapid Ratings and the rating systems and methodologies of Standard & Poor's, Moody's Investors Services, and Fitch Ratings, or that any other rating agencies would rate a company at the same level as Rapid Ratings. S&P, Moody's and Fitch are trademarks of their respective companies.

Some of Standard and Poor's ratings (AA+, A+, BBB+) are not listed but are implied and some of Moody's equivalent ratings are also not listed but are implied. While the Rapid Ratings scale appears to be linear, this is not really the case. Owing to the way the statistical distributions underlying the models for each sector have been constructed, and the sector specific-weights for each variable, companies make non-linear movements over time on Rapid Ratings' scale.

A rating below Rapid Ratings' B3 (65), or BBB- (S&P), or Baa3 (Moody's) means that the investment is sub-investment grade, or higher risk. Rapid Ratings uses the term "borderline investment grade" for companies rated between C1 55 and B4 (64) for companies which have a probability of default which is similar to the companies in the lowest investment grade ranking (B3).

APPENDIX 4: The New Generation Corporate Credit Rating System

Rapid Ratings is a new generation global corporate credit rating agency. We emphasize a more quantitative approach to the rating process by providing the market with an accurate, quick and brief assessment of a company's financial performance and position using its income statement, balance sheet and cash flow statement.

Our special point of differentiation lies in a leading-edge, industry-specific software technology, which has demonstrated an excellent track record in anticipating distress, turnaround and success. This automated and scientific credit rating process involves the following steps:

- It is composed of 24 industry-specific multivariate econometric panel data models, which are subject to continuing peer review.
- Each industry has its own analytical pyramid. At the base of the pyramid there are 62 financial ratios, each of which is weighted by its statistical significance in anticipating financial failure, distress, turnarounds or success in that industry. This weighted score is then benchmarked against global industry peers – a dataset of more than 30 years of financial data for over 10,000 companies per industry across more than a dozen countries.
- In the middle of the analytical pyramid, the ratios are clustered into 8 categories and rated: (1) leverage; (2) solvency and liquidity; (3) debt service management; (4) sales performance; (5) gross profit performance; (6) net profit before tax; (7) net operating profit after tax; (8) overall profit performance; and (9) cost structure.
- An overall credit rating and related score (out of 100) is then generated at the top of the pyramid. The ultimate rating is based on the 62 financial ratios in the subset groups.
- The overall credit rating (termed "Short-term Credit Rating") is the principal rating of a company's financial health for the current year (next 12 months from time of issue).
- The Medium-Term (MT) credit rating is designed to provide a forecast of a company's short-term credit rating over the next 2 to 3 years, if trends and current management practices continue. The Long-Term (LT) credit rating is designed to give a picture of future performance 3 to 5 years out, if trends and current management practices continue. Both the MT and LT ratings use the ST rating as their starting point.

Rapid Ratings' best predictor of distress, default, turnaround or success is its short-term credit rating. No single variable or subset group of variables used in our reports forms the sole basis of our prediction of bankruptcy or financial distress. All 62 ratios are used and each has a different weight. These weights vary across industries. The prediction method used in our medium and long-term ratings is based on weighted slope analysis across all variables.

Disclaimer

A credit rating is not a recommendation that is intended to influence a financial adviser's or investor's decision to buy, sell or hold any financial products. The rating is a statement of opinion derived objectively from the audited corporate financials about the relevant entity. This information and the related corporate ratings and analysis provided in the reports by Rapid Ratings do not represent an offer to trade in securities. The research information contained therein is an objective and independent reference source and not a substitute for your own judgment. As far as Rapid Ratings is aware, all of its reports are based on reliable data and information, but Rapid Ratings has not verified this or obtained an independent verification to this effect. Rapid Ratings provides no guarantee with respect to accuracy or completeness of the data relied upon, nor the conclusions derived from the data. Each rating is a relative, probabilistic assessment of the credit risk of the relevant entity and its potential to meet financial obligations. It is not a statement that default will occur given that circumstances change and management can adopt new strategies. Reports have been prepared at the request of, and for the purpose of, the subscribers to our credit rating service only, and neither Rapid Ratings nor any of our employees accept any responsibility on any ground whatsoever, including liability in negligence, to any other person. Finally, Rapid Ratings and its employees accept no liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings and rating research in any way whatsoever, unless Rapid Ratings is negligent in misinterpreting or manipulating the data, in which case, our maximum liability to our client is the amount of our fee for the report.

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Rapid Ratings' Corporate Rating Report on BALCHEM CORP for the financial year ending Dec 31, 2005

Company ID: 163342

Report Instance ID: 237034