SENSIENT TECHNOLOGIES CORP
Form 10-Q
November 05, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended: September 30, 2010

OR

o **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: 1-7626

SENSIENT TECHNOLOGIES CORPORATION

(Exact name of registrant as specified in its charter)

Wisconsin	39-0561070
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

777 East Wisconsin Avenue, Milwaukee, Wisconsin 53202-5304

(Address of principal executive offices)

Registrant s telephone number, including area code: (414) 271-6755

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 for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for at least the past 90 days. Yes þ No o

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

Yes þ No o

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 þ Accelerated filer o Non-accelerated filer o Smaller reporting company o
(Do not check if a 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 o No þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	Outstanding at October 31, 2010
Common Stock, par value $0.10 per share	49,694,279

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SENSIENT TECHNOLOGIES CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS
(In thousands except per share amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenue	$ 340,868	$ 303,179	$ 988,913	$ 889,962
Cost of products sold	234,592	210,103	682,730	615,666
Selling and administrative expenses	58,516	54,104	172,622	153,683
Operating income	47,760	38,972	133,561	120,613
Interest expense	5,224	5,483	15,490	18,379
Earnings before income taxes	42,536	33,489	118,071	102,234
Income taxes	13,319	10,660	36,702	31,979
Net earnings	$ 29,217	$ 22,829	$ 81,369	$ 70,255
Average number of common shares outstanding:				
Basic	49,277	48,447	49,051	48,299
Diluted	49,565	48,750	49,352	48,553
Earnings per common share:				
Basic	$ .59	$ .47	$ 1.66	$ 1.45
Diluted	$ .59	$ .47	$ 1.65	$ 1.45
Dividends per common share	$ .20	$ .19	$ .59	$ .57

See accompanying notes to consolidated condensed financial statements.

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SENSIENT TECHNOLOGIES CORPORATION
CONSOLIDATED CONDENSED BALANCE SHEETS
(In thousands)

	September 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 12,406	$ 12,219
Trade accounts receivable, net	229,183	200,186
Inventories	393,362	390,011
Prepaid expenses and other current assets	43,390	55,693
TOTAL CURRENT ASSETS	678,341	658,109
OTHER ASSETS	34,990	38,349
INTANGIBLE ASSETS, NET	13,302	13,621
GOODWILL	446,951	455,995
PROPERTY, PLANT AND EQUIPMENT:		
Land	49,087	49,429
Buildings	289,732	293,200
Machinery and equipment	634,218	630,420
Construction in progress	33,052	20,211
	1,006,089	993,260
Less accumulated depreciation	(587,255)	(567,643)
	418,834	425,617
TOTAL ASSETS	$ 1,592,418	$ 1,591,691
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Trade accounts payable	$ 98,736	$ 88,915
Accrued salaries, wages and withholdings from employees	25,770	22,568
Other accrued expenses	54,167	64,789
Income taxes	7,748	692

Short-term borrowings	26,651	39,181
TOTAL CURRENT LIABILITIES	213,072	216,145
OTHER LIABILITIES	27,054	27,203
ACCRUED EMPLOYEE AND RETIREE BENEFITS	53,308	50,796
LONG-TERM DEBT	333,625	388,852
SHAREHOLDERS EQUITY:		
Common stock	5,396	5,396
Additional paid-in capital	89,482	85,504
Earnings reinvested in the business	975,260	922,963
Treasury stock, at cost	(92,327)	(103,878)
Accumulated other comprehensive loss	(12,452)	(1,290)
TOTAL SHAREHOLDERS EQUITY	965,359	908,695
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 1,592,418	$ 1,591,691

See accompanying notes to consolidated condensed financial statements.

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SENSIENT TECHNOLOGIES CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2010	2009
Net cash provided by operating activities	$ 110,545	$ 98,583
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(33,024)	(30,933)
Proceeds from sale of assets	88	4
Other investing activities	408	(615)
Net cash used in investing activities	(32,528)	(31,544)
Cash flows from financing activities:		
Proceeds from additional borrowings	128,671	216,608
Debt payments	(190,574)	(256,991)
Dividends paid	(29,072)	(27,743)
Proceeds from options exercised and other equity transactions	13,414	8,452
Net cash used in financing activities	(77,561)	(59,674)
Effect of exchange rate changes on cash and cash equivalents	(269)	(4,785)
Net increase in cash and cash equivalents	187	2,580
Cash and cash equivalents at beginning of period	12,219	8,498
Cash and cash equivalents at end of period	$ 12,406	$ 11,078

See accompanying notes to consolidated condensed financial statements.

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SENSIENT TECHNOLOGIES CORPORATION
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)

1. Accounting Policies

In the opinion of Sensient Technologies Corporation (the Company), the accompanying unaudited consolidated condensed financial statements contain all adjustments (consisting of only normal recurring adjustments) which are necessary to present fairly the financial position of the Company as of September 30, 2010 and December 31, 2009, the results of operations for the three and nine months ended September 30, 2010 and 2009, and cash flows for the nine months ended September 30, 2010 and 2009. The results of operations for any interim period are not necessarily indicative of the results to be expected for the full year.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Expenses are charged to operations in the year incurred. However, for interim reporting purposes, certain expenses are charged to operations based on a proportionate share of estimated annual amounts rather than as they are actually incurred.

Refer to the notes in the Company s annual consolidated financial statements for the year ended December 31, 2009, for additional details of the Company s financial condition and a description of the Company s accounting policies, which have been continued without change.

2. Fair Value

Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, defines fair value for financial assets and liabilities, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. As of September 30, 2010 and December 31, 2009, the Company s only assets and liabilities subject to this standard are forward exchange contracts and investments in a money market fund and municipal bonds. The fair value of the forward exchange contracts based on current pricing obtained for comparable derivative products (Level 2 inputs) at September 30, 2010 and December 31, 2009, was an asset of $0.1 million and a liability of $0.3 million, respectively. The fair value of the investments based on September 30, 2010 and December 31, 2009, market quotes (Level 1 inputs) was an asset of $13.7 million and $13.5 million, respectively.

The carrying values of the Company s cash and cash equivalents, trade accounts receivable, accounts payable, accrued expenses and short term borrowings approximated fair values as of September 30, 2010. The fair value of the Company s long-term debt, including current maturities, is estimated using discounted cash flows based on the Company s current incremental borrowing rates for similar types of borrowing arrangements. The carrying value of the long-term debt at September 30, 2010 was $333.6 million. The fair value of the long-term debt at September 30, 2010 was $346.4 million.

3. Debt

In November 2009, the Company entered into an agreement to issue U.S. dollar denominated debt totaling $110 million through a private placement of notes with a group of four financial institutions. These notes were issued on May 3, 2010, and have a fixed coupon rate of 4.91% with a final maturity date of May 3, 2017. Proceeds from the sale of the notes have been used to repay existing indebtedness and for general corporate purposes.

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4. Segment Information

Operating results by segment for the periods and at the dates presented are as follows:

(In thousands)	Flavors & Fragrances	Color	Corporate & Other	Consolidated
Three months ended September 30, 2010:				
Revenue from external customers	$ 201,571	$ 109,331	$ 29,966	$ 340,868
Intersegment revenue	5,633	3,919	1,007	10,559
Total revenue	$ 207,204	$ 113,250	$ 30,973	$ 351,427
Operating income (loss)	$ 32,150	$ 20,036	$ (4,426)	$ 47,760
Interest expense			5,224	5,224
Earnings (loss) before income taxes	$ 32,150	$ 20,036	$ (9,650)	$ 42,536
Three months ended September 30, 2009:				
Revenue from external customers	$ 189,996	$ 90,261	$ 22,922	$ 303,179
Intersegment revenue	4,809	3,899	369	9,077
Total revenue	$ 194,805	$ 94,160	$ 23,291	$ 312,256
Operating income (loss)	$ 30,678	$ 14,573	$ (6,279)	$ 38,972
Interest expense			5,483	5,483
Earnings (loss) before income taxes	$ 30,678	$ 14,573	$ (11,762)	$ 33,489

(In thousands)	Flavors & Fragrances	Color	Corporate & Other	Consolidated
Nine months ended September 30, 2010:				
Revenue from external customers	$ 586,529	$ 321,769	$ 80,615	$ 988,913
Intersegment revenue	16,424	12,416	1,730	30,570
Total revenue	$ 602,953	$ 334,185	$ 82,345	$ 1,019,483
Operating income (loss)	$ 92,557	$ 59,024	$ (18,020)	$ 133,561
Interest expense			15,490	15,490
Earnings (loss) before income taxes	$ 92,557	$ 59,024	$ (33,510)	$ 118,071
Nine months ended September 30, 2009:				
Revenue from external customers	$ 564,383	$ 263,243	$ 62,336	$ 889,962
Intersegment revenue	12,525	11,731	843	25,099

Total revenue	$ 576,908	$ 274,974	$ 63,179	$ 915,061
Operating income (loss)	$ 94,884	$ 43,305	$ (17,576)	$ 120,613
Interest expense			18,379	18,379
Earnings (loss) before income taxes	$ 94,884	$ 43,305	$ (35,955)	$ 102,234

5. Inventories

At September 30, 2010 and December 31, 2009, inventories included finished and in-process products totaling $270.4 million and $275.5 million, respectively, and raw materials and supplies of $123.0 million and $114.5 million, respectively.

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6. Retirement Plans

The Company s components of annual benefit cost for the defined benefit plans for the periods presented are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2010	2009	2010	2009
Service cost	$ 473	$ 321	$ 1,417	$ 936
Interest cost	720	860	2,147	2,330
Expected return on plan assets	(332)	(353)	(986)	(875)
Amortization of prior service cost	753	457	2,259	1,368
Amortization of actuarial loss	118	66	354	168
Defined benefit expense	$ 1,732	$ 1,351	$ 5,191	$ 3,927

During the three and nine months ended September 30, 2010, the Company made contributions to its defined benefit pension plans of $1.0 million and $2.9 million, respectively. Total contributions to Company defined benefit pension plans are expected to be $3.9 million in 2010.

7. Comprehensive Income

Comprehensive income is comprised of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2010	2009	2010	2009
Net earnings	$ 29,217	$ 22,829	$ 81,369	$ 70,255
Currency translation adjustments	61,110	17,590	(11,441)	37,274
Net unrealized gain (loss) on cash flow hedges	390	(178)	279	(118)
Net comprehensive income	$ 90,717	$ 40,241	$ 70,207	$ 107,411

8. Cash Flows from Operating Activities

Cash flows from operating activities are detailed below:

	Nine Months Ended September 30,	
(In thousands)	2010	2009
Cash flows from operating activities:		
Net earnings	$ 81,369	$ 70,255
Adjustments to arrive at net cash provided by operating activities:		
Depreciation and amortization	32,774	31,458
Share-based compensation	1,557	1,087
Loss on assets	1,037	1,596
Deferred income taxes	5,848	1,847
Changes in operating assets and liabilities	(12,040)	(7,660)

Net cash provided by operating activities	$ 110,545	$ 98,583

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9. Derivative Instruments and Hedging Activity

The Company may use derivative instruments for the purpose of hedging currency, commodity and interest rate exposures, which exist as part of ongoing business operations. As a policy, the Company does not engage in speculative or leveraged transactions, nor does the Company hold or issue financial instruments for trading purposes. Hedge effectiveness is determined by how closely the changes in the fair value of the hedging instrument offset the changes in the fair value or cash flows of the hedged transaction. Hedge accounting, which generally results in the deferral of derivative gains and losses until such time as the underlying transaction is recognized in net earnings, is permitted only if the hedging relationship is expected to be highly effective at the inception of the transaction and on an ongoing basis. Any ineffective portions are recognized in earnings immediately.

The Company manages its exposure to foreign exchange risk by the use of forward exchange contracts and foreign currency denominated debt to reduce the effect of fluctuating foreign currencies on short-term foreign currency denominated intercompany transactions, non-functional currency raw material purchases, non-functional currency sales and other known foreign currency exposures. These derivatives may or may not be designated as hedges under ASC 815, *Derivatives and Hedging.* These forward exchange contracts have maturities of less than twelve months. The Company s primary hedging activities and their accounting treatment are summarized below:

Forward contracts designated as cash flow hedges The forward exchange contracts that have been designated as hedges are accounted for as cash flow hedges. The Company had $11.6 million and $6.3 million of forward exchange contracts, designated as hedges, outstanding as of September 30, 2010 and December 31, 2009, respectively. The fair values of these forward exchange contracts at September 30, 2010 and December 31, 2009, were an asset of $0.1 million and a liability of $0.1 million, respectively, classified in Other Assets and Other Liabilities in the Company s Consolidated Balance Sheets. The gains or losses on these instruments are deferred in accumulated other comprehensive income (OCI) until the underlying transaction is recognized in net earnings. As of September 30, 2010 and December 31, 2009, a gain of $0.1 million and a loss of $0.2 million were deferred in OCI in the Company s Consolidated Balance Sheets, respectively. For the quarters ended September 30, 2010 and 2009, losses of $0.1 million and $0.02 million, respectively, were reclassified into earnings in the Company s Consolidated Statement of Earnings which offset the earnings impact of the related non-functional asset or liability that was hedged in each of the same periods. For the nine months ended September 30, 2010 and 2009, gains of $0.1 million and $1.2 million, respectively, were reclassified into earnings in the Company s Consolidated Statement of Earnings which offset the earnings impact of the related non-functional asset or liability that was hedged in each of the same periods. Over the next twelve months, the Company expects to reclassify a gain of $0.1 million from OCI into net earnings.

Forward contracts not designated as cash flow hedges - The Company also utilizes forward exchange contracts that are not designated as cash flow hedges under ASC 815. These contracts are marked-to-market in net earnings immediately, at the same time as the non-functional asset or liability is marked-to-market in net earnings. The results of these transactions are not material to the financial statements.

Net investment hedges The Company has certain debt denominated in Euros and Swiss Francs. These debt instruments have been designated as partial hedges of the Company s Euro and Swiss Franc net asset positions. Changes in the fair value of this debt attributable to changes in the spot foreign exchange rate are recorded in foreign currency translation in OCI. As of September 30, 2010 and December 31, 2009, the total value of the Company s Euro and Swiss Franc debt was $111.6 million and $141.7 million, respectively. For the three and nine month periods ended September 30, 2010, the impact of foreign exchange rates on these debt instruments have increased the debt by $11 million and decreased the debt by $6.3 million, respectively, and these amounts have been recorded as foreign currency translation in OCI.

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10. Income Taxes

The effective income tax rates for the quarters ended September 30, 2010 and 2009 were 31.3% and 31.8%, respectively. For the nine months ended September 30, 2010 and 2009, the effective income tax rates were 31.1% and 31.3%, respectively. The effective tax rates in both 2010 and 2009 were reduced by changes in estimates associated with the finalization of prior year foreign tax items.

11. Subsequent Events

The Company performed an evaluation of subsequent events through the date these financial statements were issued.

12. Commitments and Contingencies

Environmental Matters

The Company is involved in various significant environmental matters, which are described below. The Company is also involved in other site closure and related environmental remediation and compliance activities at a manufacturing site related to a 2001 acquisition by the Company for which reserves for environmental matters were established as of the date of purchase.

In 2004, the Environmental Protection Agency (EPA) notified the Company s subsidiary Sensient Colors Inc. (Sensient Colors), formerly H. Kohnstamm & Co., that it may be a potentially responsible party (PRP) under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) for activities at the General Color Company Superfund Site in Camden, New Jersey (the Site). The Company has also been involved in a dispute with the owner of Pleasant Gardens, an apartment complex adjacent to the General Color Superfund Site, and with certain agencies of the State of New Jersey relating to the Pleasant Gardens property. From the time it was notified of these claims until late 2009, Sensient vigorously defended its interests in this litigation. Sensient pursued additional PRP s and it asserted numerous challenges to the recovery of the costs claimed in each matter. In the fourth quarter of 2009, Sensient Colors and its insurers met with the United States and the parties involved in the Pleasant Gardens dispute and ultimately agreed to a settlement in principle to resolve the matters. As a result of the proposed settlements, Sensient s results for the quarter and year ended December 31, 2009 included pre-tax charges for estimated settlement liabilities and related legal costs, net of insurance reimbursements, of approximately $11.3 million. Additional information on these matters is included in Part II, Item I of this filing.

Since December 31, 2009, the Company has made payments and received all insurance reimbursements related to the Superfund and Pleasant Gardens claims discussed above. As of September 30, 2010, total liabilities related to these and other environmental matters are estimated to be between $1.1 million and $2.2 million. As of September 30, 2010, the Company has an accrual of $2.0 million related to environmental matters. This accrual represents management s best estimate of these liabilities; however, the actual amounts may be different than the levels reserved or estimated, in which case the Company would need to recognize the difference in earnings in later periods. There can be no assurance that additional environmental matters will not arise in the future.

Commercial Litigation

Cherry Blossom Litigation

In June 2009, Sensient sued one of its product vendors, Cherry Blossom LLC (Cherry Blossom), a supplier of processed cherry products in Michigan, when Cherry Blossom prepared to close its facility and refused to return to Sensient raw cherries to which Sensient held title. Sensient sued for conversion, breach of contract, possession of the cherries, and money damages of approximately $0.5 million. Cherry Blossom and its lender opposed the claim.

Cherry Blossom counter-claimed against Sensient, primarily relating to ownership of certain cherry processing formulas. Sensient sold Cherry Blossom certain materials containing formulas used in the processing of cherries. Cherry Blossom claims it has an exclusive right to use Sensient s formulas. On June 22, 2009, Cherry Blossom moved for an injunction to prohibit Sensient from using its cherry processing formulas. The Court denied that motion.

Crossroads Debt, LLC (Crossroads), a secured lender to Cherry Blossom, intervened in the case and asserted multiple claims against Cherry Blossom related to Cherry Blossom s $1.4 million debt to Crossroads. Crossroads also asserted cross-claims against Sensient related to offsets Sensient took against its payments to Cherry Blossom for the processed cherry product Sensient purchased from Cherry Blossom.

Under Sensient s contract with Cherry Blossom, Cherry Blossom would purchase Sensient s raw cherries for use in making finished cherry product. Sensient then purchased the finished product from Cherry Blossom at a purchase price reduced by setoffs for the amount Cherry Blossom owed Sensient for raw cherries. Eventually, Cherry Blossom directed Sensient to make payments directly to Crossroads, which Sensient did for about seven months, until Cherry Blossom ceased operations.

At a mediation on March 24, 2010, Crossroads claimed for the first time that because Sensient paid for the finished cherry product by offsetting antecedent debt, Sensient was not a buyer in the ordinary course of business as defined by the Uniform Commercial Code. As a result, Crossroads claimed that Sensient was not entitled to take such offsets because Crossroads claimed it had a perfected senior lien on the offset funds. Crossroads sought the imposition of a constructive trust over $1.4 million of such funds and a judgment requiring their return by Sensient. The total exposure could have exceeded this amount due to interest.

In addition, Sensient asserted indemnification claims against Crossroads related to a US Department of Labor hot goods issue. The US Department of Labor prohibited Sensient from selling in interstate commerce cherries made by Cherry Blossom s employees and for which Sensient had paid Cherry Blossom because Cherry Blossom failed to pay its employees their wages earned when they processed the cherries.

Crossroads moved for summary disposition on April 12, 2010, based on the Uniform Commercial Code argument it raised at mediation on March 24, 2010. Sensient opposed the motion and argued that Sensient was entitled to summary disposition, not Crossroads. At a hearing on the motion, the Court ruled in Sensient s favor, dismissing all of Crossroads claims against Sensient.

On May 27, 2010, Cherry Blossom filed a bankruptcy petition in U.S. Bankruptcy Court for the Western District of Michigan. Such filing triggered an automatic stay of all litigation pending against Cherry Blossom, including the instant case. The state Court determined that the automatic stay in Cherry Blossom s bankruptcy case did not prevent it from signing the order granting Sensient summary judgment disposing of Crossroads claims in Sensient s favor. The Court also decided that the bankruptcy filing stayed indefinitely the remaining claims regarding possession of the cherries, hot goods, and returned goods.

The bankruptcy trustee stipulated to lift the stay as to the issue of possession of the 2006 cherries, and on September 7, 2010, the Michigan state Court lifted the administrative stay over the three remaining issues: (1) Sensient s claim for reimbursement from Crossroads in connection with the U.S. Department of Labor hot goods issue described above; (2) Sensient s claim for reimbursement from Crossroads for certain returned goods; and (3) ownership of the 2006 cherry inventory. The Court accepted the parties stipulation that these three issues could be resolved on briefs and set a schedule accordingly. The Court ordered the parties to file simultaneously opening briefs on October 1, 2010, and file simultaneously reply briefs on October 8, 2010. The Court has scheduled a hearing for December 6, 2010 for oral argument on these remaining issues. Following oral argument, the Court will decide whether it needs to conduct an evidentiary hearing to resolve any remaining factual disputes or if the remaining three issues can be resolved based upon the submitted briefs and oral argument.

On October 1, 2010, Cherry Blossom moved the Court to approve its sale of the unfinished cherry inventory and finished cherry product to Northpoint LLC. Crossroads and Sensient opposed Cherry Blossom s motion for two reasons. First, Cherry Blossom had no interest in the inventory and product. Second, Crossroads had already entered into an agreement to sell the inventory and product to Leelanau Fruit Company. The proceeds of the sale to Leelanau will be deposited with the Court and then paid to either Crossroads or Sensient following the Court s determination as to who has a superior interest in the subject inventory and product. Crossroads, in turn, moved the Court for an order allowing Crossroads and Leelanau to inspect the inventory and product so that the sale to Leelanau may proceed. The Court heard Cherry Blossom s and Crossroad s competing motions on November 1,

2010. The Court denied Cherry Blossom s motion and granted Crossroad s motion. The unfinished cherry inventory and finished cherry product is now scheduled to be sold to Leelanau.

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S.A.M. (Amaral) v. Sensient Technologies Corp., et al.

On August 5, 2010, the owners and operators of a 135-acre vineyard near the dehydration facility formerly operated by Sensient Dehydrated Flavors, LLC (SDF) in Greenfield, California filed a lawsuit in California state court in Monterey, California. The lawsuit names as defendants both Sensient Technologies Corporation (Sensient) and SDF and a response to the complaint was filed on October 1. The suit sets out claims for nuisance per se, trespass and negligence per se and alleges almost a million dollars in losses plus punitive damages, all based on the fact that, between the summer of 2007 and early October, 2009, SDF was processing onions that allegedly caused an onion taint in the grapes and wine produced from the plaintiffs vineyard. While SDF had an air permit covering its operations, its Monterey County use permit specifically named only chili peppers, celery and parsley, but not onions, as commodities that could be dehydrated at the Greenfield facility. SDF s effort to modify the Greenfield facility s use permit to specifically include the processing of onions was blocked by local vineyard owners, and SDF has since closed its Greenfield facility and consolidated its onion dehydration operations at its fully-permitted and more efficient facility at Livingston, California.

This lawsuit follows an earlier lawsuit (*J. Lohr Vineyards and Wines v. Sensient Technologies*) (the Lohr lawsuit) brought by a larger, adjacent landowner. The Lohr lawsuit was settled in December, 2009, with an agreement that included SDF s abandonment of onion processing at its Greenfield facility but did not require the payment of any settlement amount to Lohr despite Lohr s substantial damage claims. The S.A.M. plaintiffs have essentially copied, and seek to rely upon, the factual allegations and expert analyses developed in the Lohr lawsuit before a settlement was reached. The S.A.M. plaintiffs will not, however, be receiving any assistance from Lohr. Sensient and SDF believe the S.A.M. plaintiffs claims are without merit and intend to pursue a vigorous defense. No trial date has been set yet in this case.

The Company is involved in various other claims and litigation arising in the normal course of business. In the judgment of management, which relies in part on information from Company counsel, the ultimate resolution of these actions will not materially affect the consolidated financial statements of the Company except as described above.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Revenue for the third quarter of 2010 was $340.9 million, an increase of 12.4% from $303.2 million recorded in the prior year s third quarter. For the nine months ended September 30, 2010, revenue was $988.9 million, an increase of 11.1% from $890.0 million reported in the prior year s period. The impact of foreign exchange rates decreased consolidated revenue by 1.5% in the quarter ended September 30, 2010, and increased revenue by 1.2% in the nine-month period. Revenue for the Flavors & Fragrances segment increased 6.4% and 4.5% for the three and nine months ended September 30, 2010, respectively, from the comparable periods last year. Color segment revenue increased 20.3% and 21.5% for the quarter and nine months ended September 30, 2010, respectively, from the comparable periods last year. Corporate and Other revenue increased 33.0% and 30.3% for the three and nine months ended September 30, 2010, respectively, from the comparable periods last year. Additional information on group results can be found in the Segment Information section.

The gross profit margin increased 50 basis points to 31.2% for the quarter ended September 30, 2010, from 30.7% for the same period in 2009. Gross profit margin was increased by higher selling prices in certain products that more than offset higher raw material costs for those products. Gross profit margin also benefited from favorable product mix. For the nine months ended September 30, 2010, the gross profit margin increased 20 basis points to 31.0% from 30.8% in the comparable period in 2009. The increase was primarily driven by favorable product mix and the impact of higher volumes partially offset by lower selling prices in advance of lower raw material costs for certain dehydrated flavors.

Selling and administrative expenses as a percent of revenue were 17.2% and 17.8% in the quarters ended September 30, 2010 and 2009, respectively. The decrease was primarily due to insurance proceeds received in the quarter related to the prior year environmental litigation and the impact of higher revenue in the current quarter. For the nine months ended September 30, 2010 and 2009, selling and administrative expenses as a percent of revenue were 17.5% and 17.3%, respectively. Higher employee costs, including increases in sales and technical staff, combined with higher performance based compensation, were the primary drivers of the increase, partially reduced by the insurance proceeds mentioned above.

Third quarter operating income increased 22.5% to $47.8 million from $39.0 million reported in the prior year quarter. Operating income increased 10.7% to $133.6 million for the nine months ended September 30, 2010, from $120.6 million in the comparable period of 2009. The impact of foreign exchange rates decreased operating income by 0.8% in the quarter ended September 30, 2010, and increased operating income by 1.8% for the first nine months of 2010. Insurance proceeds related to the prior year environmental litigation received in the current quarter increased operating profit by 3.7% and 1.2%, respectively, for the quarter and nine months ended September 30, 2010. The change in operating income was due to the revenue, gross profit margin and expense changes discussed above. Additional information can be found in the Segment Information section.

Interest expense for the third quarter of 2010 decreased 4.7% to $5.2 million from $5.5 million in the prior year s quarter. Interest expense was $15.5 million and $18.4 million for the nine months ended September 30, 2010 and 2009, respectively. Average debt balances outstanding were lower in both the quarter and nine month period. In the third quarter of 2010, interest rates were slightly higher than the comparable period last year and for the nine months ended September 30, 2010, were comparable with the prior year period.

The effective income tax rates were 31.3% and 31.8% for the quarters ended September 30, 2010 and 2009, respectively. The effective income tax rates were 31.1% and 31.3% for the nine months ended September 30, 2010 and 2009, respectively. The effective tax rates in both 2010 and 2009 were reduced by changes in estimates associated with the finalization of prior year foreign tax items. The Company expects the effective tax rate for the remainder of 2010 to be 33.0%, excluding the income tax expense or benefit related to discrete items, which will be reported separately in the quarter in which they occur.

SEGMENT INFORMATION

Flavors & Fragrances

Revenue for the Flavors & Fragrances segment in the third quarter of 2010 was $207.2 million, an increase of 6.4% from $194.8 million reported in last year s third quarter. The increase was primarily due to higher revenue in North America ($12.2 million) and Europe ($4.4 million). These items were partially offset by the unfavorable impact of foreign exchange rates ($4.1 million). The increased revenue in North America was primarily related to higher volumes partially reduced by lower selling prices. The lower selling prices were primarily due to downward selling price adjustments for dehydrated flavors due to lower raw material costs. The higher revenue in Europe was primarily due to the impact of higher volumes and increased selling prices.

For the quarter ended September 30, 2010, operating income increased 4.8% to $32.2 million from $30.7 million in the comparable quarter in 2009. The increase was primarily attributable to Latin America ($0.8 million), North America ($0.4 million) and Europe ($0.4 million). The higher profit in Latin America was primarily due to lower raw material costs and improved selling prices. The increased profit in North America was primarily related to higher volume. The increased profit in Europe was primarily due to higher selling prices. Operating income as a percent of revenue was 15.5% and 15.7% for the third quarters of 2010 and 2009, respectively.

For the nine months ended September 30, 2010, revenue for the Flavors & Fragrances segment was up 4.5% to $603.0 million from $576.9 million in the prior year period. The increase in revenue was primarily due to higher revenue in Europe ($12.3 million) and North America ($9.7 million) and the favorable impact of exchange rates ($3.9 million). The increased revenue in North America was primarily due to higher volumes partially offset by lower selling prices. The lower selling prices were primarily due to downward selling price adjustments for dehydrated flavors due to lower raw material costs. The higher revenue in Europe was primarily due to increased volumes and selling prices.

Operating income was $92.6 million and $94.9 million for the nine months ended September 30, 2010 and 2009, respectively. The decrease in operating income was primarily related to lower profit in North America ($6.3 million) partially offset by higher profit in Europe ($1.5 million) and Latin America ($0.9 million). The favorable impact of exchange rates increased operating profit by $1.6 million. The decrease in North America was primarily due to the lower selling prices in advance of lower raw material costs partially offset by the impact of higher volume. The higher profit in Europe was primarily due to increased volumes and selling prices combined with lower raw material costs. The higher profit in Latin America was primarily due to higher selling prices and lower raw material costs.

Color

Revenue for the Color segment in the third quarter of 2010 increased 20.3% to $113.3 million from $94.2 million reported in the prior year s third quarter. The increase in revenue was primarily due to higher sales of food and beverage colors ($12.3 million) and non-food colors ($9.0 million) partially reduced by the unfavorable impact of exchange rates ($2.2 million). The higher sales of food and beverage colors were primarily due to higher volumes and an increase in selling prices. The higher sales of non-food colors were primarily due to increased volumes.

Operating income for the quarter ended September 30, 2010, was $20.0 million, an increase of 37.5% from the $14.6 million reported in the comparable period last year. The increase was primarily due to higher profit on sales of food and beverage colors ($3.1 million) and non-food colors ($2.8 million) partially reduced by the unfavorable impact of exchange rates ($0.5 million). The higher profits on sales of food and beverage colors and non-food colors were primarily driven by the increased revenue discussed above. The higher selling prices of food and beverage colors more than offset the increase in raw material costs in certain of its products. Operating income as a percent of revenue increased 220 basis points to 17.7% from 15.5% in the prior year s quarter.

The Color Group revenue increased 21.5% to $334.2 million for the nine months ended September 30, 2010, from $275.0 million in the comparable period of 2009. The increase was due to higher sales of food and beverage colors ($31.0 million) and non-food colors ($26.5 million) combined with the favorable impact of foreign exchange rates ($1.6 million). The increase in sales of food and beverage colors was due to both higher volumes and selling prices. The higher sales of non-food colors were primarily due to increased volumes.

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Operating income was $59.0 million for the first nine months of 2010, an increase of 36.3% from $43.3 million reported for the first nine months of 2009. The increase was due to the higher profit on sales of food and beverage colors ($10.2 million) and higher profit in non-food colors ($5.5 million). The higher profits on sales of food and beverage colors and non-food colors were primarily due to the higher revenue discussed above. Operating income as a percent of revenue was 17.7%, an increase of 200 basis points from 15.7% in the prior year s first nine months.

LIQUIDITY AND FINANCIAL CONDITION

The Company s ratio of debt to total capital improved to 27.2% as of September 30, 2010, from 32.0% as of December 31, 2009. The improvement was due to lower outstanding debt balances and higher equity.

Net cash provided by operating activities was $110.5 million for the nine months ended September 30, 2010, compared to $98.6 million for the comparable period last year. The increase in cash provided by operating activities was primarily due to higher earnings in the first nine months of 2010 compared to the same period in 2009.

Net cash used in investing activities was $32.5 million and $31.5 million for the nine months ended September 30, 2010 and 2009, respectively. Capital expenditures were $33.0 million and $30.9 million for the year-to-date periods ended September 30, 2010 and 2009, respectively.

Net cash used in financing activities was $77.6 million in the first nine months of 2010 and $59.7 million in the comparable period of 2009, primarily related to higher net repayments on debt in the first nine months of 2010 due to the higher cash provided by operating activities. In the first nine months of 2010, net repayments on debt were $61.9 million compared to $40.4 million for the first nine months of 2009. For purposes of the cash flow statement, net changes in debt exclude the impact of foreign exchange rates. Dividends of $29.1 million and $27.7 million were paid during the nine months ended September 30, 2010 and 2009, respectively, reflecting the Company s higher dividend of $0.59 per share in the first nine months of 2010 compared to $0.57 per share in the same period in 2009. In the first nine months of 2010 and 2009, the Company s cash provided from operations was able to fund capital expenditures, pay dividends and reduce outstanding debt.

The Company s financial position remains strong. The Company issued $110 million of notes on May 3, 2010. The proceeds from the new debt agreement have been used to refinance existing debt and for general corporate purposes. The Company expects that its cash flows from operations and existing lines of credit can be used to meet future cash requirements for operations, capital expenditures and dividend payments to shareholders. The Company is in compliance with all of its loan covenants as of September 30, 2010.

The Company completed its annual goodwill impairment test under ASC 350, *Intangibles Goodwill and Other*, in the third quarter of 2010. In conducting its annual test for impairment, the Company estimates the fair value for each of its reporting units and compares each of these values to the net book value of each reporting unit. Fair value is estimated using both a discounted cash flow analysis and an analysis of comparable company market values. If the fair value of a reporting unit exceeds its net book value, no impairment exists. The Company has three reporting units that were tested for impairment. The Flavors and Fragrances reporting unit and the Asia Pacific reporting unit have fair values that were over 100% above their respective net book values. The Color reporting unit has a fair value that is over 30% above its net book value.

CONTRACTUAL OBLIGATIONS

There have been no material changes in the Company s contractual obligations during the quarter ended September 30, 2010. For additional information about contractual obligations, refer to pages 23 and 24 of the Company s 2009 Annual Report, portions of which were filed as Exhibit 13.1 to the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

OFF-BALANCE SHEET ARRANGEMENTS

The Company had no off-balance sheet arrangements as of September 30, 2010.

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CRITICAL ACCOUNTING POLICIES

There have been no material changes in the Company s critical accounting policies during the quarter ended September 30, 2010. For additional information about critical accounting policies, refer to pages 21 and 22 of the Company s 2009 Annual Report, portions of which were filed as Exhibit 13.1 to the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in the Company s exposure to market risk during the quarter ended September 30, 2010. For additional information about market risk, refer to pages 22 and 23 of the Company s 2009 Annual Report, portions of which were filed as Exhibit 13.1 to the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures: The Company carried out an evaluation, under the supervision and with the participation of management, including the Company s Chairman and Chief Executive Officer and its Senior Vice President and Chief Financial Officer, of the effectiveness, as of the end of the period covered by this report, of the design and operation of the disclosure controls and procedures, as defined in Rule 13a-15(e) of the Exchange Act of 1934. Based upon that evaluation, the Company s Chairman and Chief Executive Officer and its Senior Vice President and Chief Financial Officer have concluded that the disclosure controls and procedures were effective as of the end of the period covered by this report.

Change in Internal Control Over Financial Reporting: There has been no change in the Company s internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) during the Company s most recent quarter that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements that reflect management s current assumptions and estimates of future economic circumstances, industry conditions, Company performance and financial results. Forward-looking statements include statements in the future tense, statements referring to any period after September 30, 2010, and statements including the terms expect, believe, anticipate and other similar terms that express expectations as to future events or conditions. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for such forward-looking statements. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors that could cause actual events to differ materially from those expressed in those statements. A variety of factors could cause the Company s actual results and experience to differ materially from the anticipated results. These factors and assumptions include the pace and nature of new product introductions by the Company s customers; the Company s ability to successfully implement its growth strategies; the outcome of the Company s various productivity-improvement and cost-reduction efforts; changes in costs of raw materials and energy; industry and economic factors related to the Company s domestic and international business; competition from other suppliers of colors, flavors and fragrances; growth or contraction in markets for products in which the Company competes; terminations and other changes in customer relationships; industry and customer acceptance of price increases; currency exchange rate fluctuations; cost and availability of credit; results of litigation, environmental investigations or other proceedings; complications as a result of existing or future information technology system applications and hardware; the matters discussed under Item 1A of the Company s Annual Report on Form 10-K for the year ended December 31, 2009; and the matters discussed above under Item 2 including the critical accounting policies referenced therein. The Company does not undertake to publicly update or revise its forward-looking statements even if experience or future changes make it clear that any projected results expressed or implied therein will not be realized.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Superfund Claim

In July 2004, the Environmental Protection Agency (EPA) notified the Company s subsidiary Sensient Colors Inc. (Sensient Colors) that it may be a potentially responsible party (PRP) under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) for activities at the General Color Company Superfund Site in Camden, New Jersey (the Site). The EPA requested reimbursement of $10.9 million in clean-up costs, plus interest. Sensient Colors advised the EPA that the Site had been expressly excluded from the Company s 1988 stock purchase of H. Kohnstamm & Company, Inc. (now Sensient Colors). The selling shareholders had retained ownership of and liability for the Site, and some became owners of General Color Company, which continued to operate there until the mid-1990s. In a letter to the EPA in January 2005, the Company outlined legal challenges to the recoverability of certain costs and urged the EPA to pursue General Color Company and related parties. The EPA informed Sensient Colors that it was unwilling to discuss these legal challenges without prior conditions. In 2005, a private developer, Westfield Acres Urban Renewal Association II, LP, pursuant to an agreement with the EPA, began redevelopment efforts at the Site (construction of affordable housing) by demolishing buildings thereon. Thereafter, the EPA removed allegedly contaminated soil from the locations where the buildings once stood.

In March 2007, the United States filed a complaint in the U.S. District Court in New Jersey against Sensient Colors claiming over $16 million in response costs allegedly incurred and to be incurred by the EPA pursuant to CERCLA. Sensient Colors moved to dismiss the United States complaint, which motion was denied by the Court in October 2007. Sensient Colors timely filed its answer and affirmative defenses to the United States complaint, as well as a third-party complaint against current and former owners and/or operators of the Site. The United States moved to strike Sensient Colors affirmative defenses. In an August 12, 2008 Opinion and Order, following briefs and oral argument, the Court partly granted and partly denied the United States motion, effectively preserving most of Sensient Colors affirmative defenses, either as originally pled or with changes outlined by the Court. Sensient Colors promptly filed an amended pleading incorporating the revised affirmative defenses. On July 29, 2008, Sensient Colors filed a third-party complaint adding Kohnstamm Inc. (a Canadian affiliate of General Color Company) and its president Avtar Singh as defendants.

In late August 2008, in the course of reviewing documents produced by the EPA, Sensient Colors discovered an e-mail exchange between EPA officials that Sensient Colors believes supports many of the legal theories and affirmative defenses advanced by Sensient Colors in the litigation and undermines key United States cost recovery claims. By letter dated August 26, 2008, based on the above document and other evidence adduced in the case, Sensient Colors demanded that the United States dismiss its case with prejudice and reimburse Sensient Colors for attorneys fees and costs incurred. In response to the August 26, 2008 letter, the United States withdrew, without prejudice, its then-pending motion to limit the scope of review to EPA s administrative record and told the Court that it would respond to Sensient s letter by September 10, 2008. The United States then sought additional time for its review of Sensient Colors demand. In an October 3, 2008 Letter Order, the Court directed the United States to provide Sensient with notice of its decision with respect to the demand for dismissal by October 31, 2008. In a letter to Sensient Colors dated October 31, 2008, the United States declined to voluntarily dismiss the case but agreed, with certain conditions, not to oppose depositions of current and former EPA employees on the issues raised in Sensient Colors letter of August 26, 2008. The United States reserved its rights to seek limitations on discovery and to seek to limit review of EPA s choice of response action to the administrative record.

Using the evidence that supports its demand for dismissal, Sensient Colors moved for leave to amend its responsive pleading to include a new affirmative defense, a counterclaim against the United States and the EPA, and third-party claims against certain EPA employees or agents. After briefing, the motion for leave to amend was argued before the magistrate judge on November 18, 2008. On February 13, 2009, the magistrate issued an opinion and order denying Sensient Colors motion for leave to amend. Sensient Colors appealed the magistrate s decision to the district court judge. On July 22, 2009, the district court judge issued a decision affirming the magistrate s opinion and order, largely on sovereign immunity grounds.

Sensient Colors also issued subpoenas or deposition notices to numerous current or former EPA officials. Motions were filed to block the depositions of former EPA Administrator Christine Todd Whitman, former EPA

Regional Administrator Jane Kenny, and EPA On-Scene Coordinator David Rosoff. On January 28, 2009, the magistrate judge issued an opinion and order denying or delaying Sensient Color s ability to conduct the foregoing depositions. Sensient Colors exercised its right to appeal the magistrate s decision to the district court judge. On July 22, 2009, the district court judge issued a decision reversing the magistrate and ordering the depositions of Kenny and Rosoff to proceed.

On May 8, 2009, Sensient Colors filed a motion for summary judgment seeking dismissal with prejudice of the United States claims.

Prior to arguing the summary judgment motion and to scheduling the depositions of the current and former EPA officials, the United States and Sensient Colors agreed to meet with each other, with the parties involved in the Pleasant Gardens dispute described below and with interested insurers to determine if a resolution short of trial was possible. The parties met and ultimately agreed to a settlement in principle to resolve the matter by specified payments among the parties and their insurers. As a result of the proposed settlements, Sensient s results for the quarter and year ended December 31, 2009 included pre-tax charges for estimated settlement liabilities and related legal costs, net of insurance reimbursements, of approximately $11.3 million. In July 2010, the U.S. District Court in New Jersey approved the consent decree with the United States. Sensient Colors and the third-party defendants settled the third-party claims, which were then dismissed by the Court pursuant to Consent Orders. On August 4, 2010, the Court closed the case.

Pleasant Gardens Realty Corp. v. H. Kohnstamm & Co., et al.

The owner of Pleasant Gardens (Property), an apartment complex adjacent to the General Color Superfund Site, filed a complaint in New Jersey state court in November 2003 against H. Kohnstamm & Co. (now Sensient Colors), the Company, General Color Company, and unknown defendants. Plaintiff sought to hold defendants liable, in an unspecified amount, for damages related to the alleged contamination of the Property. Plaintiff voluntarily dismissed the Company without prejudice. Sensient Colors filed an answer denying liability and asserting affirmative defenses. In November 2006, the Camden Redevelopment Agency (Agency) filed condemnation litigation against plaintiff (and other purported interested parties) to take the Property. Sensient Colors was not a party to the condemnation litigation. In advance of its filing, the Agency notified plaintiff that its appraiser had assessed the fair market value of the Property at $7.7 million and that its environmental consultant had estimated the costs for environmental cleanup, purportedly to meet requirements of the New Jersey Department of Environmental Protection (DEP), at $7.5 million. That amount was held in escrow pending the outcome of the lawsuit. Sensient Colors and plaintiff pursued a reduction in the scope and cost of the Agency s proposed environmental cleanup in meetings with the DEP, the Agency and another party involved in the condemnation, the New Jersey Schools Construction Corporation (NJSCC). In March 2007, plaintiff filed an amended complaint naming the Agency, the NJSCC and the DEP as additional defendants in furtherance of this effort. In April 2007, Sensient Colors filed its answer to the amended complaint, including cross claims against these newly added parties. The Agency, the DEP and the New Jersey Schools Development Authority (NJSDA) (which replaced the NJSCC as a state agency effective August 7, 2007) each filed answers, cross-claims and counter-claims; Sensient Colors has responded to all three cross-claims. Document discovery was completed in July 2008, and expert and rebuttal expert reports were exchanged.

Sensient Colors advised the Court and the other parties in this litigation of the developments in the Superfund Claim as described above. Sensient Colors took supplemental depositions of several DEP officials and served subpoenas upon five current or former EPA officials. The United States, though not a party to the Pleasant Gardens case, initially sought to quash those subpoenas before the Pleasant Gardens court. On November 17, 2008, the United States removed the subpoenas and related proceedings to federal court. At an initial court conference on the removed proceedings on February 19, 2009, the federal magistrate judge asked for additional briefing on the issue of the government s standing to seek to quash the state court subpoenas. In September 2009, the federal magistrate judge ordered that former EPA officials could be deposed but only as to individual and not official matters. Sensient Colors appealed this decision to the district court judge.

On January 8, 2009, the state court judge recused himself from the Pleasant Gardens case (as well as the related insurance coverage case) because of a conflict of interest and the Pleasant Gardens case was reassigned to another judge. In light of the recusal and reassignment, the new judge re-scheduled the trial to commence no earlier than June 1, 2009, and indicated that depending on how certain outstanding discovery issues were resolved, the trial might be deferred further. On April 20, 2009, the court further extended the pretrial schedule and set a trial date for October 5, 2009. On July 24, 2009, Sensient Colors filed a motion for summary judgment on the grounds that the DEP s proposed remedy was arbitrary and capricious. At a conference held on September 18, 2009, the state court judge ordered that discovery be completed before

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November 15, 2009, that dispositive motions be heard on December 11, 2009, and that the trial commence on February 8, 2010. The judge also ordered that mediation occur before November 15, 2009.

As described above, Sensient Colors met with the parties to the Pleasant Gardens litigation, to the Superfund claims described above and their respective insurers, and they ultimately agreed to a settlement to resolve the matter by specified payments among the parties and their insurers. As a result of the settlements, Sensient s results for the quarter and year ended December 31, 2009, included pre-tax charges for estimated settlement liabilities and related legal costs, net of insurance reimbursements, of approximately $11.3 million. The settlement of the Pleasant Gardens litigation was memorialized in a consent decree that was approved by the Superior Court of New Jersey after an opportunity for public comment. The Agency and the NJSDA have been remediating the Property with reimbursement from the funds held by the Court in escrow. Should the remediation cost less than the escrowed amount, the balance of the escrow should be paid to Sensient Colors.

Commercial Litigation

Cherry Blossom Litigation

In June 2009, Sensient sued one of its product vendors, Cherry Blossom LLC (Cherry Blossom), a supplier of processed cherry products in Michigan, when Cherry Blossom prepared to close its facility and refused to return to Sensient raw cherries to which Sensient held title. Sensient sued for conversion, breach of contract, possession of the cherries, and money damages of approximately $0.5 million. Cherry Blossom and its lender opposed the claim.

Cherry Blossom counter-claimed against Sensient, primarily relating to ownership of certain cherry processing formulas. Sensient sold Cherry Blossom certain materials containing formulas used in the processing of cherries. Cherry Blossom claims it has an exclusive right to use Sensient s formulas. On June 22, 2009, Cherry Blossom moved for an injunction to prohibit Sensient from using its cherry processing formulas. The court denied that motion.

Crossroads Debt, LLC (Crossroads), a secured lender to Cherry Blossom, intervened in the case and asserted multiple claims against Cherry Blossom related to Cherry Blossom s $1.4 million debt to Crossroads. Crossroads also asserted cross-claims against Sensient related to offsets Sensient took against its payments to Cherry Blossom for the processed cherry product Sensient purchased from Cherry Blossom.

Under Sensient s contract with Cherry Blossom, Cherry Blossom would purchase Sensient s raw cherries for use in making finished cherry product. Sensient then purchased the finished product from Cherry Blossom at a purchase price reduced by setoffs for the amount Cherry Blossom owed Sensient for raw cherries. Eventually, Cherry Blossom directed Sensient to make payments directly to Crossroads, which Sensient did for about seven months, until Cherry Blossom ceased operations.

At a mediation on March 24, 2010, Crossroads claimed for the first time that because Sensient paid for the finished cherry product by offsetting antecedent debt, Sensient was not a buyer in the ordinary course of business as defined by the Uniform Commercial Code. As a result, Crossroads claimed that Sensient was not entitled to take such offsets because Crossroads claimed it had a perfected senior lien on the offset funds. Crossroads sought the imposition of a constructive trust over $1.4 million of such funds and a judgment requiring their return by Sensient. The total exposure could have exceeded this amount due to interest.

In addition, Sensient asserted indemnification claims against Crossroads related to a US Department of Labor hot goods issue. The US Department of Labor prohibited Sensient from selling in interstate commerce cherries made by Cherry Blossom s employees and for which Sensient had paid Cherry Blossom because Cherry Blossom failed to pay its employees their wages earned when they processed the cherries.

Crossroads moved for summary disposition on April 12, 2010, based on the Uniform Commercial Code argument it raised at mediation on March 24, 2010. Sensient opposed the motion and argued that Sensient was entitled to summary disposition, not Crossroads. At a hearing on the motion, the court ruled in Sensient s favor, dismissing all of Crossroads claims against Sensient.

On May 27, 2010, Cherry Blossom filed a bankruptcy petition in U.S. Bankruptcy Court for the Western District of Michigan. Such filing triggered an automatic stay of all litigation pending against Cherry Blossom, including the instant case. The state court determined that the automatic stay in Cherry Blossom s bankruptcy case did not prevent it from signing the order granting Sensient summary judgment disposing of Crossroads claims in

Sensient s favor. The Court also decided that the bankruptcy filing stayed indefinitely the remaining claims regarding possession of the cherries, hot goods, and returned goods.

The bankruptcy trustee stipulated to lift the stay as to the issue of possession of the 2006 cherries, and on September 7, 2010, the Michigan state Court lifted the administrative stay over the three remaining issues: (1) Sensient s claim for reimbursement from Crossroads in connection with the U.S. Department of Labor hot goods issue described above; (2) Sensient s claim for reimbursement from Crossroads for certain returned goods; and (3) ownership of the 2006 cherry inventory. The Court accepted the parties stipulation that these three issues could be resolved on briefs and set a schedule accordingly. The Court ordered the parties to file simultaneously opening briefs on October 1, 2010, and file simultaneously reply briefs on October 8, 2010. The Court has scheduled a hearing for December 6, 2010 for oral argument on these remaining issues. Following oral argument, the Court will decide whether it needs to conduct an evidentiary hearing to resolve any remaining factual disputes or if the remaining three issues can be resolved based upon the submitted briefs and oral argument.

On October 1, 2010, Cherry Blossom moved the Court to approve its sale of the unfinished cherry inventory and finished cherry product to Northpoint LLC. Crossroads and Sensient opposed Cherry Blossom s motion for two reasons. First, Cherry Blossom had no interest in the inventory and product. Second, Crossroads had already entered into an agreement to sell the inventory and product to Leelanau Fruit Company. The proceeds of the sale to Leelanau will be deposited with the Court and then paid to either Crossroads or Sensient following the Court s determination as to who has a superior interest in the subject inventory and product. Crossroads, in turn, moved the Court for an order allowing Crossroads and Leelanau to inspect the inventory and product so that the sale to Leelanau may proceed. The Court heard Cherry Blossom s and Crossroad s competing motions on November 1, 2010. The Court denied Cherry Blossom s motion and granted Crossroad s motion. The unfinished cherry inventory and finished cherry product is now scheduled to be sold to Leelanau.

S.A.M. (Amaral) v. Sensient Technologies Corp., et al.

On August 5, 2010, the owners and operators of a 135-acre vineyard near the dehydration facility formerly operated by Sensient Dehydrated Flavors, LLC (SDF) in Greenfield, California filed a lawsuit in California state Court in Monterey, California. The lawsuit names as defendants both Sensient Technologies Corporation (Sensient) and SDF and a response to the complaint was filed on October 1. The suit sets out claims for nuisance per se, trespass and negligence per se and alleges almost a million dollars in losses plus punitive damages, all based on the fact that, between the summer of 2007 and early October, 2009, SDF was processing onions that allegedly caused an onion taint in the grapes and wine produced from the plaintiffs vineyard. While SDF had an air permit covering its operations, its Monterey County use permit specifically named only chili peppers, celery and parsley, but not onions, as commodities that could be dehydrated at the Greenfield facility. SDF s effort to modify the Greenfield facility s use permit to specifically include the processing of onions was blocked by local vineyard owners, and SDF has since closed its Greenfield facility and consolidated its onion dehydration operations at its fully-permitted and more efficient facility at Livingston, California.

This lawsuit follows an earlier lawsuit (*J. Lohr Vineyards and Wines v. Sensient Technologies*) (the Lohr lawsuit) brought by a larger, adjacent landowner. The Lohr lawsuit was settled in December, 2009, with an agreement that included SDF s abandonment of onion processing at its

Greenfield facility but did not require the payment of any settlement amount to Lohr despite Lohr s substantial damage claims. The S.A.M. plaintiffs have essentially copied, and seek to rely upon, the factual allegations and expert analyses developed in the Lohr lawsuit before a settlement was reached. The S.A.M. plaintiffs will not, however, be receiving any assistance from Lohr. Sensient and SDF believe the S.A.M. plaintiffs claims are without merit and intend to pursue a vigorous defense. No trial date has been set yet in this case.

The Company is involved in various other claims and litigation arising in the normal course of business. In the judgment of management, which relies in part on information from Company counsel, the ultimate resolution of these actions will not materially affect the consolidated financial statements of the Company except as described above.

ITEM 1A. RISK FACTORS

See Risk Factors in Item 1A of the Company s annual report on Form 10-K for the year ended December 31, 2009.

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ITEM 6. EXHIBITS

See Exhibit Index following this report.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	SENSIENT TECHNOLOGIES CORPORATION
Date: November 5, 2010	By: /s/ John L. Hammond John L. Hammond, Senior Vice President, General Counsel & Secretary
Date: November 5, 2010	By: /s/ Richard F. Hobbs Richard F. Hobbs, Senior Vice President & Chief Financial Officer

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SENSIENT TECHNOLOGIES CORPORATION
EXHIBIT INDEX
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2010

Exhibit	Description	Incorporated by Reference From	Filed Herewith
10.1	Separation Agreement with Former Officer		X
31	Certifications of the Company s Chairman & Chief Executive Officer and Senior Vice President & Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act		X
32	Certifications of the Company s Chairman & Chief Executive Officer and Senior Vice President & Chief Financial Officer pursuant to 18 United States Code § 1350		X

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