

SENSIENT TECHNOLOGIES CORP

Form 10-Q

November 04, 2009

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

(Mark One)

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

**For the quarterly period ended: September 30, 2009**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number: 1-7626**

**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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Accelerated filer

Non-accelerated filer

Smaller reporting company

(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  No

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, 2009

Common Stock, par value \$0.10 per share

48,935,599

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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		Nine Months	
	Ended September 30,		Ended September 30,	
	2009	2008	2009	2008
Revenue	\$ 303,179	\$ 318,601	\$ 889,962	\$ 958,815
Cost of products sold	210,103	222,705	615,666	665,555
Selling and administrative expenses	54,104	55,041	153,683	167,919
Operating income	38,972	40,855	120,613	125,341
Interest expense	5,483	7,977	18,379	25,035
Earnings before income taxes	33,489	32,878	102,234	100,306
Income taxes	10,660	8,776	31,979	30,067
Net earnings	\$ 22,829	\$ 24,102	\$ 70,255	\$ 70,239
Average number of common shares outstanding:				
Basic	48,447	47,792	48,299	47,554
Diluted	48,750	48,320	48,553	48,098
Earnings per common share:				
Basic	\$ .47	\$ .50	\$ 1.45	\$ 1.48
Diluted	\$ .47	\$ .50	\$ 1.45	\$ 1.46
Dividends per common share	\$ .19	\$ .19	\$ .57	\$ .55

See accompanying notes to consolidated condensed financial statements.

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SENSIENT TECHNOLOGIES CORPORATION  
 CONSOLIDATED CONDENSED BALANCE SHEETS  
 (In thousands)

	September 30, 2009 (Unaudited)	December 31, 2008 *
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 11,078	\$ 8,498
Trade accounts receivable, net	203,491	198,903
Inventories	396,273	381,246
Prepaid expenses and other current assets	44,283	38,876
<b>TOTAL CURRENT ASSETS</b>	<b>655,125</b>	<b>627,523</b>
<b>OTHER ASSETS</b>	<b>38,462</b>	<b>40,878</b>
<b>INTANGIBLE ASSETS, NET</b>	<b>13,820</b>	<b>13,754</b>
<b>GOODWILL</b>	<b>459,047</b>	<b>440,416</b>
<b>PROPERTY, PLANT AND EQUIPMENT:</b>		
Land	49,886	47,315
Buildings	274,532	248,366
Machinery and equipment	621,484	594,858
Construction in progress	45,703	40,200
	991,605	930,739
Less accumulated depreciation	(571,063)	(527,873)
	420,542	402,866
<b>TOTAL ASSETS</b>	<b>\$ 1,586,996</b>	<b>\$ 1,525,437</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Trade accounts payable	\$ 89,318	\$ 82,976
Accrued salaries, wages and withholdings from employees	21,313	24,269
Other accrued expenses	50,150	52,825
Income taxes	3,008	1,988
Short-term borrowings	33,245	34,213

TOTAL CURRENT LIABILITIES	197,034	196,271
OTHER LIABILITIES	29,659	27,272
ACCRUED EMPLOYEE AND RETIREE BENEFITS	40,685	37,616
LONG-TERM DEBT	411,259	445,682
SHAREHOLDERS EQUITY:		
Common stock	5,396	5,396
Additional paid-in capital	83,861	82,261
Earnings reinvested in the business	915,956	873,444
Treasury stock, at cost	(107,722)	(116,217)
Accumulated other comprehensive income (loss)	10,868	(26,288)
TOTAL SHAREHOLDERS EQUITY	908,359	818,596
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 1,586,996	\$ 1,525,437

See accompanying notes to consolidated condensed financial statements.

\* Condensed from  
audited financial  
statements.

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

	Nine Months Ended September 30,	
	2009	2008
Net cash provided by operating activities	\$ 98,583	\$ 66,288
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(30,933)	(34,384)
Proceeds from sale of assets	4	1,946
Other investing activity	(615)	1,293
Net cash used in investing activities	(31,544)	(31,145)
Cash flows from financing activities:		
Proceeds from additional borrowings	216,608	40,330
Debt payments	(256,991)	(65,420)
Dividends paid	(27,743)	(26,412)
Proceeds from options exercised and other equity transactions	8,452	15,959
Net cash used in financing activities	(59,674)	(35,543)
Effect of exchange rate changes on cash and cash equivalents	(4,785)	(23)
Net increase (decrease) in cash and cash equivalents	2,580	(423)
Cash and cash equivalents at beginning of period	8,498	10,522
Cash and cash equivalents at end of period	\$ 11,078	\$ 10,099

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, 2009 and December 31, 2008, the results of operations for the three and nine months ended September 30, 2009 and 2008, and cash flows for the nine months ended September 30, 2009 and 2008. 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 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, 2008, 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. Share-Based Compensation

The Company recognized \$0.04 million and \$0.6 million of share-based compensation expense for the quarters ended September 30, 2009 and 2008, respectively. For the nine months ended September 30, 2009 and 2008, the Company recognized \$1.1 million and \$1.4 million of share-based compensation expense, respectively.

The Company estimated the fair value of stock options using the Black-Scholes option pricing model. For the nine months ended September 30, 2009, the Company did not issue any stock options. The weighted-average fair value of stock options awarded during the nine months ended September 30, 2008 was \$6.77 per share. Significant assumptions used in estimating the fair value of the awards granted during the nine months ended September 30, 2008 are as follows:

	2008
Dividend yield	2.3%
Volatility	26.3%
Risk-free interest rate	3.1%
Expected term (years)	5.3

## 3. 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 U.S. generally accepted accounting principles (GAAP) and expands disclosures about fair value measurements. As of September 30, 2009 and 2008, the Company's only assets and liabilities subject to this standard are forward contracts (all currently accounted for as cash flow hedges) and mutual fund investments. Both of these financial instruments were previously being recorded by the Company at fair value that meets the requirements as defined by ASC 820. The fair value of the forward contracts based on current pricing obtained for comparable derivative products (Level 2

inputs) at September 30, 2009 and 2008 was a liability of \$0.2 million and an asset of \$0.3 million, respectively. The fair value of the investments based on September 30, 2009 and 2008 market quotes (Level 1 inputs) was an asset of \$13.7 million and \$16.3 million, respectively.

On June 30, 2009, the Company adopted the interim disclosure requirements under ASC 825, *Financial Instruments*. 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, 2009. The fair value of the Company's long-term debt, including current

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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, 2009 was \$411.3 million. The fair value of the long-term debt at September 30, 2009 was \$416.9 million. There is no impact on the Company's net earnings or financial position as a result of adopting this standard.

## 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, 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
Three months ended September 30, 2008:				
Revenue from external customers	\$ 198,056	\$ 99,424	\$ 21,121	\$ 318,601
Intersegment revenue	6,495	3,235	445	10,175
Total revenue	\$ 204,551	\$ 102,659	\$ 21,566	\$ 328,776
Operating income (loss)	\$ 31,774	\$ 17,738	\$ (8,657)	\$ 40,855
Interest expense			7,977	7,977
Earnings (loss) before income taxes	\$ 31,774	\$ 17,738	\$ (16,634)	\$ 32,878
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

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Nine months ended September 30, 2008:

Revenue from external customers	\$ 592,387	\$ 301,720	\$ 64,708	\$ 958,815
Intersegment revenue	16,882	11,051	1,442	29,375
<b>Total revenue</b>	<b>\$ 609,269</b>	<b>\$ 312,771</b>	<b>\$ 66,150</b>	<b>\$ 988,190</b>
Operating income (loss)	\$ 94,290	\$ 55,531	\$ (24,480)	\$ 125,341
Interest expense			25,035	25,035
Earnings (loss) before income taxes	\$ 94,290	\$ 55,531	\$ (49,515)	\$ 100,306

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Beginning in the first quarter of 2009, the Company's operations in Japan, previously reported in the Flavors & Fragrances Group, are reported in the Corporate and Other segment. Results for 2008 have been restated to reflect this change.

## 5. Inventories

At September 30, 2009 and December 31, 2008, inventories included finished and in-process products totaling \$292.3 million and \$269.8 million, respectively, and raw materials and supplies of \$104.0 million and \$111.4 million, respectively.

## 6. Retirement Plans

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

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Service cost	\$ 321	\$ 335	\$ 936	\$ 1,004
Interest cost	860	738	2,330	2,236
Expected return on plan assets	(353)	(283)	(875)	(861)
Amortization of prior service cost	457	488	1,368	1,463
Amortization of actuarial loss	66	55	168	171
Defined benefit expense	\$ 1,351	\$ 1,333	\$ 3,927	\$ 4,013

During the three and nine months ended September 30, 2009, the Company made contributions to its defined benefit pension plans of \$1.0 million and \$2.8 million, respectively. Total contributions to Company defined benefit pension plans are expected to be \$3.9 million in 2009.

## 7. Comprehensive Income

Comprehensive income is comprised of the following:

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net earnings	\$ 22,829	\$ 24,102	\$ 70,255	\$ 70,239
Currency translation adjustments	17,590	(41,967)	37,274	(11,822)
Net unrealized (loss) gain on cash flow hedges	(178)	(588)	(118)	595
Net comprehensive income (loss)	\$ 40,241	\$ (18,453)	\$ 107,411	\$ 59,012

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## 8. Cash Flows from Operating Activities

Cash flows from operating activities are detailed below:

(In thousands)	Nine Months Ended September 30,	
	2009	2008
Cash flows from operating activities:		
Net earnings	\$ 70,255	\$ 70,239
Adjustments to arrive at net cash provided by operating activities:		
Depreciation and amortization	31,458	33,828
Share-based compensation	1,087	1,353
Loss on assets	1,596	969
Deferred income taxes	1,847	1,557
Changes in operating assets and liabilities	(7,660)	(41,658)
Net cash provided by operating activities	\$ 98,583	\$ 66,288

## 9. Debt

In October 2008, the Company entered into a \$105 million senior unsecured term loan agreement ( *Term Loan* ) with a group of five banks. In March 2009, the Company borrowed the entire \$105 million available and used the proceeds to repay amounts outstanding under the Company's committed revolving credit facility. On April 1, 2009, the Company retired the entire portion of the Company's public debt with proceeds from the Company's revolving credit facility. The *Term Loan* matures on June 15, 2012 and the interest rate on the *Term Loan* is based on floating rates at the Company's election of either (1) the higher of (a) the prime rate or (b) the federal funds rate plus 0.5% or (2) a Eurodollar base rate derived from LIBOR plus a margin (initially 225 basis points but subject to adjustment as the Company's leverage ratio changes). The Company may prepay the *Term Loan* in whole or in part prior to the maturity date without any penalty.

## 10. Derivative Instruments and Hedging Activity

On January 1, 2009, the Company adopted the disclosure requirements of ASC 815, *Derivatives and Hedging*. This standard provides disclosure requirements pertaining to a Company's use of derivative instruments and its hedging activities. There is no impact on the Company's net earnings or financial position as a result of adopting this standard.

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. 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 \$9.7 million of forward exchange contracts, designated as hedges, outstanding as of September 30, 2009. The fair value of these forward exchange contracts as of September 30, 2009 was a liability of \$0.1 million classified in Other Liabilities in the Company's consolidated balance sheet. 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, 2009, a loss of \$0.1 million was deferred in OCI in the Company's consolidated balance sheet. For the three and nine month period ended September 30, 2009, a loss of \$0.02 million and a gain of \$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 loss 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-

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market in net earnings immediately, at the same time as the non-functional asset or liability is marked-to-market in net earnings. The Company had \$22.2 million of forward exchange contracts, not designated as hedges, outstanding as of September 30, 2009 and recognized gains of \$0.1 million and \$0.6 million in net earnings for the three and nine month period ended September 30, 2009, respectively, which offset the earnings impact of the related non-functional asset or liability in each of the same periods. As of September 30, 2009, the fair values of these forward contracts were an asset of \$0.03 million and a liability of \$0.06 million which were classified in Other Assets and Other Liabilities, respectively, in the Company's consolidated balance sheet.

*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, 2009, the total value of the Company's Euro and Swiss Franc debt was \$144.1 million. A loss of \$6.1 million has been recorded as foreign currency translation in OCI for the three and the nine month periods ended September 30, 2009.

## 11. Income Taxes

The effective income tax rates for the quarters ended September 30, 2009 and 2008 were 31.8% and 26.7%, respectively. For the nine months ended September 30, 2009 and 2008, the effective income tax rates were 31.3% and 30.0%, respectively. The effective tax rates in both 2009 and 2008 were reduced by changes in estimates associated with the finalization of prior year foreign tax items.

## 12. Subsequent Events

As of November 4, 2009, the issue date of these interim financial statements, there have been no events or transactions that have occurred since September 30, 2009 or are pending that have a material effect on the Company's interim financial statements for the period ended September 30, 2009.

## 13. 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. Actions that are legally required are substantially complete.

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.

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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 Colors' 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. Those depositions have not yet occurred.

On May 8, 2009, Sensient Colors filed a motion for summary judgment seeking dismissal with prejudice of the United States' claims. That motion is fully briefed. A hearing date has not been set.

Sensient Colors intends to vigorously defend its interests in the litigation. It is evaluating, among other things, settlement opportunities in an effort to minimize the expenses of litigating the matter, the pursuit of additional PRPs and additional challenges to the EPA's right to recover its claimed response costs. A portion of Sensient Colors' legal defense costs is being paid by insurers with a reservation of coverage rights. Litigation to resolve coverage issues is pending.

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 seeks 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 is 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. Sensient Colors and plaintiff have pursued a reduction in the scope and cost of the Agency s proposed environmental cleanup in meetings with

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the DEP, the Agency and another party involved in the condemnation, the New Jersey Schools Construction Corporation ( NJSCC ). To the extent that there is a reduction in the condemnation value of the Property due to the Agency s remediation of contamination for which Sensient Colors is allegedly responsible, such reduction may become a part of the damages claimed by plaintiff. 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 have been exchanged. Depositions are on-going.

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 is appealing 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 are resolved, the trial may 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 November 15, 2009, that dispositive motions be heard on December 11, 2009, and that the trial commence January 11, 2010. One of the plaintiffs has requested that trial be commenced on February 8, 2010. Sensient Colors did not object to this request. The judge also ordered that mediation occur before November 15, 2009.

As of September 30, 2009, the liabilities related to environmental matters are estimated to be between \$0.7 million and \$29.0 million, excluding accrued interest and enforcement costs. As of September 30, 2009, the Company has accrued \$1.0 million, which is all related to the environmental reserves established in connection with a 2001 acquisition. This accrual represents management s best estimate of these liabilities; however, the actual liabilities may be above the levels reserved or estimated, in which case the Company would need to take charges or establish reserves in later periods. Also, the Company has not been able to make a reasonable estimate of the liabilities, if any, related to some of the environmental matters discussed above. The Company has not recorded any potential insurance recoveries related to these liabilities, as receipts are not yet assured. There can be no assurance that additional environmental matters will not arise in the future.

*Commercial Litigation*

On October 13, 2009, J. Lohr Vineyards and Wines ( Lohr ) filed suit against the Company and its subsidiary, Sensient Dehydrated Flavors LLC ( Sensient Flavors ) in the state court in Monterey, California. The complaint seeks to permanently enjoin the Company and Sensient Flavors from processing onions at its Greenfield,

California dehydration facility based on a limitation in Sensient Flavors' 1972 use permit to the processing of peppers, celery and parsley, and based on Lohr's claim that Sensient Flavors' onion processing has been damaging Lohr's grapes and wine. Lohr's complaint, in addition to seeking injunctive relief, sets out claims for nuisance, trespass, interference with prospective business advantage, and negligence per se. Lohr seeks damages of over \$1.6 million for alleged losses due to an onion taint to its grapes, wine and vineyards, as well as punitive and other damages. On October 14, the court denied a temporary restraining order requested by Lohr against the Company and Sensient Flavors. On October 27, the court issued a preliminary injunction

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enjoining the Company and Sensient Flavors from processing any vegetables not expressly authorized in the 1972 use permit issued by the County to Sensient Flavors or any amendments thereto. Sensient Flavors has filed an application with the Planning Department seeking an amendment to its use permit confirming its right to process onions at its Greenfield facility. If Sensient Flavors ultimately does not obtain the necessary approvals to resume onion processing at its Greenfield facility, then it will likely make a capital investment in order to allow processing of these onions at other facilities. Sensient's production of dehydrated onion at the Greenfield facility in 2009 represents less than 10% of its total onion production in California. The Company and Sensient Flavors believe that Lohr's complaint of alleged onion taint is without merit and they intend to vigorously defend their interests in the litigation.

**Table of Contents****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****OVERVIEW**

Revenue for the third quarter of 2009 was \$303.2 million compared to \$318.6 million recorded in the prior year's third quarter. For the nine months ended September 30, 2009, revenue was \$890.0 million compared to \$958.8 million in the prior year's period. The impact of foreign exchange rates reduced consolidated revenue by 4.2% and 7.3% in the quarter and nine months ended September 30, 2009, respectively. Revenue for the Flavors & Fragrances segment decreased 4.8% and 5.3% for the three and nine months ended September 30, 2009, respectively, from the comparable periods last year. Color segment revenue decreased 8.3% and 12.1% for the third quarter and nine months ended September 30, 2009, respectively, from the comparable periods last year. Corporate and Other revenue increased 8.0% for the quarter ended September 30, 2009, but was down 4.5% for the nine months ended September 30, 2009, from the comparable periods last year. The impact of foreign exchange rates decreased quarterly revenue for the Flavors & Fragrances Group by 3.8%, the Color Group by 5.6% and Corporate and Other by 0.9%. The impact of foreign exchange rates decreased year-to-date revenue for the Flavors & Fragrances Group by 6.7%, the Color Group by 8.7% and Corporate and Other by 6.0%. Additional information on group results can be found in the Segment Information section.

The gross profit margin increased 60 basis points to 30.7% for the quarter ended September 30, 2009, from 30.1% for the same period in 2008. For the nine months ended September 30, 2009 and 2008, the gross profit margin increased 20 basis points to 30.8% from 30.6% in the comparable period in 2008. Higher selling prices and lower energy costs more than offset the increased cost of raw materials in both periods.

Selling and administrative expenses as a percent of revenue were 17.8% and 17.3% in the quarters ended September 30, 2009 and 2008, respectively. For the nine months ended September 30, 2009, selling and administrative expenses as a percent of revenue improved 20 basis points to 17.3%. Higher employee costs combined with the impact of lower revenue were partially offset by lower performance based compensation and professional services in the quarter. For the nine months ended September 30, 2009, the lower performance based compensation and professional services more than offset the increase in other employee related costs.

Operating income was \$39.0 million and \$40.9 million for the quarters ended September 30, 2009 and 2008, respectively. Operating income was \$120.6 million and \$125.3 million for the nine months ended September 30, 2009 and 2008, respectively. The impact of foreign exchange rates reduced operating income by 5.2% and 8.7% in the quarter and nine months ended September 30, 2009, respectively. The change in operating income was due to the revenue, margin and expense changes discussed above. Additional information can be found in the Segment Information section.

Interest expense for the third quarter of 2009 decreased 31.3% to \$5.5 million from \$8.0 million in the prior year's quarter. Interest expense was \$18.4 million and \$25.0 million for the nine months ended September 30, 2009 and 2008, respectively. The decrease in both periods was the result of lower interest rates combined with lower average debt balances.

The effective income tax rates were 31.8% and 26.7% for the quarters ended September 30, 2009 and 2008, respectively. The effective income tax rates were 31.3% and 30.0% for the nine months ended September 30, 2009 and 2008, respectively. The effective tax rates in both 2009 and 2008 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 2009 to be 32.5%, 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**

Beginning in the first quarter of 2009, the Company's operations in Japan, previously reported in Flavors & Fragrances Group, are reported with the Asia Pacific Group. The Asia Pacific Group is included in the Corporate and Other segment. Results for 2008 have been restated to reflect this change.

Flavors & Fragrances -

Revenue for the Flavors & Fragrances segment in the third quarters of 2009 and 2008 was \$194.8 million and

\$204.6 million, respectively. The decrease was primarily due to the unfavorable impact of foreign exchange rates (\$7.9 million) and lower revenue in North America (\$5.2 million). These items were partially offset by higher revenue in Latin America (\$2.1 million) and Europe (\$1.2 million). The lower revenue in North America was primarily due to lower volumes partially offset by higher selling prices. The lower volumes are partly due to



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soft consumer demand and delays in customer launches of new products. The increased revenue in Europe was primarily related to higher selling prices. The increased revenue in Latin America was primarily related to higher volumes and selling prices.

For the quarters ended September 30, 2009 and 2008, operating income was \$30.7 million and \$31.8 million, respectively. The decrease was primarily attributable to the unfavorable impact of foreign exchange rates (\$1.1 million). Higher profit in Latin America (\$0.3 million) as a result of increased sales was offset by lower profit in Europe (\$0.3 million) due to unfavorable product mix. Operating income as a percent of revenue was 15.7%, an increase of 20 basis points from the comparable quarter last year.

For the nine months ended September 30, 2009 and 2008, revenue for the Flavors & Fragrances segment was \$576.9 million and \$609.3 million, respectively. The decrease in revenue was primarily due to the unfavorable impact of exchange rates (\$41.0 million) and lower revenue in Europe (\$1.1 million). These items were partially offset by higher revenue in North America (\$4.9 million) and Latin America (\$4.9 million). The lower revenue in Europe was primarily due to lower volumes partially offset by higher selling prices. The increased revenue in North America and Latin America was primarily due to higher selling prices in both markets partially offset by lower volume in North America. The lower volumes are partly due to soft consumer demand and delays in customer launches of new products.

Operating income was \$94.9 million and \$94.3 million for the nine months ended September 30, 2009 and 2008, respectively. The increase in operating income was primarily related to North America (\$4.8 million) and Latin America (\$1.5 million). The unfavorable impact of exchange rates decreased operating profit by \$5.7 million, or 6.0%. The increases in North America and Latin America were primarily due to improved pricing partially offset by higher raw material costs and unfavorable product mix.

Color -

Revenue for the Color segment for the third quarter of 2009 was \$94.2 million compared to \$102.7 million reported in the prior year's third quarter. The decrease in revenue was primarily due to the unfavorable effect of foreign exchange rates (\$5.8 million), lower sales of non-food colors (\$1.6 million) and lower sales of food and beverage colors (\$1.1 million). The lower sales of non-food colors were primarily due to lower volumes as a result of soft consumer demand and lower purchases by the Company's customers as they reduce their inventory levels. The lower sales of food and beverage colors were primarily due to decreased volumes in the US market partially offset by higher selling prices. Lower volumes of food and beverage colors in the U.S. market are partly due to soft consumer demand and delays in customer launches of new products.

Operating income for the quarter ended September 30, 2009, was \$14.6 million versus \$17.7 million in the comparable period last year. The decrease was primarily due to lower profit in non-food colors (\$2.6 million) and the unfavorable impact of foreign exchange rates (\$0.9 million). These items were partially offset by higher profit in food and beverage colors (\$0.4 million). The lower profit in non-food colors was primarily driven by lower volumes combined with increased raw material costs. The higher profit in food and beverage colors was primarily related to an increase in selling prices which offset the impact of raw material and energy costs. Operating income as a percent of revenue was 15.5% compared to 17.3% in the prior year's quarter.

The Color Group revenue was \$275.0 million and \$312.8 million for the nine months ended September 30, 2009 and 2008, respectively. The decrease was primarily due to the unfavorable impact of foreign exchange rates (\$27.3 million) and lower sales of non-food colors (\$11.9 million). Sales of food and beverage colors were up \$1.4 million for the nine months ended September 30, 2009, primarily related to higher selling prices. The lower sales of non-food colors were primarily due to lower volumes as a result of soft consumer demand and lower purchases by the Company's customers as they reduce their inventory levels.

Operating income was \$43.3 million and \$55.5 million for the nine months ended September 30, 2009 and 2008, respectively. The decrease was primarily due to the unfavorable impact of foreign exchange rates (\$4.9 million), lower profit in non-food colors (\$6.0 million) and lower profit on sales of food and beverage colors (\$1.3 million). The lower profit in non-food colors was primarily due to reduced volumes and higher raw material costs. The lower profit from sales of food and beverage colors was primarily due to higher raw material costs and lower volumes partially offset by higher selling prices. Operating income as a percent of revenue was 15.7% compared to 17.8% in the prior

year's first nine months.

**LIQUIDITY AND FINANCIAL CONDITION**

The Company's ratio of debt to total capital improved to 32.9% as of September 30, 2009, from 37.0% as of December 31, 2008. The improvement was due to higher equity and lower outstanding debt balances.

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Net cash provided by operating activities was \$98.6 million for the nine months ended September 30, 2009, compared to \$66.3 million for the comparable period last year. The increase in cash provided by operating activities was primarily due to less cash required to fund working capital increases in the first nine months of 2009 compared to the same period in 2008, especially inventory and accounts receivable.

Net cash used in investing activities was \$31.5 million and \$31.1 million for the nine months ended September 30, 2009 and 2008, respectively. Capital expenditures were \$30.9 million and \$34.4 million for the year-to-date periods ended September 30, 2009 and 2008, respectively.

Net cash used in financing activities was \$59.7 million in the first nine months of 2009 and \$35.5 million in the comparable period of 2008 primarily related to higher net repayments on debt in the first nine months of 2009 due to the significantly higher cash provided by operating activities. In the first nine months of 2009, net repayments on debt were \$40.4 million compared to \$25.1 million for the first nine months of 2008. For purposes of the cash flow statement, net changes in debt exclude the impact of foreign exchange rates. Dividends of \$27.7 million and \$26.4 million were paid during the nine months ended September 30, 2009 and 2008, respectively, reflecting the Company's higher dividend of \$0.57 per share in the first nine months of 2009 compared to \$0.55 per share in the same period in 2008. In the first nine months of 2009 and 2008, 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. In the first quarter of 2009, the Company borrowed under its term loan that was completed in October 2008. The proceeds from this term loan were used to retire maturing debt. 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 may refinance a portion of its variable rate debt through a new debt offering in early 2010.

The Company completed its annual goodwill impairment test under ASC 350, *Intangibles - Goodwill and Other*, in the third quarter of 2009. 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 had fair values that were over 75% above their respective net book values. The fair value of the Color reporting unit, with goodwill of approximately \$310 million at its measurement date, has a premium over net book value of between 10 percent and 20 percent. The estimate of fair value for the Color reporting unit is based on current cash flow levels assuming a modest rate of future growth. A sustained reduction of cash flow from this reporting unit or an increase in the discount rate could cause the estimated fair value to fall below the net book value of the reporting unit.

### **CONTRACTUAL OBLIGATIONS**

There have been no material changes in the Company's contractual obligations during the quarter ended September 30, 2009. For additional information about contractual obligations, refer to page 23 of the Company's 2008 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, 2008.

### **OFF-BALANCE SHEET ARRANGEMENTS**

The Company had no off-balance sheet arrangements as of September 30, 2009.

### **CRITICAL ACCOUNTING POLICIES**

There have been no material changes in the Company's critical accounting policies during the quarter ended September 30, 2009. For additional information about critical accounting policies, refer to pages 21 and 22 of the Company's 2008 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, 2008.

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**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, 2009. For additional information about market risk, refer to pages 22 and 23 of the Company's 2008 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, 2008.

**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, 2009, 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 color, 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, 2008; 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.

**Table of Contents****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,

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the magistrate judge issued an opinion and order denying or delaying Sensient Colors' 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. Those depositions have not yet occurred.

On May 8, 2009, Sensient Colors filed a motion for summary judgment seeking dismissal with prejudice of the United States' claims. That motion is fully briefed. A hearing date has not been set.

Sensient Colors intends to vigorously defend its interests in the litigation. It is evaluating, among other things, settlement opportunities in an effort to minimize the expenses of litigating the matter, the pursuit of additional PRPs and additional challenges to the EPA's right to recover its claimed response costs. A portion of Sensient Colors' legal defense costs is being paid by insurers with a reservation of coverage rights. Litigation to resolve coverage issues is pending.

**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 seeks 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 is 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. Sensient Colors and plaintiff have 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 ). To the extent that there is a reduction in the condemnation value of the Property due to the Agency's remediation of contamination for which Sensient Colors is allegedly responsible, such reduction may become a part of the damages claimed by plaintiff. 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 have been exchanged. Depositions are on-going.

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 is appealing 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 are resolved, the trial may 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 November 15, 2009, that dispositive motions be heard on December 11, 2009, and that the trial commence January 11, 2010. One of the plaintiffs has requested that trial be commenced on February 8, 2010. Sensient Colors did not object to this request. The judge also ordered that mediation occur before November 15, 2009.



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*Commercial Litigation*

On October 13, 2009, J. Lohr Vineyards and Wines ( Lohr ) filed suit against the Company and its subsidiary, Sensient Dehydrated Flavors LLC ( Sensient Flavors ) in the state court in Monterey, California. The complaint seeks to permanently enjoin the Company and Sensient Flavors from processing onions at its Greenfield, California dehydration facility based on a limitation in Sensient Flavors 1972 use permit to the processing of peppers, celery and parsley , and based on Lohr s claim that Sensient Flavors onion processing has been damaging Lohr s grapes and wine. Lohr s complaint, in addition to seeking injunctive relief, sets out claims for nuisance , trespass , interference with prospective business advantage, and negligence per se . Lohr seeks damages of over \$1.6 million for alleged losses due to an onion taint to its grapes, wine and vineyards, as well as punitive and other damages. On October 14, the court denied a temporary restraining order requested by Lohr against the Company and Sensient Flavors. On October 27, the court issued a preliminary injunction enjoining the Company and Sensient Flavors from processing any vegetables not expressly authorized in the 1972 use permit issued by the County to Sensient Flavors or any amendments thereto. Sensient Flavors has filed an application with the Planning Department seeking an amendment to its use permit confirming its right to process onions at its Greenfield facility. If Sensient Flavors ultimately does not obtain the necessary approvals to resume onion processing at its Greenfield facility, then it will likely make a capital investment in order to allow processing of these onions at other facilities. Sensient s production of dehydrated onion at the Greenfield facility in 2009 represents less than 10% of its total onion production in California. The Company and Sensient Flavors believe that Lohr s complaint of alleged onion taint is without merit and they intend to vigorously defend their interests in the litigation.

**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, 2008.

**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 4, 2009

By: /s/ John L. Hammond  
John L. Hammond, Senior Vice  
President,  
General Counsel & Secretary

Date: November 4, 2009

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, 2009

Exhibit	Description	Incorporated by Reference From	Filed Herewith
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