

SENSIENT TECHNOLOGIES CORP

Form 10-Q

August 08, 2007

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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: June 30, 2007**

**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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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 July 31, 2007

Common Stock, par value \$0.10 per share

47,116,446 shares

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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 June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Revenue	\$ 304,310	\$ 282,212	\$ 589,578	\$ 545,136
Cost of products sold	209,834	196,711	408,954	380,196
Selling and administrative expenses	54,485	50,373	106,421	99,037
Operating income	39,991	35,128	74,203	65,903
Interest expense	9,470	8,980	18,722	17,688
Earnings before income taxes	30,521	26,148	55,481	48,215
Income taxes	9,288	7,685	16,902	14,134
Net earnings	\$ 21,233	\$ 18,463	\$ 38,579	\$ 34,081
Average number of common shares outstanding:				
Basic	46,655	45,853	46,529	45,829
Diluted	47,149	46,114	47,029	46,043
Earnings per common share:				
Basic	\$ .46	\$ .40	\$ .83	\$ .74
Diluted	\$ .45	\$ .40	\$ .82	\$ .74
Dividends per common share	\$ .16	\$ .15	\$ .32	\$ .30

See accompanying notes to consolidated condensed financial statements.

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SENSIENT TECHNOLOGIES CORPORATION  
 CONSOLIDATED CONDENSED BALANCE SHEETS  
 (In thousands)

	June 30, 2007 (Unaudited)	December 31, 2006 *
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 5,920	\$ 5,035
Trade accounts receivable, net	197,072	178,307
Inventories	331,347	333,070
Prepaid expenses and other current assets	34,591	35,290
<b>TOTAL CURRENT ASSETS</b>	<b>568,930</b>	<b>551,702</b>
<b>OTHER ASSETS</b>	<b>47,360</b>	<b>47,208</b>
INTANGIBLE ASSETS, NET	13,963	14,507
GOODWILL	456,228	449,194
<b>PROPERTY, PLANT AND EQUIPMENT:</b>		
Land	40,928	39,762
Buildings	247,203	243,734
Machinery and equipment	582,067	567,057
Construction in progress	24,238	20,225
	894,436	870,778
Less accumulated depreciation	(503,490)	(479,322)
	390,946	391,456
<b>TOTAL ASSETS</b>	<b>\$ 1,477,427</b>	<b>\$ 1,454,067</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Trade accounts payable	\$ 83,697	\$ 80,916
Accrued salaries, wages and withholdings from employees	17,095	24,539
Other accrued expenses	49,340	49,620
Income taxes	4,723	14,309
Short-term borrowings	69,689	91,226
<b>TOTAL CURRENT LIABILITIES</b>	<b>224,544</b>	<b>260,610</b>

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OTHER LIABILITIES	17,176	4,090
ACCRUED EMPLOYEE AND RETIREE BENEFITS	46,326	43,957
LONG-TERM DEBT	438,515	441,306
SHAREHOLDERS EQUITY:		
Common stock	5,396	5,396
Additional paid-in capital	72,451	70,420
Earnings reinvested in the business	795,987	774,677
Treasury stock, at cost	(139,386)	(147,662)
Accumulated other comprehensive income	16,418	1,273
TOTAL SHAREHOLDERS EQUITY	750,866	704,104
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 1,477,427	\$ 1,454,067

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)

	Six Months Ended June 30,	
	2007	2006
Net cash provided by operating activities	\$ 48,817	\$ 43,635
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(15,629)	(17,805)
Proceeds from sale of assets	1,420	3,150
Decrease in other assets	462	1,074
Net cash used in investing activities	(13,747)	(13,581)
Cash flows from financing activities:		
Proceeds from additional borrowings	25,191	23,400
Debt payments	(52,876)	(39,744)
Purchase of treasury stock		(4,563)
Dividends paid	(15,003)	(13,902)
Proceeds from options exercised	7,985	2,868
Net cash used in financing activities	(34,703)	(31,941)
Effect of exchange rate changes on cash and cash equivalents	518	(142)
Net increase (decrease) in cash and cash equivalents	885	(2,029)
Cash and cash equivalents at beginning of period	5,035	7,068
Cash and cash equivalents at end of period	\$ 5,920	\$ 5,039

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 June 30, 2007 and December 31, 2006, the results of operations for the three and six months ended June 30, 2007 and 2006, and cash flows for the six months ended June 30, 2007 and 2006. 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, 2006, for additional details of the Company's financial condition and a description of the Company's accounting policies, which have been continued without change except for the item discussed in Note 3.

## 2. Share-Based Compensation

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment, on January 1, 2006, using the modified prospective transition method. The Company recognized \$0.3 million and \$1.0 million of share-based compensation expense for the quarters ended June 30, 2007 and 2006, respectively. For the six months ended June 30, 2007 and 2006, the Company recognized \$1.8 million and \$2.3 million of share-based compensation expense, respectively.

The Company estimated the fair value of stock options using the Black-Scholes option pricing model. Grants during the six months ended June 30, 2007 and 2006 had weighted-average fair values of \$5.81 per share and \$4.50 per share, respectively. Significant assumptions used in estimating the fair value of awards granted during the six months ended June 30, 2007 and 2006 are as follows:

	2007	2006
Dividend yield	2.7%	3.3%
Volatility	26.0%	27.3%
Risk-free interest rate	4.8%	4.9%
Expected term (years)	5.0	5.3

## 3. Income Taxes

On January 1, 2007, the Company adopted Financial Accounting Standards Board (FASB) Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes. This interpretation prescribes the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on the measurement, classification and derecognition of tax positions. As a result of the adoption of FIN 48, the Company recognized an increase in the liability for unrecognized tax benefits of



approximately \$2.3 million, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings. The Company's liability for unrecognized tax benefits at January 1, 2007, recorded in accordance with FIN 48, was approximately \$13.3 million. The amount of the unrecognized tax benefits that would affect the effective tax rate, if recognized, was approximately \$11.4 million. The Company continues to recognize interest and penalties related to the unrecognized tax benefits in income tax expense. Approximately \$2.0 million of accrued interest and penalties is reported as an income tax liability as of January 1, 2007. The liability for unrecognized tax benefits is reported in other liabilities on the consolidated condensed balance sheet at June 30, 2007.

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The Company believes that it is reasonably possible that the total amount of unrecognized tax benefits will decrease by approximately \$4.0 million during 2007. The potential decrease relates to various tax matters for which the statute of limitations may expire in 2007. The amount that is ultimately recognized in the financial statements will be dependent upon various factors including potential examinations, settlements and other unanticipated items that may occur during the year. With limited exceptions, the Company is no longer subject to federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2002.

## 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 June 30, 2007:				
Revenue from external customers	\$ 199,051	\$ 92,454	\$ 12,805	\$ 304,310
Intersegment revenue	3,841	3,099	345	7,285
Total revenue	\$ 202,892	\$ 95,553	\$ 13,150	\$ 311,595
Operating income (loss)	\$ 31,187	\$ 17,185	\$ (8,381)	\$ 39,991
Interest expense			9,470	9,470
Earnings (loss) before income taxes	\$ 31,187	\$ 17,185	\$ (17,851)	\$ 30,521
Three months ended June 30, 2006:				
Revenue from external customers	\$ 184,894	\$ 87,454	\$ 9,864	\$ 282,212
Intersegment revenue	3,405	3,072	358	6,835
Total revenue	\$ 188,299	\$ 90,526	\$ 10,222	\$ 289,047
Operating income (loss)	\$ 27,120	\$ 15,836	\$ (7,828)	\$ 35,128
Interest expense			8,980	8,980
Earnings (loss) before income taxes	\$ 27,120	\$ 15,836	\$ (16,808)	\$ 26,148
(In thousands)	Flavors & Fragrances	Color	Corporate & Other	Consolidated
Six months ended June 30, 2007:				
Revenue from external customers	\$ 379,749	\$ 185,240	\$ 24,589	\$ 589,578
Intersegment revenue	7,417	6,343	625	14,385
Total revenue	\$ 387,166	\$ 191,583	\$ 25,214	\$ 603,963

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Operating income (loss)	\$ 57,361	\$ 34,417	\$ (17,575)	\$ 74,203
Interest expense			18,722	18,722
Earnings (loss) before income taxes	\$ 57,361	\$ 34,417	\$ (36,297)	\$ 55,481
Six months ended June 30, 2006:				
Revenue from external customers	\$ 352,377	\$ 173,251	\$ 19,508	\$ 545,136
Intersegment revenue	6,436	6,431	718	13,585
Total revenue	\$ 358,813	\$ 179,682	\$ 20,226	\$ 558,721
Operating income (loss)	\$ 50,013	\$ 31,681	\$ (15,791)	\$ 65,903
Interest expense			17,688	17,688
Earnings (loss) before income taxes	\$ 50,013	\$ 31,681	\$ (33,479)	\$ 48,215

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## 5. Inventories

At June 30, 2007 and December 31, 2006, inventories included finished and in-process products totaling \$245.7 million and \$235.9 million, respectively, and raw materials and supplies of \$85.6 million and \$97.2 million, respectively.

## 6. Debt

On June 15, 2007, the Company completed a new \$300 million revolving credit facility with a group of eight banks. The new facility, which replaced the Company's \$225 million facility, matures in June 2012 and is unsecured. The agreement also permits the Company to request an increase in the aggregate facility amount to \$375 million subject to the banks' approval. Interest rates on borrowings with three days notice are determined based upon LIBOR plus a margin subject to adjustment based on the Company's debt to EBITDA ratio, as defined, and the rating accorded the Company's senior debt by Standards & Poor's and Moody's. Without the three days notice, interest is based on the higher of the prime rate or the federal funds rate plus 0.50%. A facility fee is payable on the total amount of the commitment. The facility will be used for general corporate purposes and to refinance approximately \$90 million of notes that mature in late 2007. Accordingly, that maturing debt has been classified as long-term debt in the Consolidated Condensed Balance Sheet.

## 7. 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 June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Service cost	\$ 261	\$ 277	\$ 523	\$ 553
Interest cost	599	579	1,196	1,159
Expected return on plan assets	(160)	(199)	(319)	(397)
Amortization of prior service cost	484	647	968	968
Amortization of actuarial loss	49	84	97	167
Defined benefit expense	\$ 1,233	\$ 1,388	\$ 2,465	\$ 2,450

During the three and six months ended June 30, 2007, the Company made contributions to its defined benefit pension plans of \$0.9 million and \$1.4 million, respectively. Total contributions to Company defined benefit pension plans are expected to be \$2.7 million in 2007.

## 8. Comprehensive Income

Comprehensive income is comprised of the following:

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Net earnings	\$ 21,233	\$ 18,463	\$ 38,579	\$ 34,081
Currency translation adjustments	13,353	12,539	15,064	15,470

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Net unrealized (loss) gain on cash flow hedges	(9)	87	81	(46)
Net comprehensive income	\$ 34,577	\$ 31,089	\$ 53,724	\$ 49,505

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## 9. Cash Flows from Operating Activities

Cash flows from operating activities are detailed below:

(In thousands)	Six Months Ended June 30,	
	2007	2006
Cash flows from operating activities:		
Net earnings	\$ 38,579	\$ 34,081
Adjustments to arrive at net cash provided by operating activities:		
Depreciation and amortization	22,216	21,850
Stock-based compensation	1,805	2,316
Gain on assets	(501)	(1,508)
Deferred income taxes	1,460	1,341
Changes in operating assets and liabilities	(14,742)	(14,445)
Net cash provided by operating activities	 \$ 48,817	 \$ 43,635

## 10. 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 manufacturing sites primarily 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 or necessary to prepare the sites for sale are substantially complete.

Clean Air Act Notices of Violation

On June 24, 2004, the United States Environmental Protection Agency (the "EPA") issued a Notice of Violation/Finding of Violation ("NOV") to Lesaffre Yeast Corporation ("Lesaffre") for alleged violations of the Wisconsin air emission requirements. The NOV generally alleged that Lesaffre's Milwaukee, Wisconsin, facility violated air emissions limits for volatile organic compounds during certain periods from 1999 through 2003. Some of these violations allegedly occurred before Lesaffre purchased Red Star Yeast & Products ("Red Star Yeast") from the Company.

On June 30, 2005, the EPA issued a second NOV to Lesaffre and Sensient which alleged that certain operational changes were made during Sensient's ownership of the Milwaukee facility without complying with new-source review procedures and without the required air pollution control permit. The Company raised significant legal defenses in response to the June 2005 NOV. The Company met with the EPA in an attempt to resolve the NOVs. In September 2005, as follow-up to one of those meetings, the Company submitted information to refute the allegations of the June 30, 2005 NOV and requested that the NOV be withdrawn. In December 2005, Lesaffre closed the Milwaukee plant. The Company informed the EPA of this development.

On December 18, 2006, the EPA issued an Administrative Complaint to assess a penalty for the alleged violations covered by the two NOVs. The EPA named Lesaffre as a respondent in that proceeding. The EPA did not name Sensient as a respondent in that proceeding. The EPA proposed a penalty covering both NOVs of \$488,000.

In connection with the sale of Red Star Yeast, the Company provided Lesaffre and certain of its affiliates with indemnification against environmental claims attributable to the operation, activities or ownership of Red Star Yeast prior to February 23, 2001, the closing date of the sale. On December 20, 2006, Lesaffre formally requested indemnification from Sensient for the portion of the civil penalty arising from the June 30, 2005 NOV. In January 2007, Sensient agreed to be responsible for and undertake the defense of the claim related to the June 30, 2005 NOV. Lesaffre agreed to be responsible for and undertake the defense of the claim related to the June 24, 2004 NOV.

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In June 2007, Lesaffre entered into a comprehensive settlement agreement with the EPA under which Lesaffre agreed to pay an administrative penalty of \$202,500 to resolve the liability under the Administrative Complaint in connection with both the June 24, 2004 and June 30, 2005 NOVs. As a part of the settlement, Sensient agreed to pay Lesaffre \$125,000 for the portion of the penalty attributable to the June 30, 2005 NOV. Sensient made the payment to Lesaffre on July 9, 2007. Sensient's payment fully resolved its liability to Lesaffre under the February 23, 2001 Asset Purchase Agreement as it relates to all matters arising under EPA's Administrative Complaint.

**Superfund Claim**

On July 6, 2004, the EPA notified the Company's Sensient Colors Inc. subsidiary 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 Inc. 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 dated January 31, 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 subsequently informed Sensient Colors Inc. that it was unwilling to discuss these legal challenges without prior conditions. In 2006, the EPA issued a news release stating that 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. Documents received pursuant to a Freedom of Information Act request indicate that the EPA incurred additional alleged response costs of approximately \$4 million.

On March 16, 2007, the United States filed a complaint in the U.S. District Court in New Jersey against Sensient Colors Inc. claiming over \$16 million in response costs allegedly incurred and to be incurred by the EPA pursuant to CERCLA. On May 21, 2007, Sensient Colors Inc. filed a motion to dismiss the complaint. The motion was fully briefed in anticipation of a July 6, 2007 motion return date. The Company now awaits a response from the Court. Sensient Colors, Inc. intends to vigorously defend its interests in the litigation and is evaluating, among other things, the pursuit of additional PRPs, and additional challenges to the EPA's right to recover its claimed response costs. The Company's legal defense costs are being paid, in part, by an insurer with a reservation of coverage rights. Litigation to resolve coverage rights is pending.

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

The owner of Pleasant Gardens (the 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 Inc.), 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 Inc. filed an answer denying liability and asserting affirmative defenses. Limited discovery has occurred. In November 2006, the Camden Redevelopment Agency (the Agency ) filed condemnation litigation against plaintiff (and other purported interested parties) to take the Property. Sensient Colors Inc. 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 ( the DEP ), at \$7.5 million. Sensient Colors Inc. 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 ( the NJSCC ). On March 29, 2007, plaintiff filed an amended complaint naming the Agency, the NJSCC and the DEP as additional defendants in furtherance of this effort. On April 20, 2007, Sensient Colors Inc. filed its answer to the amended complaint, including cross claims against these newly added parties. The Company expects the DEP and the NJSCC to file answers to the complaint and cross claims in the near future. 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 Inc. is allegedly responsible,



such reduction may become a part of the damages claimed by plaintiff.

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As of June 30, 2007, the liabilities related to environmental matters are estimated to be between \$1.4 million and \$28.0 million. As of June 30, 2007, the Company has accrued \$2.3 million for environmental matters, of which \$1.8 million is related to the environmental reserves established in connection with the 2001 acquisition discussed above. 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*

The following is a significant commercial case involving the Company.

Kuiper et al. v. Sensient Flavors Inc. et al.

In late January 2006, the Company's Sensient Flavors Inc. subsidiary and certain other flavor manufacturers, and a flavor industry trade association and its management company were sued in the Federal District Court for the Northern District of Iowa, Western Division, by Ronald Kuiper and his spouse, Conley Kuiper. Mr. Kuiper claims that while working at the American Popcorn Company of Sioux City, Iowa, he was exposed to butter flavoring vapors that caused injury to his respiratory system. Ms. Kuiper's claim is for loss of consortium. The allegations of this complaint are virtually identical to those contained in another complaint that was filed against Sensient Flavors Inc., involving another worker at the same facility. That lawsuit was ultimately settled and Sensient Flavors Inc. paid nothing to the plaintiff. The Company believes that plaintiffs' claims are without merit and is vigorously defending this case. A motion for summary judgment has been filed and discovery is continuing. A trial ready date of November 5, 2007, has been set in this matter.

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.

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

Revenue for the second quarter of 2007 was \$304.3 million, an increase of 7.8% from \$282.2 million recorded in the prior year second quarter. For the six months ended June 30, 2007, revenue was \$589.6 million, an increase of 8.2% from the comparable period in 2006. Revenue for the Flavors & Fragrances segment increased by 7.7% and 7.9% for the quarter and six months ended June 30, 2007, respectively, over the comparable periods last year. Revenue for the Color segment increased by 5.6% and 6.6% for the quarter and six months ended June 30, 2007, respectively, over the comparable periods last year. Revenue for Asia Pacific increased by 28.6% and 24.7% for the quarter and six months ended June 30, 2007, respectively, over the comparable periods last year. Additional information on group results can be found in the Segment Information section.

The gross profit margin increased 70 basis points to 31.0% for the three months ended June 30, 2007, from 30.3% for the same period in 2006. Higher selling prices and favorable product mix more than offset the impact of higher raw material costs. For the six months ended June 30, 2007 and 2006, the gross profit margin was 30.6% and 30.3%, respectively. Higher selling prices and lower energy costs more than offset the impact of higher raw material costs. Selling and administrative expenses as a percent of revenue were 17.9% and 17.8% in the quarters ended June 30, 2007 and 2006, respectively. Selling and administrative expenses in the second quarter of 2006 were reduced by a gain of approximately \$1.2 million on the sale of a non-core investment. For the six months ended June 30, 2007 and 2006, selling and administrative expenses as a percent of revenue were 18.1% and 18.2%, respectively. The reduction in the percent of revenue was primarily a result of revenues increasing at a higher rate than expenses, which more than offset the impact of the aforementioned \$1.2 million gain on the sale of a non-core investment in 2006.

Operating income for the quarter ended June 30, 2007, was \$40.0 million, an increase of 13.8% from \$35.1 million for the second quarter of 2006. Operating income for the six months ended June 30, 2007, was \$74.2 million compared to \$65.9 million for the comparable period in 2006. The change in operating income for each period was due to the revenue, margin and expense changes discussed above.

Favorable foreign exchange rates increased revenue and operating profit by 3.3% and 3.4%, respectively, for the three months ended June 30, 2007, over the same quarter of 2006. For the six months ended June 30, 2007, foreign exchange rates increased revenue by 3.2% and operating income by 3.4% over the comparable period last year.

Interest expense for the quarter ended June 30, 2007, was \$9.5 million, an increase of 5.5% over the prior year's quarter. Interest expense for the six months ended June 30, 2007, was \$18.7 million compared to \$17.7 million in the prior year period. The increase in both periods was a result of higher average rates partially offset by a reduction in average debt balances.

The effective income tax rates were 30.4% and 29.4% for the quarter ended June 30, 2007 and 2006, respectively. The effective income tax rates were 30.5% and 29.3% for the six months ended June 30, 2007 and 2006, respectively. The effective tax rates for the three and six month periods in both years were reduced by changes in estimates associated with the finalization of prior year income tax returns and the resolution of prior years' tax matters. For the three and six months ended June 30, 2006, these reductions were partially offset by a higher rate on the gain on the sale of a non-core investment. Management expects the effective tax rate for the remainder of 2007 to be 33%, 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 second quarter of 2007 increased 7.7% to \$202.9 million from \$188.3 million for the same period last year. The increase in revenue was primarily due to higher volumes and prices in North America (\$4.8 million) and higher volumes in the fragrances product line (\$2.6 million) combined with the favorable impact of foreign exchange rates (\$5.2 million).

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For the quarter ended June 30, 2007, operating income increased 15.0% to \$31.2 million from \$27.1 million last year. The increase was primarily attributable to higher profit in North America (\$1.9 million), Europe (\$1.2 million) and Latin America (\$0.5 million), combined with the favorable impact of exchange rates (\$0.4 million). The increase in North America was primarily due to improved pricing in dehydrated flavors and other flavors, higher volumes and favorable product mix partially offset by higher raw material costs. The increase in Europe was primarily due to lower costs. The increase in Latin America was primarily due to higher volumes and prices partially offset by increased raw material costs. Operating income as a percent of revenue was 15.4%, an increase of 100 basis points from the comparable quarter last year, primarily due to the reasons provided above.

For the six months ended June 30, 2007, revenue for the Flavors & Fragrances segment was \$387.2 million, an increase of 7.9% from \$358.8 million reported in the same period last year. The increase in revenue was primarily due to higher volumes and prices in North America (\$9.9 million) and higher volumes in the fragrances product line (\$4.3 million) combined with the favorable impact of foreign exchange rates (\$9.6 million).

Operating income for the six months ended June 30, 2007, increased 14.7% to \$57.4 million from \$50.0 million last year. The increase in operating income was primarily due to improvements in North America (\$4.2 million), Europe (\$1.8 million) and Latin America (\$0.9 million) combined with the favorable impact of foreign exchange rates (\$0.6 million). The increase in North America was primarily due to improved pricing and higher volumes in dehydrated flavors and other flavors, and favorable product mix partially offset by higher raw material costs. The increase in Europe was primarily attributable to higher selling prices and lower costs. The increase in Latin America was primarily due to higher selling prices and favorable volumes. Operating income as a percent of revenue was 14.8%, an increase of 90 basis points from the comparable period last year, primarily due to the reasons provided above.

**Color**

Revenue for the Color segment for the second quarter of 2007 was \$95.6 million, an increase of 5.6% from \$90.5 million reported in the prior year's comparable period. The increase in revenue was primarily due to higher volumes of food and beverage colors (\$3.0 million), higher volumes of cosmetic colors (\$1.2 million) and the favorable effect of foreign exchange rates (\$3.2 million), partially offset by lower sales of technical colors (\$2.2 million). The decrease in sales of technical colors primarily related to lower demand for inkjet inks and colors for industrial applications.

Operating income for the quarter ended June 30, 2007, was \$17.2 million versus \$15.8 million in the comparable period last year. The increase was primarily due to higher profit from sales of food and beverage colors (\$1.0 million) and cosmetic colors (\$0.7 million), and the favorable effect of foreign exchange rates (\$0.6 million), partially offset by lower profit from reduced sales of technical colors (\$0.8 million). The improved profits from food and beverage colors and cosmetic colors primarily relate to higher volumes. Operating income as a percent of revenue increased 50 basis points from the prior year's quarter to 18.0%.

For the six months ended June 30, 2007, revenue for the Color segment was \$191.6 million compared to \$179.7 million in 2006. The increase in revenue was primarily due to increased sales volume of food and beverage colors (\$7.2 million), increased volumes of cosmetic colors (\$3.2 million) and the favorable effect of foreign exchange rates (\$6.1 million) partially offset by lower sales of technical colors (\$4.6 million). The decline in technical colors was primarily due to lower demand for inkjet inks and colors for industrial applications.

Operating income for the six months ended June 30, 2007, increased 8.6% to \$34.4 million from \$31.7 million in the comparable period last year. The increase was primarily due to the impact of higher volumes of food and beverage colors (\$1.7 million), the impact of increased volumes of cosmetic colors (\$1.5 million) and the favorable effect of foreign exchange rates (\$1.3 million). These items were partially reduced by the impact of lower volumes of technical colors (\$1.5 million). Operating income as a percent of revenue was 18.0%, an increase of 40 basis points from the comparable quarter last year, primarily due to the reasons provided above.

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**FINANCIAL CONDITION**

The Company's ratio of debt to total capital improved to 40.4% as of June 30, 2007, from 43.1% as of December 31, 2006. The improvement resulted from an increase in equity and a decrease in total debt since December 31, 2006.

Net cash provided by operating activities was \$48.8 million for the six months ended June 30, 2007, compared to \$43.6 million for the comparable period last year. The increase in cash provided by operating activities was primarily due to higher net earnings.

Net cash used in investing activities was \$13.7 million and \$13.6 million for the six months ended June 30, 2007 and 2006, respectively. Capital expenditures were \$15.6 million and \$17.8 million for the six months ended June 30, 2007 and 2006, respectively.

Net cash used in financing activities was \$34.7 million and \$31.9 million for the six months ended June 30, 2007 and 2006, respectively. Net repayments of debt were \$27.7 million and \$16.3 million for the first six months of 2007 and 2006, respectively. For purposes of the cash flow statement, net changes in debt exclude the impact of foreign exchange rates. Dividends of \$15.0 million and \$13.9 million were paid during the six months ended June 30, 2007 and 2006, respectively. For the first six months of 2007 and 2006, the net cash provided by operating activities was sufficient to fund capital expenditures, pay dividends and reduce borrowings.

The Company's financial position remains strong. Its expected 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 increased its quarterly cash dividend on its common stock from 16 cents per share to 18 cents per share effective for the quarterly dividend to shareholders of record on August 9, 2007.

In June 2007, the Company completed a new \$300 million revolving credit facility with eight banks. The new facility replaces the Company's \$225 million facility, matures in 2012 and is unsecured. The facility will be used for general corporate purposes and to refinance approximately \$90 million of notes that mature at the end of 2007.

**CONTRACTUAL OBLIGATIONS**

There have been no material changes in the Company's contractual obligations during the quarter ended June 30, 2007. For additional information about contractual obligations, refer to pages 23 and 24 of the Company's 2006 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, 2006.

**OFF-BALANCE SHEET ARRANGEMENTS**

The Company had no off-balance sheet arrangements as of June 30, 2007.

**CRITICAL ACCOUNTING POLICIES**

There have been no material changes in the Company's critical accounting policies during the quarter ended June 30, 2007. For additional information about critical accounting policies, refer to page 22 of the Company's 2006 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, 2006.

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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 June 30, 2007. For additional information about market risk, refer to pages 22 and 23 of the Company's 2006 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, 2006.

**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, President and Chief Executive Officer and its 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, President and Chief Executive Officer and its 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 June 30, 2007, 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 and 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, including energy; industry and economic factors related to the Company's domestic and international business; competition from other suppliers of color and 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; results of litigation, environmental investigations or other proceedings; the matters discussed under Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2006; and the matters discussed above under Item 2 including the critical accounting policies described 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****Clean Air Act Notices of Violation**

On June 24, 2004, the United States Environmental Protection Agency (the "EPA") issued a Notice of Violation/Finding of Violation ("NOV") to Lesaffre Yeast Corporation ("Lesaffre") for alleged violations of the Wisconsin air emission requirements. The NOV generally alleged that Lesaffre's Milwaukee, Wisconsin, facility violated air emissions limits for volatile organic compounds during certain periods from 1999 through 2003. Some of these violations allegedly occurred before Lesaffre purchased Red Star Yeast & Products ("Red Star Yeast") from the Company.

On June 30, 2005, the EPA issued a second NOV to Lesaffre and Sensient which alleged that certain operational changes were made during Sensient's ownership of the Milwaukee facility without complying with new-source review procedures and without the required air pollution control permit. The Company raised significant legal defenses in response to the June 2005 NOV. The Company met with the EPA in an attempt to resolve the NOVs. In September 2005, as follow-up to one of those meetings, the Company submitted information to refute the allegations of the June 30, 2005 NOV and requested that the NOV be withdrawn. In December 2005, Lesaffre closed the Milwaukee plant. The Company informed the EPA of this development.

On December 18, 2006, the EPA issued an Administrative Complaint to assess a penalty for the alleged violations covered by the two NOVs. The EPA named Lesaffre as a respondent in that proceeding. The EPA did not name Sensient as a respondent in that proceeding. The EPA proposed a penalty covering both NOVs of \$488,000.

In connection with the sale of Red Star Yeast, the Company provided Lesaffre and certain of its affiliates with indemnification against environmental claims attributable to the operation, activities or ownership of Red Star Yeast prior to February 23, 2001, the closing date of the sale. On December 20, 2006, Lesaffre formally requested indemnification from Sensient for the portion of the civil penalty arising from the June 30, 2005 NOV. In January 2007, Sensient agreed to be responsible for and undertake the defense of the claim related to the June 30, 2005 NOV. Lesaffre agreed to be responsible for and undertake the defense of the claim related to the June 24, 2004 NOV.

In June 2007, Lesaffre entered into a comprehensive settlement agreement with the EPA under which Lesaffre agreed to pay an administrative penalty of \$202,500 to resolve the liability under the Administrative Complaint in connection with both the June 24, 2004 and June 30, 2005 NOVs. As a part of the settlement, Sensient agreed to pay Lesaffre \$125,000 for the portion of the penalty attributable to the June 30, 2005 NOV. Sensient made the payment to Lesaffre on July 9, 2007. Sensient's payment fully resolved its liability to Lesaffre under the February 23, 2001 Asset Purchase Agreement as it relates to all matters arising under EPA's Administrative Complaint.

**Superfund Claim**

On July 6, 2004, the EPA notified the Company's Sensient Colors Inc. subsidiary 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 Inc. 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 dated January 31, 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 subsequently informed Sensient Colors Inc. that it was unwilling to discuss these legal challenges without prior conditions. In 2006, the EPA issued a news release stating that 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. Documents received pursuant to a Freedom of Information Act request indicate that the EPA incurred additional alleged response costs of approximately \$4 million.

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On March 16, 2007, the United States filed a complaint in the U.S. District Court in New Jersey against Sensient Colors Inc. claiming over \$16 million in response costs allegedly incurred and to be incurred by the EPA pursuant to CERCLA. On May 21, 2007, Sensient Colors Inc. filed a motion to dismiss the complaint. The motion was fully briefed in anticipation of a July 6, 2007 motion return date. The Company now awaits a response from the Court. Sensient Colors, Inc. intends to vigorously defend its interests in the litigation and is evaluating, among other things, the pursuit of additional PRPs, and additional challenges to the EPA's right to recover its claimed response costs. The Company's legal defense costs are being paid, in part, by an insurer with a reservation of coverage rights. Litigation to resolve coverage rights is pending.

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

The owner of Pleasant Gardens (the 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 Inc.), 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 Inc. filed an answer denying liability and asserting affirmative defenses. Limited discovery has occurred. In November 2006, the Camden Redevelopment Agency (the Agency) filed condemnation litigation against plaintiff (and other purported interested parties) to take the Property. Sensient Colors Inc. 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 (the DEP), at \$7.5 million. Sensient Colors Inc. 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 (the NJSCC). On March 29, 2007, plaintiff filed an amended complaint naming the Agency, the NJSCC and the DEP as additional defendants in furtherance of this effort. On April 20, 2007, Sensient Colors Inc. filed its answer to the amended complaint, including cross claims against these newly added parties. The Company expects the DEP and the NJSCC to file answers to the complaint and cross claims in the near future. 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 Inc. is allegedly responsible, such reduction may become a part of the damages claimed by plaintiff.

**Kuiper et al. v. Sensient Flavors Inc. et al.**

In late January 2006, the Company's Sensient Flavors Inc. subsidiary and certain other flavor manufacturers, and a flavor industry trade association and its management company were sued in the Federal District Court for the Northern District of Iowa, Western Division, by Ronald Kuiper and his spouse, Conley Kuiper. Mr. Kuiper claims that while working at the American Popcorn Company of Sioux City, Iowa, he was exposed to butter flavoring vapors that caused injury to his respiratory system. Ms. Kuiper's claim is for loss of consortium. The allegations of this complaint are virtually identical to those contained in another complaint that was filed against Sensient Flavors Inc., involving another worker at the same facility. That lawsuit was ultimately settled and Sensient Flavors Inc. paid nothing to the plaintiff. The Company believes that plaintiffs' claims are without merit and is vigorously defending this case. A motion for summary judgment has been filed and discovery is continuing. A trial ready date of November 5, 2007, has been set in this matter.

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 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, 2006.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

The information responsive to this item was provided in, and is incorporated by reference from, Item 4 of the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2007, filed on May 9, 2007.

**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: August 8, 2007

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

Date: August 8, 2007

By: /s/ Richard F. Hobbs  
Richard F. Hobbs, Vice President &  
Chief Financial Officer

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SENSIENT TECHNOLOGIES CORPORATION  
EXHIBIT INDEX  
QUARTERLY REPORT ON FORM 10-Q  
FOR THE QUARTER ENDED June 30, 2007

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