Transocean Ltd.
Form DEFA14A
April 25, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

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TRANSOCEAN LTD.
(Name of Registrant as Specified In Its Charter)
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On April 25, 2013, Transocean Ltd. (the "Company") issued a press release announcing the launch of a Twitter handle for shareholder interaction as well as the publication of video messages by Directors J. Michael Talbert; Martin McNamara; and Steven Newman; and by Executive Vice President and Chief Financial Officer, Esa Ikäheimonen, on the website: www.transoceanvalue.com.

A copy of the press release, transcripts of the video messages and other updated website content is attached hereto and replaces www.transoceanvalue.com website content filed by Transocean Ltd. on April 18, 2013.

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News Release

FOR RELEASE: April 25, 2013

TRANSOCEAN LTD. MANANGEMENT AND BOARD OF DIRECTORS SHARE THEIR PERSPECTIVES ON THE RIGHT PATH FORWARD TO MAXIMIZE SHAREHOLDER VALUE
Company Launches Twitter Handle to Foster Shareholder Interaction

ZUG, SWITZERLAND--Transocean Ltd. (NYSE: RIG) (SIX: RIGN) today released videos from Chairman of the Board of Directors, J. Michael Talbert; Director and Corporate Governance Chair, Martin McNamara; President and Chief Executive Officer, Steven Newman; and Executive Vice President and Chief Financial Officer, Esa Ikäheimonen, on its recently launched website www.transoceanvalue.com. Transocean and its Board of Directors remain committed to ensuring consistent and transparent communication with its shareholders. Aligned with that effort, the company also launched a Twitter handle @TransoceanValue.

Within the videos, Transocean's leadership shares the company's key positions and recommendations outlined in the proxy statement for the May 17, 2013 Annual General Meeting (“AGM”). These include:

- The Board has proposed a dividend of $2.24 per share - or approximately $800 million in the aggregate - which supports the company's balanced capital allocation strategy and represents one of the industry's largest payout ratios and implied yields. The Board is confident that its proposed dividend will maximize long-term value creation and, importantly, in its view, establishes a basis that is sustainable and supports future dividend increases as business conditions warrant.
- The company has put forth five highly qualified and diverse Director nominees - Frederico F. Curado, Thomas W. Cason, Steven L. Newman, Robert M. Sprague and J. Michael Talbert - with very deep industry experience and unique viewpoints. The election of Mr. Curado would represent the seventh new director in the last two years, aligning with the company's efforts to regularly infuse fresh perspectives into an extraordinarily experienced and knowledgeable Board.
- The company has made significant and tangible progress toward its goals to improve its operational and financial performance, including improved revenue efficiency, utilization and cash flow from operations.

The company encourages shareholders to watch these compelling video perspectives from Transocean's leadership as they discuss their commitment to delivering long-term value to shareholders.

About Transocean

Transocean is a leading international provider of offshore contract drilling services for oil and gas wells. The company specializes in technically demanding sectors of the global offshore drilling business with a particular focus on deepwater and harsh environment drilling services, and believes that it operates one of the most versatile offshore drilling fleets in the world.

Transocean owns or has partial ownership interests in, and operates a fleet of, 83 mobile offshore drilling units consisting of 48 High-Specification Floaters (Ultra-Deepwater, Deepwater and Harsh-Environment drilling rigs), 25 Midwater Floaters and 10 High-Specification Jackups. In addition, we have six Ultra-Deepwater Drillships and two High-Specification Jackups under construction.

For more information about Transocean, please visit the website www.deepwater.com.

Forward-Looking Statements

Statements included in this news release and referenced video messages and Twitter statements, including, but not limited to, those regarding the proposed dividend, the company's capital allocation strategy, value-creating objectives and sustainability of potential future distributions, that are not historical facts, are forward-looking statements that involve certain assumptions and uncertainties. These statements are based on currently available competitive, financial, and economic data along with our current operating plans and involve risks and uncertainties including, but not limited to,

shareholder approval, market conditions, Transocean's results of operations, the effect and results of litigation, assessments and contingencies, and other factors detailed in "Risk Factors" in the company's most recently filed Annual Report on Form 10-K, and elsewhere in Transocean's filings with the Securities and Exchange Commission. Should one or more of these risks or uncertainties materialize (or the other consequences of such a development worsen), or should underlying assumptions prove incorrect, actual outcomes may vary materially from those expressed or implied by such forward-looking statements. Transocean disclaims any intention or obligation to update publicly or revise such statements, whether as a result of new information, future events or otherwise.

This press release or referenced documents does not constitute an offer to sell, or a solicitation of an offer to buy, any securities, and it does not constitute an offering prospectus within the meaning of article 652a or article 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange. Investors must rely on their own evaluation of Transocean Ltd. and its securities, including the merits and risks involved. Nothing contained herein is, or shall be relied on as, a promise or representation as to the future performance of Transocean Ltd.

TRANSOCEANVALUE.COM

HOMEPAGE

Transocean's Board of Directors is focused on driving long-term value through the execution of the company's disciplined capital allocation strategy. The Board's plan includes maintaining a strong, flexible balance sheet, characterized by an investment grade rating on our debt; disciplined, high-return investment in the business; and the distribution of excess cash to shareholders.

ABOUT

Transocean's Board of Directors is committed to acting in the best interests of the company and its stakeholders to drive long-term shareholder value. With the support of the Board, the company will continue to focus on executing its business strategy and key initiatives, including improving revenue efficiency, improving project management, enhancing the fleet, deepening customer relationships and reducing operational costs.

Transocean's approach to corporate governance is to regularly infuse fresh perspective into an experienced and knowledgeable Board. In this regard, six of the 13 directors have been added to the Board in the last two years. Furthermore, the company believes that the addition of Frederico F. Curado will benefit the Board's decision-making process as a result of his significant senior management experience at a global aerospace corporation, including his experience with Brazilian business and governmental sectors - an important region of operations for the company.

CONTACT

Please contact us with any questions you might have.

A HISTORY OF VALUE AND SUCCESS

Our track record of success over the past decade in generating shareholder value by returning excess cash to shareholders speaks for itself. Since 2000, and including its currently proposed dividend and cash distributed in connection with the 2007 merger with GlobalSantaFe Corporation, Transocean will have returned approximately than $21 billion in cash to shareholders in the form of distributions and share repurchases, including a $5 billion distribution to GlobalSantaFe shareholders.

A HISTORY OF VALUE AND SUCCESS: Consistent Capital Allocation

Transocean has a well-established capital allocation strategy which is focused on driving long-term shareholder value while appropriately managing the risks in our business. Priorities for capital deployment are, and have been, maintaining a sound balance sheet characterized by an investment grade rating on our debt; profitably reinvesting in the business by increasing our exposure to high specification assets; and returning excess cash to our shareholders.

Transocean's management and the Board are constantly assessing the company's strategy and are willing to contemplate additional ways of creating value for shareholders. This is evidenced by the recently proposed $2.24 per share dividend, accelerated debt repayment plan and announcement that the company will continue its evaluation of alternative corporate and financing structures. The Board does not intend to take steps that will threaten the company's operating flexibility and sound balance sheet, reflected by an investment grade credit rating.

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*$15 billion GlobalSantaFe merger distribution includes $5 billion distribution to GlobalSantaFe shareholders

“We view the introduction of '14 downtime as a stark reminder of variability in offshore FCF as the industry manages through unpaid downtime. In recognition of this, we would expect RIG to advocate pursuing its balance sheet improvement strategy, rather than locking-in a ~$1.4bn dividend cash outlay in FY13.”
- Justin Sander, RBC Capital Markets

“We expect investors will look to RIG's move toward a dividend strategy as a positive for the company and the industry.”
- Darren Gacicia, Guggenheim

“At some point the offshore drilling market will enter into a cyclical downturn. A higher dividend than what is being proposed could put Transocean on the defensive and impact their ability to buy rigs and win business from weaker competitors. The question is whether the company will be the hunter or the hunted.”
- Stuart Miller, Moody's

A HISTORY OF VALUE AND SUCCESS: Optimizing the Fleet

With the guidance of the Board, Transocean has made meaningful progress towards its objective of optimizing its fleet by increasing its exposure to high specification drilling assets. This includes divesting 38 shallow water drilling rigs in the fourth quarter of 2012 and completing numerous single-asset sales of non-core floaters and jackups over the past several years. As a result of executing on this strategy, in 2011 and 2012 Transocean received net sales proceeds of over $440 million and $947 million, respectively.

In late 2012, Transocean announced it would build four industry-leading, state-of-the-art, high specification, ultra-deepwater drillships for Shell. These fully-contracted assets represent 40-rig years of work and an unprecedented $7.6 billion of long-dated backlog for the company and, together with the remaining two newbuild high-specification jackups to be delivered in 2013, reflect the company's objective to achieve profitable growth and enhance its leadership position in high specification floaters and jackups.

“Even if Icahn is successful in extracting a $4/sh dividend from RIG (an upside risk), we believe this would leave RIG significantly disadvantaged in terms of its ability to re-capitalize its fleet and/or participate in M&A.”
- Mike Urban, Deutsche Bank

“It is alright if a stakeholder demands a dividend payout but $4 per share is stretching it too far. The company should instead be investing that money to build additional rigs and for further expansion.”
- Philip Weiss, Argus Research

A HISTORY OF VALUE AND SUCCESS: Improving Performance

In addition to maintaining a disciplined capital allocation philosophy and executing our asset optimization strategy, with the support and involvement of the Board, we have been successful in improving key financial and operating metrics. For the full-year 2012, Transocean's revenue increased nearly 15%, adjusted earnings per share increased more than 160%*, and cash flow from operating activities increased approximately 50%. Other positive trends include:

Improving Revenue Efficiency

Revenue efficiency has remained a top priority for Transocean. It has shown signs of strong improvement in 2012, up about six percentage points since the third quarter of 2011 to 94.7% at year-end 2012. Revenue efficiency for our ultra-deepwater rigs reached 95.9% and 95.5% in the third and fourth quarters, respectively. Continued progress is expected to be gradual and non-linear.

Improving Utilization
In 2012, our fleet utilization increased and the number of out of service days decreased as a result of a more rigorous approach to project work scope development, closer cooperation with our vendors to improve capacity planning, quality control, and more timely equipment delivery, and the implementation of a unit exchange program. We will continue to refine our project planning and execution to achieve

the most efficient and cost effective process possible. Reflecting this focus on projects and out-of-service time, utilization of our fleet increased to 78% in 2012 from 69% in 2011.

Deep Customer Relationships
The confidence and trust that our customers place in Transocean is reflected in the company's growing backlog, including the $7.6B backlog increase as a result of the 10-year contracts signed for four state-of-the-art, ultra-deepwater newbuilds. Through the exceptional efforts of our marketing team, in 2012 we added $16.8 billion in new contracts and reported the first increase in backlog since 2008. At February 14, 2013, contract backlog was approximately $28.8 billion. Transocean is committed to growing its backlog of contracting drilling work to ensure further profitability and drilling opportunities.

Focus on Cost Reduction
Maintaining a strict cost discipline is critical to our ability to compete and generate shareholder value. We are committed to reducing our cost structure and will identify ways to pursue this without compromising the integrity and safety of our operations. The recent divestiture of our shallow water rig fleet serves as a catalyst for this cost reduction initiative with the objective of generating meaningful, sustainable savings.

*NOTE: Adjusted earnings per share was $3.96 per share and $1.52 per share for 2012 and 2011, respectively.

OUR STORY

Transocean's management and its Board are focused on driving long-term value through the execution of the company's disciplined and balanced capital allocation strategy, while appropriately managing the risks in the business. Transocean's Board is committed to acting in the best interests of all shareholders, and firmly believes its strategies will better position the company to maximize long-term value and generate superior returns.

The company is confident that its current Board of Directors is comprised of professionals with the essential financial, operational, managerial, and corporate governance expertise necessary to continue to successfully oversee the execution of the company's operating and capital allocation strategies. The Board does not intend to take steps that will threaten the company's long-term performance, operating flexibility and investment grade credit rating.

OUR STORY: Our Capital Allocation Policy

In the context of a cyclical and capital-intensive industry, the Board is focused on creating value through the execution of the company's disciplined and balanced capital allocation strategy. The Board believes that this prudent, balanced approach to capital allocation will maximize long-term value creation by providing an immediate and direct return to shareholders; enhancing the resilience of the company's balance sheet; and enabling us to continue to execute a disciplined strategy of making high-return investments in our offshore drilling fleet to ensure the long-term competitiveness of the business.

As a result of this strategy, Transocean has improved its balance sheet and maintained its investment grade rating throughout a challenging period following the April 2010 Macondo incident. The company has also strengthened its industry-leading position in high spec floaters through the construction of four industry-leading, state-of-the-art, high specification, ultra-deepwater drillships for Shell. These fully-contracted assets represent 40-rig years of work and an unprecedented $7.6 billion of long-dated backlog for the company. Together with the remaining two newbuild high-specification jackups to be delivered in 2013, these drillships reflect the company's objective to enhance its leadership position in high-specification assets. Furthermore, the distribution of excess cash to shareholders, in the form of dividends and share repurchases, is a key component of our capital allocation strategy and we will continue to deploy excess capital in ways that generate the best return for shareholders.

Specifically, the Board remains confident that its proposed $2.24 per share dividend, or approximately $800 million in the aggregate, will maximize long-term value creation and, importantly, establishes a base that is sustainable and supports future increases as business conditions warrant. Further, the company's proposed dividend resulted from the careful consideration of numerous factors relevant to the company's business, including operating in a cyclical and capital-intensive industry as well as the remaining uncertainties related to the Macondo well incident, the Frade field incident in Brazil, and the ongoing tax litigation in Norway.

Mr. Icahn's assertion that Transocean “should target a permanent dividend that approaches a minimum of 85% of net income” is misguided in that it does not recognize the asset-intensive and cyclical nature of the offshore drilling industry. While Transocean's $2.24 per share dividend proposal would represent one of the industry's highest payout ratios and dividend yields, Mr. Icahn's dividend proposal significantly deviates from a responsible level - as evidenced by the lower payout ratios throughout the industry - and is not consistent with the company's goal of maintaining a strong balance sheet, represented by an investment grade credit rating, while continuing to pay down debt.

“The $4-per-share proposal may limit the company's efforts to enter into strategic transactions to improve its fleet.”

- James West, Barclays Plc

"If the company were to accede to Icahn's demand, it would saddle Transocean with increased interest expense, limit access to capital and might require it to sell assets to meet its liquidity targets. Icahn is looking for a relatively quick payday and not looking at the long-term health of the company. It troubles me that he specifically calls out the debt reduction plan in his response. The real risk with being downgraded is that if the sector turns, it is much more difficult to raise capital if you are a high-yield company with a constrained balance sheet."
- Harry Mateer, Barclays Credit Research

OUR STORY: Our Board of Directors

Transocean's Board is comprised of 13 highly-qualified directors with diverse perspectives on the industry. They are all proven business leaders with a broad and deep range of leadership experience in, variously, oilfield and offshore drilling services, finance, manufacturing, law, health, safety and environment, or other areas crucial to the company's business.
Transocean's approach to corporate governance is to regularly infuse fresh perspective into an experienced and knowledgeable Board. In this regard, six of the 13 directors have been added to the Board in the last two years. Furthermore, the company believes that the addition of Frederico F. Curado will benefit the Board's decision-making process as a result of his significant senior management experience at a global aerospace corporation, including his experience with Brazilian business and governmental sectors - an important region of operations for the company.

"RIG has transformed itself materially over the last 12-18 months, divesting non-strategic assets, focusing on ultra-deepwater markets, improving its operational efficiency, and now announcing dividend payments. We think these efforts have paid off - importantly operational efficiency improved from 89.6% at the beginning of 2012 to 94.7% by year-end."
- David Phillips, HSBC

"Little changed 2013 cost guidance provides us more comfort, management's grasp around the core operations is improving (and some upside from lower costs may exist)… Added certainty, financial flexibility and building operational consistency have yet to be fully reflected, in our view. Net, net the turnaround story is well underway with plenty left to achieve."
- Alan Laws, BMO Capital Markets

“RIG reported a third consecutive quarter of solid operating performance. Along with improved fleet quality via assets sales and newbuilds and the DOJ settlement removing a major overhang, RIG continues to make strides in remedying some of the challenges of the prior two years.”
- John Keller, Stephens

OUR STORY: Our Corporate Structure

In the interest of driving long-term value, Transocean continuously evaluates alternative corporate and financing structures with the goal of optimizing its cost of capital. The company has a proven track record of executing value-enhancing structures, including its re-domestication to Switzerland, the largest-ever convertible debenture, and a secured revolver and asset-backed financing. The company will continue to consider alternative corporate and financing options, including Master Limited Partnerships (MLP) or MLP-like structures. Transocean's operating strategy, the impact of the industry cycle over time and capital structure are important considerations in assessing the relative applicability and attractiveness of potential financing alternatives. Additional considerations include the mobile nature of the company's assets, Transocean's multi-layered and sophisticated tax structure, the potential for conflicts of interest, and other issues. Transocean's management and the Board include individuals with substantial expertise in devising and implementing appropriate corporate and financing structures.

“While we believe that Transocean, like most other offshore drillers, will evaluate this structure, we don't believe that there is high likelihood of adoption in 2013. Transocean's rig fleet and capital needs are different, and it is unclear how Transocean would fare through a complete drilling cycle in an MLP structure”
- Waqar Syed, Goldman Sachs

“An MLP structure [provides] a quick boost to shares of the parent company in the beginning, [but it is] ultimately a cop out because the structure may take away some of the best assets from the larger company.”
- Laurence Balter, Oracle Investment Research

VISION FOR THE FUTURE

Transocean's management team and Board of Directors are fully committed to acting in the best interests of the company and all its stakeholders to create value. This includes pursuing a capital allocation strategy based on maintaining a strong, flexible balance sheet, characterized by an investment grade rating on our debt; disciplined, high-return investment in the business; and a sustainable return of capital with the goal of future increases in distributions as business conditions warrant.

VISION FOR THE FUTURE: Returning Capital to Shareholders

In the interest of all of its stakeholders, the Board will remain focused on driving value through the execution of the company's long-standing, disciplined capital allocation strategy. Importantly, the Board is confident that, in the context of a cyclical and capital-intensive industry and remaining uncertainties, the proposed dividend of $2.24 per share, or approximately $800 million in the aggregate, appropriately returns a sustainable level of cash to shareholders - with the goal of future increases in distributions as business conditions warrant. Adherence to this strategy is critical to the long-term success of the company.

Additionally, as part of its prudent, balanced capital allocation strategy, to facilitate continued progress towards achieving its articulated gross debt target of $7 billion to $9 billion, Transocean intends to accelerate repayment of its debt with the objective of retiring approximately $1 billion of debt in excess of existing repayment obligations by the end of 2014.

VISION FOR THE FUTURE: Funding the Future

Our capital allocation philosophy, including the proposed dividend, provides the company the financial flexibility necessary to continue to grow the business and bolsters our leading position in high-spec ultra-deepwater and high-spec harsh environment market segments as well as a competitive position in the high-spec jackup market.

Continuing to invest in our fleet is critical to enhancing our long-term competitive position, and given the attractive opportunities available for newbuild rigs today, it is important that Transocean maintain financial flexibility to invest in the fleet opportunistically. Our recent newbuild contracts with Shell reflect our ability to build high-spec capacity. The newbuilds are also designed with the flexibility to

accommodate future technical capabilities they become available. These fully contracted assets will add 40-rig years of work and an unprecedented $7.6 billion of long-dated backlog for the company, and reflect our objective to achieve profitable growth. These rigs are expected to return approximately 140% simple payback over the initial contract period and generate returns well in excess of our cost of capital over the 35 year life of the assets.

Mr. Icahn has also suggested that the company's investment in its fleet is an inappropriate allocation of capital. This suggestion highlights Mr. Icahn's destructive short-term objectives. The profitable addition of new, state-of-the-art drilling rigs is essential for the long-term competitiveness of the company and represents its primary source of growth and future operating income. Discontinuing disciplined investment in high-return assets would compromise the company's long-term viability.

Transocean is poised to succeed in the years ahead. We have an excellent foundation for growth, as evidenced by almost $30 billion in contract backlog, and a focused strategy for delivering value to our shareholders through our well-articulated policy for deploying capital. This policy includes maintaining a strong balance sheet characterized by an investment grade rating; identifying opportunities that meet our disciplined criteria for reinvesting profitably in our business; and our priority of returning excess cash to our shareholders. This will enable us to execute our operating strategy in pursuit of financial excellence.

VISION FOR THE FUTURE: Board Commitment to Generating Value

Transocean's Board of Directors is committed to acting in the best interests of the company and its stakeholders to drive long-term value. The Board will continue to focus on the company's execution of its business strategy and key initiatives, including improving revenue efficiency and project management while reducing operating costs, enhancing the fleet and deepening customer relationships.

The offshore drilling industry is dynamic and continually presents challenges and opportunities. Reflecting the ever-changing nature of our business and the unique circumstances in which the company operates, we spend considerable time evaluating the composition of the Board to ensure we have a panel of Directors with the experience, skills and capabilities necessary to represent the best interest of our shareholders; i.e., to create value. In this regard, Transocean's approach to corporate governance is to regularly infuse fresh perspectives into an already extraordinarily experienced and knowledgeable Board. Indeed, six of the company's 13 directors have been added to the Board within the last two years. Transocean's Board of Directors is comprised of professionals with the expertise necessary to continue to guide the execution of the company's successful operating and capital allocation strategies.

OUR CANDIDATES

Transocean's Board of Directors and management team are fully committed to acting in the best interests of the company and all its stakeholders to create value. This includes pursuing a capital allocation strategy based on maintaining a strong, flexible balance sheet, which includes an investment grade rating on our debt; disciplined, high-return investment in the business; and a sustainable return of capital with the goal of future increases in distributions as business conditions warrant.

The Board is comprised of professionals with the essential financial, operational, managerial, and corporate governance expertise necessary to continue to successfully oversee the execution of the company's operating and capital allocation strategies. Transocean's Board includes 13 highly-qualified directors with diverse perspectives on the industry that are proven business leaders with a broad and deep range of leadership experience in, variously, oilfield and offshore drilling services, finance, manufacturing, law, health, safety and environment, or other areas crucial to the company's business. The Board of Directors recommends that the company's shareholders approve the following nominees for election to the Board at the company's May 17th Annual General Meeting:

OUR CANDIDATES: Frederico F. Curado

President and CEO
Embraer

Frederico F. Curado has served as President and Chief Executive Officer of Embraer S.A. (NYSE: ERJ) since 2008. Mr. Curado joined Embraer in 1984 and has served in a variety of management positions during his career, including Executive Vice President, Airline Market from 1998 to 2007 and Executive Vice President, Planning and Organizational Development from 1997 to 1998. Mr. Curado is also the President of the Brazilian Chapter of the Brazil-United States Business Counsel and a member of Brazil's National Council for Industrial Development. Mr. Curado received his Bachelor of Science degree in Mechanical-Aeronautical Engineering from the Instituto Tecnólogico de Aeronáutica in Brazil, a post-graduate degree in foreign trade from the Getúlio Vargas Foundation, Brazil and an executive Masters in Business Administration from the University of São Paulo, Brazil. The Board of Directors believes Mr. Curado's significant senior management experience in operating an international corporation, including experience with Brazilian business and governmental sectors will benefit the Board's decision-making process.

OUR CANDIDATES: J. Michael Talbert

Chairman of the Board
Transocean Ltd.

J. Michael Talbert has served as a director of the Company since 1994. He has served as the non-executive Chairman of the Board since 2011 and previously served as non-executive Vice Chairman of the Board from 2010 to 2011, non-executive Chairman of the Board from 2004 to 2007 and executive Chairman of the Board from 2002 to 2004. Mr. Talbert also served as Chief Executive Officer from 1994 until 2002, Chairman of the Board of Directors from 1994 until 1999, and as President from 1999 until 2001. Prior to assuming his duties with us, Mr. Talbert was President and Chief Executive Officer of Lone Star Gas Company, a natural gas distribution company and a division of Ensearch Corporation. He was a director of El Paso Corporation from 2003 to 2012, when that company was acquired by Kinder Morgan, Inc. Within the past ten years, Mr. Talbert was also a director and the chairman of TODCO. Mr. Talbert received his Bachelor of Science degree in chemical engineering in 1970 from the University of Akron and his MBA in 1975 from Loyola of the South.

Mr. Talbert holds an engineering degree and an MBA and has extensive executive experience in the energy sector including serving as a senior executive in exploration and production and as the former CEO of Transocean. As a result, he brings a valuable perspective to the Board based upon his in-depth knowledge of the Company and understanding of the business. His knowledge from the customer perspective and his knowledge of the culture of the Company are helpful in analyzing the future direction of the Company. Mr. Talbert also has relevant experience in merger and acquisition activity, including negotiating transactions as well as the integration of combined companies and boards.

OUR CANDIDATES: Robert M. Sprague

Former Regional Business Director
Royal Dutch/Shell

Mr. Robert M. Sprague has served as a director of the Company since 2004. Mr. Sprague is the retired Regional Business Director of Shell EP International BV, a position in which he served from 1997 until 2003. Mr. Sprague served as Director of Strategy & Business Services for Shell EP International BV from 1996 until 1997 and as Exploration & Production Coordinator of Shell International Petroleum BV from 1994 to 1995. Mr. Sprague joined the Royal Dutch/Shell group of companies in 1967 and served in a variety of positions in the United States and Europe during his career, including as a director of Shell Canada Limited, a publicly traded company, from 2000 to 2003. Mr. Sprague received his Bachelor of Science degree in 1966 and his Masters in Electrical Engineering degree in 1967 from Cornell University.

Mr. Sprague is an engineer by education and spent many years serving in senior management in the energy business with one of the Company's customers and thus brings a helpful perspective to the Board. In addition, most of his professional career was spent serving in the oil and gas industry outside the United States, thus bringing an important international perspective to the Board.

OUR CANDIDATES: Steven L. Newman

President and Chief Executive Officer
Transocean Ltd.

Steven L. Newman is President and Chief Executive Officer, and a member of the Board of the Company since 2010. Before being named as Chief Executive Officer in March 2010, Mr. Newman served as President and Chief Operating Officer from 2008 to 2009 and subsequently as President. Mr. Newman's prior senior management roles included Executive Vice President, Performance (2007 to 2008), Executive Vice President and Chief Operating Officer (2006 to 2007), Senior Vice President of Human Resources and Information Process Solutions (2006 to 2006), Senior Vice President of Human Resources, Information Process Solutions and Treasury (2005 to 2006), and Vice President of Performance and Technology (2003 to 2005). He also has served as Regional Manager for the Asia and Australia Region and in international field and operations management positions, including Project Engineer, Rig Manager, Division Manager, Region Marketing Manager and Region Operations Manager. Mr. Newman joined the Company in 1994 in the Corporate Planning Department. Mr. Newman received his Bachelor of Science degree in Petroleum Engineering in 1989 from the Colorado School of Mines and his MBA in 1992 from the Harvard University Graduate School of Business. Mr. Newman is also a member of the Society of Petroleum Engineers.

The Board of Directors believes that it is important for the Company's Chief Executive Officer to serve on the Board. The Chief Executive Officer provides a link between the Board and senior management, and the Board believes that this perspective is important in making decisions for the Company. In addition, Mr. Newman brings an industry and competitive context perspective to the Board which assists the Board in making strategic decisions.

OUR CANDIDATES: Thomas W. Cason

Former Senior Vice President and Chief Financial Officer
Baker Hughes Incorporated

Thomas W. Cason has served as a director of the Company since 2007. He served as a director of GlobalSantaFe Corporation from 2001 until 2007 and of Global Marine, Inc. from 1995 to 2001. Mr. Cason owned and managed five agricultural equipment dealerships until his retirement in 2006. He served as interim President and Chief Operating Officer of Key Tronic Corporation during 1994 and 1995 and was a partner in Hiller Key Tronic Partners, L.P. Mr. Cason previously held various financial

and operating positions with Baker Hughes Incorporated, including senior executive positions with Baker Hughes' Drilling Group, serving most recently as Senior Vice President and Chief Financial Officer of Baker Hughes Incorporated. Mr. Cason started his career as a public accountant with Arthur Young & Company. Mr. Cason served as a member of the Board of Directors of Mirant Corporation from 2006 until December 2010 and was chairman of its Audit Committee from 2006 until 2009. Mr. Cason received his Bachelor of Science degree in Accounting in 1970 from Louisiana State University.

Mr. Cason is an accountant with extensive professional experience in the financial services area of the oilfield services industry. Mr. Cason formerly served as chairman of the Audit Committee for GlobalSantaFe Corporation and has also previously served as chairman of the Audit Committee for the Company and remains a committee member. This overlap in experience, combined with his education, professional experience and institutional knowledge of a legacy company are assets to the Board's decision making process.

MEETING DETAILS

The 2013 annual general meeting of Transocean Ltd. will be held on Friday, May 17, 2013 at 5:00 p.m., Swiss time, at the Theater Casino Zug, Artherstrasse 2-4, CH-6300 Zug, Switzerland.

A copy of the proxy materials, including a WHITE proxy and admission card, has been sent to you if you are registered in Transocean Ltd.'s share register as of March 20, 2013. If your shares were purchased after March 20, 2013, and you are registered in Transocean Ltd.'s share register on April 30, 2013, you will receive a copy of the proxy materials after April 30, 2013.

If you vote your shares, but then dispose of them prior to the April 30 voting record date, your vote will not be counted. You do not need to take any further action under such circumstances. Accordingly, we urge you to vote your shares as soon as possible, even if you do subsequently decide to dispose of them.

If you are registered in Transocean Ltd.'s share register as of April 30, 2013 (the Record Date), you have the right to attend the annual general meeting and vote your shares, or you may grant a proxy to vote on each of the proposals in the proxy statement.

At the annual general meeting, we will ask you to: (1) approve our 2012 Annual Report; (2) approve the appropriation of available earnings for fiscal year 2012; (3) approve our distribution of a USD 2.24 per share dividend out of qualifying additional paid-in capital to shareholders; (4) approve our proposed authorized share capital; (5) elect our new director candidate and reelect four directors; (6) approve the

appointment of Ernst & Young LLP as our independent registered public accounting firm and the reelection of Ernst & Young Ltd. as our auditor pursuant to the Swiss Code of Obligations, each for the fiscal year 2013; and (7) consider an advisory vote to approve the compensation of our named executive officers.

Your Board of Directors is recommending a highly qualified, experienced and diverse slate of director nominees for election to the Board of Directors at the annual general meeting. Additionally, your Board of Directors is recommending a dividend payment to shareholders of USD 2.24 per outstanding share of the company out of qualifying additional paid-in capital that will return cash to shareholders while continuing to position the company to enhance long-term value and to make disciplined, high-return investments in the business through value-enhancing opportunities.

The manner in which your shares may be voted depends on how your Transocean Ltd. common shares are held. Many of our shareholders hold their shares in more than one account and may receive separate proxy cards or voting instruction forms for each of those accounts. To ensure that all of your shares are represented at the annual general meeting, we recommend that you vote every WHITE proxy card you receive.

Any proxy card must be received by us no later than 8:00 a.m. Eastern Daylight Time (EDT), 2:00 p.m. Swiss time, on May 17, 2013. Votes indicated in proxy cards received after such date and time will not be voted at the 2013 annual general meeting.

Any proxy card must include: full name and address of, and number of shares held by, the holder of record signing the proxy card as it appears in Transocean Ltd.'s share register. Proxy cards that do not include such information will be considered invalid.

Voting Details

If you have any questions or need assistance in voting, please contact our proxy solicitor, Innisfree M&A Incorporated, at:

- 1-877-456-3507 (toll-free from the US and Canada)
- +1 412-232-3651 (from other countries).

Shareholders in Europe may also call Lake Isle M&A Incorporated, Innisfree's UK subsidiary, free-phone at 00-800-7710-9970, or direct at +44-20-7710-9960.

Whether or not you plan to attend the Transocean annual general meeting, please take a few minutes of time to submit your proxy now using the WHITE proxy card or voting instruction form, to ensure that your shares are represented.

YOUR VOTE IS IMPORTANT-NO MATTER HOW MANY OR HOW FEW SHARES YOU MAY OWN.

PLEASE RETURN YOUR WHITE PROXY CARD TODAY!

NEWS AND RESOURCES

- ISS Presentation - April 24, 2013
- Transocean Proxy Presentation, April 19, 2013
- Transocean Ltd. Releases Investor Presentation and Launches Transoceanvalue.com, Highlighting Strategy to Maximize Shareholder Value
- 2012 Annual Report
- Transocean Ltd. Proxy Statement
- Howard Weil Annual Energy Conference: Transocean Ltd.
- Transocean: yes Icahn

Financial Times - Lex
18 March 2013
8:11 PM
Oil driller's shareholders can thank the activist for a cash return that is hard to justify

The oil driller Transocean is poised to initiate a dividend that makes Carl Icahn, its largest shareholder with a 6 per cent stake, a winner. It is not, however, quite the gusher he had hoped. Transocean, known for operating the BP rig that exploded in 2010, leading to the largest offshore oil spill in history, rejected Mr Icahn's call for a $4-a-share annual dividend. But it has countered with a proposal of $2.24, or $800m in total.

Yet it is hard to justify any fixed cash return to Transocean shareholders. The company has stated that capital expenditures in 2013 will be $3bn, compared with $1.3bn in 2012. Wall Street has thus estimated 2013 free cash flow to be essentially nil. A dividend may require the company to tap its cash balance of $5bn.

However, Transocean also carries $11bn in debt. The credit rating agencies have ranked it just above the cut-off for junk status, and expressed misgivings about reallocating cash away from debt reduction and fleet upgrades. Maintaining high-grade borrowing status isn't just about

vanity and lower interest costs. It is also about maintaining credibility with customers and other counterparties.

If returning cash is a must, a buyback would be a better way to do it - allowing Transocean to reward shareholders opportunistically, when both cash flow is plentiful and market conditions indicate their equity is undervalued (though history shows that companies tend to time buybacks poorly).

However, the likelihood of abandoning the dividend is low. According to Swiss law, which governs Transocean, shareholders will vote on the amount. The shares are still down a third from the pre-disaster level, and it is natural that downtrodden shareholders should demand cash in hand. They will get it, for better or worse. For that, they can thank Mr Icahn.

• Transocean Board Urges Rejection of Icahn Plan
The Wall Street Journal
By Tom Fowler
17 March 2013

Directors of Transocean Ltd. RIG -0.37% are urging shareholders to reject a campaign by activist investor Carl C. Icahn to increase the offshore-oil-rig company's dividend and name three new members to the board.

In a statement Sunday, Transocean's board described Mr. Icahn's demand that the company raise its annual dividend to $4 a share as shortsighted, saying it did not take into account the cyclical nature of the offshore-drilling business or its capital-intensive demands.

The board also criticized the new board members proposed by Mr. Icahn, who owns roughly 5.6% of Transocean's shares, saying the nominees lack the requisite energy-industry experience and were put forth because they are longtime employees or associates of the investor.

“The board believes Mr. Icahn is pursuing a highly flawed agenda focused exclusively on potentially generating temporary returns at the expense of the company's ability to operate successfully and create sustainable value over the long term,” the board said in a statement.

Mr. Icahn made the demands for change in an open letter to shareholders and filings with the company earlier this month. Shareholders would vote on the proposals during the company's annual meeting, which is set for May 17.

Earlier this month, Transocean said it would reinstate its dividend at $2.24 a share after withdrawing it a year ago in the face of threats to its credit rating. The company also said it would repay about $1 billion in debt.

Mr. Icahn previously called the renewed dividend offer "meager" and said the company was making questionable financial choices by paying down low-interest debt and investing in projects with relatively low returns.

- Transocean Says Board Opposes Icahn Dividend, Director Proposals

Bloomberg News
By David Wethe
17 March 2013
8:14 PM ET

Transocean Ltd. (RIG), the offshore rig contractor criticized by billionaire investor Carl Icahn, said the board wants investors to vote against his dividend proposal and three director nominees.

"The board believes the dividend proposed by Mr. Icahn would adversely affect the company's ability to operate and compete effectively in a cyclical and capital-intensive industry," Transocean said today in a statement. "The election of Mr. Icahn's candidates - who are hand-picked to pursue his potentially damaging short-term agenda - is not in the best interest of the company and all of its stakeholders."

Icahn, the largest shareholder in the Vernier, Switzerland- based company, proposed March 7 that John Lipinski, Jose Maria Alapont and Samuel Merksamer be added to the board. He will also ask investors at the annual meeting on May 17 to vote in favor of a $4-a-share annual dividend, which he first proposed in January.

Transocean said March 4 that the board would recommend reinstating its dividend at $2.24 and boosting debt repayment. The company also has defended its 13 board members and called Icahn's plan "overly aggressive."

Today's comments were the first recommendations from the board on Icahn's proposals. The board declined to make a recommendation to shareholders regarding Icahn's proposal to do away with staggered terms for directors.

- Transocean set for battle with Icahn

Financial Times

By Ed Crooks in New York
17 March 2013
Transocean, the offshore drilling contractor, on Monday will formally reject a plan from activist investor Carl Icahn for the company to pay a higher dividend and appoint three new directors, setting the scene for a confrontation at the company's annual meeting in May.

In a proxy statement to shareholders, Transocean's board argues that a dividend payout at the level demanded by Mr Icahn would damage the company's ability to invest and compete against its international rivals. Transocean also criticised Mr Icahn's nominees for board positions, saying they were not “particularly strong” and were all “extremely connected” to Mr Icahn.

Mr Icahn took a 5.6 per cent stake in the company in January, part of a rising trend of investor activism in the energy industry that has included pressure on boards at Chesapeake Energy, Sandridge Energy and Hess.

He called for Transocean to pay a dividend of $4 per share, and has proposed a vote on the plan and nominated three directors for the company's annual meeting on May 17. Transocean in response proposed a dividend of $2.24 per share, to be paid over the coming year.

In its proxy statement for shareholders, the company's board argues that Mr Icahn's demand for a higher payout “provides clear evidence of his lack of understanding of the capital-intensive and highly cyclical nature of the offshore drilling industry”.

In particular, it argues it would be “imprudent” to pay out more cash to shareholders given the uncertainties the company faces, including damages over the 2010 Deepwater Horizon disaster and a civil action in Brazil over the leak from Chevron's Frade field in 2011. Transocean plans to raise its capital spending more than 100 per cent from $1.3bn last year to about $3bn this year, and also argues it is important to retain its investment-grade credit rating.

Moody's, the rating agency, recently reaffirmed Transocean's debt at Baa3, its lowest investment grade rating, but said it still had a negative outlook.

Responding to Mr Icahn, Transocean also said none of his three nominees for the board had experience of oil drilling.

Samuel Merksamer is a managing director of Icahn Capital; John Lipinksi is chief executive of CVR Energy, the refining and fertiliser company where Mr Icahn has a majority stake and is chairman, and José Maria Alapont is a former chief executive of Federal-Mogul, a manufacturer of parts for cars and industrial equipment, also controlled by Mr Icahn.

Transocean is on trial in New Orleans over civil liability for the Deepwater Horizon disaster, along with BP, Halliburton and other companies involved in the accident.

It has agreed a $1.4bn settlement with the US government over the actions against it, but still faces damages claims from state and local governments and private individuals and businesses.

The damages will not be decided until after the end of the trial.

- Transocean Ltd. Board of Directors Concludes Carl Icahn's Proposed Dividend and Director Nominees Are Contrary to the Best Interests of Stakeholders
- Icahn Proposes 3 for Transocean Board on 'Meager' Offer

Bloomberg
By David Wethe
March 07, 2013
Billionaire investor Carl Icahn proposed three new Transocean Ltd. board candidates and said he'd push for a higher dividend after the world's largest rig contractor offered what he termed a “meager” shareholder payout. The company called his plan “overly aggressive.”

Icahn, the largest shareholder (RIG) in the Vernier, Switzerland- based company, proposed John Lipinski, Jose Maria Alapont and Samuel Merksamer be added to the board. He also will ask investors at the annual meeting on May 17 to vote in favor of a $4-a-share annual dividend, which he first proposed in January, Icahn wrote in a letter to shareholders today.

Transocean said March 4 the board would recommend reinstating its dividend at $2.24 and boosting debt repayment. “A larger dividend would be overly aggressive and detrimental to the company's long-term performance,” Transocean (RIG) said in a statement today. The company also defended its 13 board members as having “essential” expertise.

Icahn's interest in Transocean follows his takeover of oil refiner CVR Energy Inc. (CVI) last year and pressure at Chesapeake Energy Corp. (CHK), which resulted in board changes and the resignation of the chief executive officer for the natural gas producer.

Lipinski, the CEO of CVR Energy, initially installed a poison pill to fend off Icahn's attempt to buy the company. Icahn took over as chairman of the Sugar Land, Texas-based company's board after the majority of holders sold him their shares. The company announced a $5.50 special dividend on Jan. 24, after putting its refineries into a separately traded master-limited partnership.

Different Strategies

There's little chance either Icahn or Transocean will change their views as the company's annual meeting approaches, said Scott Gruber, a New York-based analyst with Sanford C. Bernstein & Co. who rates the shares the equivalent of a buy and owns none.

"Investors have two different capital allocation strategies to decide upon," he said in a phone interview today.

Transocean "has conducted ill-advised mergers, employed unsuccessful development strategies and squandered the substantial cash flow generated by the business," Icahn wrote. "Shareholders must replace the directors who have been the architects of this failed strategy, including the chairman."

Icahn also proposed the elimination of staggered terms on the board, so that all members can be voted on simultaneously, according to his letter. Alapont, one of the other nominees, is the former CEO of auto-parts maker Federal-Mogul Corp. (FDML), which is majority owned by Icahn. Merksamer is a managing director for Icahn Capital LP.

'Status Quo'

"The status quo needs to change to prevent continued squandering of shareholder capital," Merksamer said in a phone interview. "Diverting billions of dollars to pay down debt is the wrong strategy. The company should find other ways to reduce debt instead of using operating cash flow."

Chairman Michael Talbert, a former CEO of Transocean, has served on the board for 19 years.

Transocean said six of 12 independent directors on the board have been added in the past two years. The company faces uncertainties related to its role in the 2010 U.S. Gulf of Mexico oil spill, a Brazilian oil spill and tax litigation in Norway, it said in today's statement.

“The board does not intend to take steps that will threaten the company's long-term performance, operating flexibility and investment grade credit rating,” Transocean said. The owner of the Deepwater Horizon rig that exploded in the Gulf halted its dividend payment last year after paying shareholders $3.16 for 2011.

The $4-per-share proposal may limit the company's efforts to enter into strategic transactions to improve its fleet, said James West, a New York-based analyst at Barclays Plc who rates the shares at the equivalent of buy and owns none.

“Shaking things up for a company that's had some problems is probably somewhat of a good thing,” he said in a telephone interview. “Pushing for too much that would impair the company is not.”

- Transocean Ltd. Confirms Receipt of Proposals from Carl Icahn
- Transocean Receives Shareholder Proposal
- Transocean's Next Challenge Is Gusher of Dissent

The Wall Street Journal
By Spencer Jakab
4 March 2013
Icahn Offers Transocean's Latest Challenge

Almost three years after the Deepwater Horizon accident shook Transocean Ltd., it has just about plugged the hole the episode punched in its finances.

On Monday, management will discuss the $3.96 a share in adjusted earnings for 2012 it reported Friday - a big improvement not only from the $1.52 from a year earlier but the $3.49 expected by analysts. Both figures exclude hefty one-time items, including those related to civil and criminal penalties stemming from the April 2010 tragedy.

The settlement of the federal litigation answered a nagging question about the company. But those participating in Monday's earnings call will be asking a new one: How will Transocean respond to corporate activist Carl Icahn?

With legal uncertainty reduced - Transocean still faces some smaller lawsuits as well as unrelated troubles in Brazil and Norway - Mr. Icahn has issues with how the company is deploying its cash.

A strong market for offshore drilling equipment and a $29.7 billion contract backlog could allow the company to repair its balance sheet and invest in new equipment in coming years.

Or it could, as Mr. Icahn insists, share the wealth and pay out $1.5 billion, or $4 a share, in dividends annually. It wouldn't be an outlandish sum: Transocean paid $3.16 a share over four quarters before halting dividends a year ago. But it would force management to change course and make tough choices.

Transocean might have to fund an increase in its dividend from borrowing this year. If analyst expectations are met for 2014 and beyond, the company may have more of a cushion - about $2 billion to $3 billion - available to distribute annually.

Shareholders seem to like the idea of a big payout, as well as the fact that federal charges for the Deepwater incident are now settled. The stock is up nearly 17% this year. It still has lagged behind the S&P 500 by over 70 percentage points since the accident.

But the issue is about more than instant or delayed gratification. Opting to pay no dividend, or a more modest one, would allow Transocean to cushion itself against the next downturn in a notoriously cyclical business. And having extra cash could spell survival if Transocean ever finds itself stuck in deep water again.

- Transocean Ltd. Announces 2013 Annual General Meeting; Recommends Dividend of $2.24 per share; Names Director Nominees

WEBPAGE BOILERPLATE:

Important Additional Information

Transocean Ltd. ("Transocean") has filed a definitive proxy statement with the Securities and Exchange Commission in connection with the solicitation of proxies for its 2013 annual general meeting. Shareholders are strongly advised to read Transocean's 2013 definitive proxy statement because it contains important information.

Information on this website contains forward-looking statements. Risks and uncertainties may cause actual results to differ materially from the results predicted, and reported results should not be considered as an indication of future performance.

For additional information about Transocean's solicitation of proxies for the 2013 annual meeting, forward-looking statements and other legal information, please read Legal Disclaimers.

LEGAL DISCLAIMERS:

Legal Disclaimers

For Display AFTER filing of definitive proxy statement.

Transocean Ltd. (“Transocean”) has filed a definitive proxy statement and accompanying WHITE proxy card with the Securities and Exchange Commission (the “SEC”) in connection with the solicitation of proxies for its 2013 annual general meeting. Shareholders are strongly advised to read Transocean's 2013 definitive proxy statement (including any amendments or supplements thereto) because it contains important information. Shareholders will be able to obtain copies of Transocean's 2013 definitive proxy statement, any amendments or supplements to the proxy statement, and other documents filed by Transocean with the SEC in connection with its 2013 annual general meeting for no charge at the SEC's website at www.sec.gov. If you have any questions or would like to obtain proxy materials, please contact Innisfree M&A Incorporated, the proxy solicitor assisting Transocean in connection with its 2013 annual general meeting. Shareholders may call toll-free at (877) 456-3507.

Forward Looking Statements

Statements included on this website including, but not limited to, those regarding the proposed dividend, the company's capital allocation strategy, value-creating objectives and sustainability of potential future distributions, are forward-looking statements that involve certain assumptions and uncertainties. These statements are based on currently available competitive, financial, and economic data along with our current operating plans and involve risks and uncertainties including, but not limited to, shareholder approval, market conditions, Transocean's results of operations, the effect and results of litigation, assessments and contingencies, and other factors detailed in “Risk Factors” in the company's most recently filed Annual Report on Form 10-K, and elsewhere in Transocean's filings with the SEC. Should one or more of these risks or uncertainties materialize (or the other consequences of such a development worsen), or should underlying assumptions prove incorrect, actual outcomes may vary materially from those expressed or implied by such forward-looking statements. Transocean disclaims any intention or obligation to update publicly or revise such statements, whether as a result of new information, future events or otherwise.

Third Party Information

This website contains or refers to news, commentary and other information relating to Transocean by persons or companies that are not affiliated with Transocean. The author and source of all third party information and the date of its publication are clearly and prominently identified. Transocean has neither sought nor obtained permission to use or quote such third party information.

Transcript of J. Michael Talbert video message appearing on the Company's website www.transoceanvalue.com:

- Hello, my name's Mike Talbert, I'm the Chairman of the Board of Transocean and I want to thank you for joining me today.
- As you all know, Transocean has a long and successful history as the world's leading offshore driller. We have many industry firsts to our credit - a real testament to the technological innovation and creativity of our employees, and the trust that our customers place in us. And we have done it using a balanced approach to capital allocation - disciplined, high-return reinvestment in our world class fleet, maintaining a flexible, resilient balance sheet as characterized by an investment grade rating on our debt, and returning excess cash through distributions to our shareholders and share repurchases.
- The Board of Directors has worked in lock-step with the management team to establish and work towards achieving important strategic objectives that generate value for all of our shareholders.
- We actively pursue a high-spec-focused asset strategy to build on Transocean's long-held leadership position, and we continue to profitably strengthen our industry-leading position in high-spec drilling rigs - we've added five new rigs over the past two years, will be delivering four more in the next year and we recently agreed to build four high capability drillships to firm 10-year contracts for Shell with delivery beginning in 2015. These Shell contracts provide about $7.6 billion in long-dated backlog.
- This is a highly cyclical business with unique challenges - and requires careful, conscientious management through the industry cycles. Even in the context of the unprecedented challenges associated with Macondo, we still invested in the business and have gradually improved operations and financial results. And, after the partial settlement with the Department of Justice is removed significant uncertainty, we have proposed the reinstatement of a dividend of $2.24 per share. This proposal is entirely consistent with our capital allocation strategy
- I believe that it is important for you, our shareholders, to understand how critical capital allocation decisions - like the dividend we are recommending - are made at the Company. But first, a bit of background…
- I am very privileged to Chair a world class Board of Directors. They are independent, diverse, thoughtful, experienced, and truly committed to delivering the best for our shareholders. Many of

our Board members have very deep industry experience, and all have unique viewpoints that benefit the management team as they consider these very important decisions.

- My long experience in the exploration & production business made it clear to me that the technological future of the drilling industry was in deepwater - and so, when I joined Transocean, I supported an increased focus on investing in the technology and the fleet that has made us the leader in deepwater drilling. My colleagues on the Board - key past and current decision makers from some of the leading companies in the world including Baker Hughes, Chevron, Shell, Kinder Morgan and Schlumberger helped make all this happen.

- My job as Chairman is to make sure every director's perspective is heard - and to try to maintain the right level of interaction needed to make the difficult decisions. Our board is quite diverse - both in where they come from and the experiences they have had. But, to me, the most important thing is that they are truly independent of both the company, and each other, in the decision making process. This environment of open and collegial debate from varied perspectives has been critical in helping us make the difficult and complex decisions we have often been faced with.

- The dividend proposal of $2.24 per share - approximately $800 million in total - was determined after weighing many important factors. Including: the improving state of our operations, the strong market for our services, the strength of our balance sheet and the need to reinvest in our business, the partial settlement with the Department of Justice and the views of our shareholders. Additionally, our $2.24 per share proposal establishes a baseline for sustainable return of capital to our shareholders with the potential for increases as business conditions warrant.

- The Board is completely aligned around this decision. We believe it gives us the financial flexibility needed to continue to build the company for the future. And with nearly half of our net income being paid out in the form of a dividend, based on analysts' 2013 estimates, the yield it provides to our shareholders would be among the highest in the industry. Given the remaining uncertainties and the need to reinvest in our business, a higher dividend at this point in time simply wouldn't be prudent.

- Shareholders should feel confident that this decision was made with in-depth analysis, very thoughtful debate, and a true commitment from our Board to deliver long term value to our shareholders.

- We look forward to continuing to execute our strategy, taking advantage of opportunities to reinvest in our fleet and expand operations, and continuing our track record of success.

- I thank you for your time today.

Transcript of Steven L. Newman video message appearing on the Company's website www.transoceanvalue.com:

- Thank you so much for joining me today.

- Two months after I became CEO, Transocean experienced a tragic and transformational event - the Macondo well incident - and our company, and the industry, has had to adapt to a new world. The operating environment has changed, with drilling rigs and equipment being scrutinized by ourselves,

our customers, and regulators more than ever before. This “zero tolerance” environment underpins our strategy to continuously upgrade the world's largest fleet of high-spec rigs, repositioning the company to compete for the long term. Our focus on high-grading the fleet has enabled Transocean to emerge from Macondo a stronger company positioned to capitalize on positive market dynamics.

With the ongoing guidance, direction and support of a highly qualified and engaged Board of Directors, Transocean has weathered unprecedented challenges and emerged a much stronger company overall. We defined and implemented a series of strategic imperatives intended to improve our operational and financial performance and, while there is still much work to be done, we have made significant and tangible progress towards our goals.

In 2012, among other achievements, we:

- Increased revenue efficiency to 93% from around 91% in 2011;
- We increased utilization by 9% to 78%;
- Significantly improved adjusted earnings and cash flow from operations; and
- Captured $16.8 billion in contract backlog.

In addition to these operational improvements, we continued to execute our asset strategy and strengthened our industry-leading position in high-spec assets through the addition of five new rigs over the past two years. We are also investing in four contract-backed, state-of-the-art, ultra-deepwater drillships, which added over $7.5 billion in backlog, and we currently have two ultra-deepwater drillships and three high-spec jackups under construction. Market conditions remain strong and we see additional opportunities for similar, value-enhancing investments.

- Another component of our asset strategy has been to reduce our exposure to low-spec, commodity assets, which we have done through the divestiture of 56 non-core assets over the past two years, including the sale of a 38 rig package to Shelf Drilling and the divestiture of an additional 18 rigs in single-asset transactions. These actions have helped dramatically transform our fleet to better compete for the long term.

These accomplishments, in conjunction with our investments to improve our fleet and our strategy to enhance our margins, uniquely position Transocean to deliver additional value to our shareholders going forward, and, together with our substantial backlog, provide the foundation necessary to support this future growth.

I am also pleased to say that our operational and recent litigation successes have permitted us to propose a dividend of $2.24 per share, which we believe maximizes long-term value creation, and importantly, establishes a basis that is sustainable and supports future dividend increases as remaining uncertainties associated with Macondo, the Frade field incident in Brazil, and tax litigation in Norway, diminish. Our goal is to increase this distribution going forward as business conditions permit.

This proposal is consistent with our history of returning cash to shareholders. Including this proposed dividend, since 2000 Transocean will have returned approximately $21 billion to shareholders through distributions and share repurchases.

- It is important to point out that shareholder value is driven by the proper balance of financial flexibility, capital investment and return of capital, and all of our decisions - both operationally and financially - are made with this in mind. Our disciplined strategy balances the distribution of excess capital with the imperative to continue to invest in our fleet and maintain a strong, flexible and resilient balance sheet as characterized by having an investment grade rating on our debt.

- Going forward, our strategic objectives remain the same: to capitalize on favorable industry trends through a well-positioned and highly capable portfolio of assets, to continue to enhance operational performance, and to advance our asset strategy in order to maximize value for all shareholders.

- Thank you so much for your time and your support and I urge you to vote the Company's WHITE proxy card in favor of our proposals at the upcoming Annual General Meeting

- I look forward to speaking with you again soon.

Transcript of Martin B. McNamara video message appearing on the Company's website www.transoceanvalue.com:

- Hello, everyone and thank you for joining me today. My name is Marty McNamara, and I am chair of the Transocean corporate governance committee, which also serves as our director nominating committee. At our last 2 annual general meetings of shareholders we have nominated and our shareholders have elected 6 new directors, and this year we have nominated a 7th new director, Fred Curado, who is standing for election at our annual general meeting to be held in May of this year.

- With respect to each person we have nominated, we have gone through a very careful process that takes many months of work.

- Every year our committee and board, consulting with management, assess the experience, backgrounds, skills and performance of our directors, and determine specific individual changes or additions to be made, always seeking directors who provide all of the following:

- Demonstrated independence, both under NYSE standards and in terms of being free from any prior commitments or influences that might undermine their ability to think independently.

- They should also have the highest professional and personal integrity, ethics and values,

- As well as tested judgment, deep experience and professional accomplishment in their own careers prior to Transocean's board.

- They should have specific skills, backgrounds and experience that are directly relevant to Transocean's business, and of course,

- A commitment to invest significant time and effort to understand the company's worldwide business, including its customers, assets, finances, operations, and, very importantly, our senior management, succession candidates and our diverse worldwide workforce.

- We have emphasized the nomination of directors who contribute to the diversity of our board so that our board reflects the international and diverse nature of our business, workforce and customers.

- Once we've done our annual assessment of our board performance and needs, we conduct a search using a major, independent international search firm. The outside search firm provides worldwide resources and experience to help us identify and compare the best possible candidates who might be available and fit Transocean's needs.

- As the list of prospects becomes more focused in this process, our governance committee and board members - along with legal counsel and other outside experts - meet directly with candidates, traveling as necessary to accomplish these meetings face-to-face.

- Only after this months-long process and careful consideration of the results does our committee and board recommend nominees to our shareholders.

- All of our board members are completely independent, other than Steven Newman, our Chief Executive Officer. Our nominee Fred Curado will also be fully independent if he is elected.

- The independence of our directors and the continuing renewal and refreshment of our board, helps to give us a very dynamic and open board environment. In order to make the Board function at its best, this refreshment with new faces and ideas must be complemented with Board members possessing strong institutional knowledge of Transocean and its history - without which the company may be exposed to certain risks and lose the benefit of “lessons learned” during these directors' time on the Board. We believe having all views and questions addressed openly in a dynamic board that is diverse but not divided, and that is both balanced and continually renewed - protects the interests of all shareholders.

- We are committed to having new thinking and people on our board, and we believe the 6 new directors we have added, and our proposed addition of Fred Curado at the upcoming AGM, show that.

- Fred Curado has an excellent track record as the current CEO of Embraer, which is a major and growing manufacturer of aircraft, with worldwide operations. Embraer is headquartered in Brazil, a key market for Transocean. He would contribute to our key focus and board oversight responsibilities regarding the quality, safety and environmental and health best practices of Transocean's worldwide operations. We firmly believe Fred's training as an aeronautical engineer and successful experience as the chief executive leading Embraer's worldwide business will contribute importantly to our Board.

- Looking at the 6 other new directors as a group, we have added substantial bench strength and future leadership with respect to our audit and finance responsibilities plus relevant senior leadership experience in international oil and gas and oilfield services operations. At the same time, we have enhanced the diversity of our board. Looking at those six people:

- Glyn Barker brings experience as Vice Chairman - UK managing international business and development for PricewaterhouseCoopers, one of one of the leading worldwide audit firms.

- Vanessa Chang has senior management experience from another leading audit firm, KPMG Peat Marwick, as well as her experience as current chair of the audit committee of another major NYSE-listed company in the energy sector.
- Steve Lucas brings fresh and extensive experience in senior financial management positions with National Grid and with British Gas.
- Chad Deaton has broad and deep industry experience, including his experience as chairman and recently-retired chief executive of Baker Hughes, one of the industry's largest worldwide oilfield services companies.
- Jeet Bindra adds his wide senior management experience and expertise earned in various senior positions during his career throughout the operations and worldwide energy business of Chevron.
- Tan Ek Kia similarly adds deep senior management experience in Royal Dutch/Shell's international energy business, and Ek Kia has particularly deep experience in Asia Pacific.
- Looking at the longer-serving nominees who are up for re-election, they have worked closely with current management to develop and implement the strategic imperatives against which the company is successfully executing. They have also stood up to difficult conditions in this cyclical industry, including Macondo.
- Our Board is a balanced combination of people who bring new thinking and those with some critical history, institutional knowledge and tested experience with Transocean and its business.
- We believe that balance of diverse backgrounds, expertise and independence - independence both from management and from anyone else who may have an individual agenda - is essential to a Board that can deliver performance and long-term value for all of our shareholders while renewing and advancing the board on a thoughtful continuing basis and also preserving the company's core values. With this in mind, I urge you to vote the Company's WHITE proxy card in favor of all of our director nominees and other proposals at the upcoming Annual General Meeting.
- Thank you very much for your time.
- Hello, everyone and thank you for joining me today. My name is Marty McNamara, and I am chair of the Transocean corporate governance committee, which also serves as our director nominating committee. At our last 2 annual general meetings of shareholders we have nominated and our shareholders have elected 6 new directors, and this year we have nominated a 7th new director, Fred Curado, who is standing for election at our annual general meeting to be held in May of this year.
- With respect to each person we have nominated, we have gone through a very careful process that takes many months of work.
- Every year our committee and board, consulting with management, assess the experience, backgrounds, skills and performance of our directors, and determine specific individual changes or additions to be made, always seeking directors who provide all of the following:

- Demonstrated independence, both under NYSE standards and in terms of being free from any prior commitments or influences that might undermine their ability to think independently.
- They should also have the highest professional and personal integrity, ethics and values,
- As well as tested judgment, deep experience and professional accomplishment in their own careers prior to Transocean's board.
- They should have specific skills, backgrounds and experience that are directly relevant to Transocean's business, and of course,
- A commitment to invest significant time and effort to understand the company's worldwide business, including its customers, assets, finances, operations, and, very importantly, our senior management, succession candidates and our diverse worldwide workforce.
- We have emphasized the nomination of directors who contribute to the diversity of our board so that our board reflects the international and diverse nature of our business, workforce and customers.
- Once we've done our annual assessment of our board performance and needs, we conduct a search using a major, independent international search firm. The outside search firm provides worldwide resources and experience to help us identify and compare the best possible candidates who might be available and fit Transocean's needs.
- As the list of prospects becomes more focused in this process, our governance committee and board members - along with legal counsel and other outside experts - meet directly with candidates, traveling as necessary to accomplish these meetings face-to-face.
- Only after this months-long process and careful consideration of the results does our committee and board recommend nominees to our shareholders.
- All of our board members are completely independent, other than Steven Newman, our Chief Executive Officer. Our nominee Fred Curado will also be fully independent if he is elected
- The independence of our directors and the continuing renewal and refreshment of our board, helps to give us a very dynamic and open board environment. In order to make the Board function at its best, this refreshment with new faces and ideas must be complemented with Board members possessing strong institutional knowledge of Transocean and its history - without which the company may be exposed to certain risks and lose the benefit of “lessons learned” during these directors' time on the Board. We believe having all views and questions addressed openly in a dynamic board that is diverse but not divided, and that is both balanced and continually renewed - protects the interests of all shareholders.
- We are committed to having new thinking and people on our board, and we believe the 6 new directors we have added, and our proposed addition of Fred Curado at the upcoming AGM, show that.

- Fred Curado has an excellent track record as the current CEO of Embraer, which is a major and growing manufacturer of aircraft, with worldwide operations. Embraer is headquartered in Brazil, a key market for Transocean. He would contribute to our key focus and board oversight responsibilities regarding the quality, safety and environmental and health best practices of Transocean's worldwide operations. We firmly believe Fred's training as an aeronautical engineer and successful experience as the chief executive leading Embraer's worldwide business will contribute importantly to our Board.

- Looking at the 6 other new directors as a group, we have added substantial bench strength and future leadership with respect to our audit and finance responsibilities plus relevant senior leadership experience in international oil and gas and oilfield services operations. At the same time, we have enhanced the diversity of our board. Looking at those six people:

- Glyn Barker brings experience as Vice Chairman - UK managing international business and development for PricewaterhouseCoopers, one of one of the leading worldwide audit firms.

- Vanessa Chang has senior management experience from another leading audit firm, KPMG Peat Marwick, as well as her experience as current chair of the audit committee of another major NYSE-listed company in the energy sector.

- Steve Lucas brings fresh and extensive experience in senior financial management positions with National Grid and with British Gas.

- Chad Deaton has broad and deep industry experience, including his experience as chairman and recently-retired chief executive of Baker Hughes, one of the industry's largest worldwide oilfield services companies.

- Jeet Bindra adds his wide senior management experience and expertise earned in various senior positions during his career throughout the operations and worldwide energy business of Chevron.

- Tan Ek Kia similarly adds deep senior management experience in Royal Dutch/Shell's international energy business, and Ek Kia has particularly deep experience in Asia Pacific.

- Looking at the longer-serving nominees who are up for re-election, they have worked closely with current management to develop and implement the strategic imperatives against which the company is successfully executing. They have also stood up to difficult conditions in this cyclical industry, including Macondo.

- Our Board is a balanced combination of people who bring new thinking and those with some critical history, institutional knowledge and tested experience with Transocean and its business.

- We believe that balance of diverse backgrounds, expertise and independence - independence both from management and from anyone else who may have an individual agenda - is essential to a Board that can deliver performance and long-term value for all of our shareholders while renewing and advancing the board on a thoughtful continuing basis and also preserving the company's core values. With this in mind, I urge you to vote the Company's WHITE proxy card

in favor of all of our director nominees and other proposals at the upcoming Annual General Meeting.

Cash flows from investing activities:		
Capital expenditures	(4,469)	(1,424)
Proceeds from sale of property, plant and equipment	-	4
Acquisition of a business	(4,633)	(14)
Net cash used in investing activities	(9,102)	(1,434)
Cash flows from financing activities:		
Revolver borrowings	-	701
Revolver payments	-	(1,943)
Principal payments on long-term debt	(713)	(2,065)
Proceeds from stock options exercised	1,036	2,038
Excess tax benefits from stock compensation	726	1,431
Dividends paid	(3,091)	(2,008)
Net cash used in financing activities	(2,042)	(1,846)
Effect of exchange rate changes on cash	(461)	64
Increase in cash and cash equivalents	3,942	23,670
Cash and cash equivalents beginning of period	46,432	3,422
Cash and cash equivalents end of period	$ 50,374	$ 27,092

See accompanying notes to condensed consolidated financial statements.

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BALCHEM CORPORATION

Condensed Consolidated Statements of Comprehensive Income
(Dollars in thousands)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net earnings	$8,339	$6,869	$15,368	$12,967
Other comprehensive income, net of tax where applicable:				
Translation adjustments	(646)	188	(1,019)	125
Unfunded postretirement benefit plan	(3)	(4)	(7)	(7)
Comprehensive income, net of tax where applicable	$7,690	$7,053	$14,342	$13,085

See accompanying notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1 - CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements presented herein have been prepared by the Company in accordance with the accounting policies described in its December 31, 2009 consolidated financial statements, and should be read in conjunction with the consolidated financial statements and notes, which appear in the Annual Report on Form 10-K for the year ended December 31, 2009. References in this report to the "Company" mean either Balchem Corporation or Balchem Corporation and its subsidiaries, including BCP Ingredients, Inc., Balchem Minerals Corporation, and Balchem B.V., on a consolidated basis, as the context requires.

In the opinion of management, the unaudited condensed consolidated financial statements furnished in this Form 10-Q include all adjustments necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented. All such adjustments are of a normal recurring nature. The condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP" or "GAAP") governing interim financial statements and the instructions to Form 10-Q and Article 10 of Regulation S-X under the Securities Exchange Act of 1934 and therefore do not include some information and notes necessary to conform to annual reporting requirements. The results of operations for the six months ended June 30, 2010 are not necessarily indicative of the operating results expected for the full year or any interim period.

NOTE 2 - STOCKHOLDERS' EQUITY

STOCK-BASED COMPENSATION

The Company records stock-based compensation in accordance with the provisions of ASC 718, "Compensation-Stock Compensation". The Company's results for the three and six months ended June 30, 2010 and 2009 reflected the following stock-based compensation cost, and such compensation cost had the following effects on net earnings and basic and diluted earnings per share:

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009
Cost of sales	$ 113	$ 88
Operating expenses	860	659
Net earnings	(624)	(444)
Basic earnings per common share	(0.02)	(0.02)
Diluted earnings per common share	$ (0.02)	$ (0.02)

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	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Cost of sales	$ 227	$ 178
Operating expenses	1,725	1,327
Net earnings	(1,223)	(922)
Basic earnings per common share	(0.04)	(0.03)
Diluted earnings per common share	$ (0.04)	$ (0.03)

As required by ASC 718, the Company has made an estimate of expected forfeitures based on its historical experience and is recognizing compensation cost only for those stock-based compensation awards expected to vest.

The Company's stock incentive plans allow for the granting of restricted stock awards and options to purchase common stock. Both incentive stock options and nonqualified stock options can be awarded under the plans. No option will be exercisable for longer than ten years after the date of grant. The Company has approved and reserved a number of shares to be issued upon exercise of the outstanding options that is adequate to cover all exercises. As of June 30, 2010, the plans had 5,092,770 shares available for future awards. Compensation expense for stock options and restricted stock awards is recognized on a straight-line basis over the vesting period, generally three years for stock options, four years for employee restricted stock awards, and four to seven years for non-employee director restricted stock awards. Certain awards provide for accelerated vesting if there is a change in control (as defined in the plans) or other qualifying events.

Option activity for the six months ended June 30, 2010 and 2009 is summarized below:

For the six months ended June 30, 2010	Shares (000s)	Weighted Average Exercise Price	Aggregate Intrinsic Value ($000s)	Weighted Average Remaining Contractual Term
Outstanding as of December 31, 2009	3,286	$ 11.28	$ 36,342	
Granted	1	22.34		
Exercised	(151)	6.85		
Forfeited	(4)	17.46		
Outstanding as of June 30, 2010	3,132	$ 11.49	$ 42,312	6.2
Exercisable as of June 30, 2010	2,285	$ 9.03	$ 36,491	5.3

For the six months ended June 30, 2009	Shares (000s)	Weighted Average Exercise Price	Aggregate Intrinsic Value ($000s)	Weighted Average Remaining Contractual Term
Outstanding as of December 31, 2008	3,594	$9.21	$ 26,873	
Granted	1	16.57		
Exercised	(433)	4.71		
Forfeited	(15)	14.07		
Outstanding as of June 30, 2009	3,147	$9.80	$ 20,971	6.5
Exercisable as of June 30, 2009	2,200	$7.62	$ 19,203	5.6

ASC 718 requires companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions: dividend yields of 0.6% and 0.5%; expected volatilities of 46% and 50%; risk-free interest rates of 2.1% and 1.8%; and expected lives of 3.9 and 3.3, in each case for the six months ended June 30, 2010 and 2009, respectively.

The Company used a projected expected life for each award granted based on historical experience of employees' exercise behavior. Expected volatility is based on the Company's historical volatility levels. Dividend yields are based on the Company's historical dividend yields. Risk-free interest rates are based on the implied yields currently available on U.S. Treasury zero coupon issues with a remaining term equal to the expected life.
Other information pertaining to option activity during the three and six months ended June 30, 2010 and 2009 was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Weighted-average fair value of options granted	$8.11	$5.92	$8.11	$5.92
Total intrinsic value of stock options exercised ($000s)	$1,274	$3,808	$2,518	$4,835

Non-vested restricted stock activity for the six months ended June 30, 2010 and 2009 is summarized below:

Six months ended June 30, 2010	Shares (000s)	Weighted Average Grant Date Fair Value
Non-vested balance as of December 31, 2009	418	$ 14.56
Non-vested balance as of June 30, 2010	418	$ 14.56

Six months ended June 30, 2009	Shares (000s)	Weighted Average Grant Date Fair Value
Non-vested balance as of December 31, 2008	347	$ 13.39
Non-vested balance as of June 30, 2009	347	$ 13.39

As of June 30, 2010 and 2009, there was $6,494 and $5,934 respectively, of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the plans. As of June 30, 2010, the unrecognized compensation cost is expected to be recognized over a weighted-average period of 2 years. The Company estimates that share-based compensation expense for the year ended December 31, 2010 will be approximately $3,900.

STOCK SPLITS AND REPURCHASE OF COMMON STOCK

On December 12, 2009, the Board of Directors of the Company approved a three-for-two split of the Company's common stock to be effected in the form of a stock dividend to shareholders of record on December 30, 2009. Such stock dividend was made on January 20, 2010. The stock split was recognized by reclassifying the par value of the additional shares resulting from the split, from additional paid-in capital to common stock.

All references to number of common shares and per share amounts except shares authorized in the accompanying consolidated financial statements were retroactively adjusted to reflect the effect of the December 2009 stock split.

The Company has an approved stock repurchase program. The total authorization under this program is 3,763,038 shares. Since the inception of the program, a total of 1,961,800 shares have been purchased, none of which remained in treasury at June 30, 2010 or 2009. During the six months ended June 30, 2010, no additional shares have been purchased. The Company intends to acquire shares from time to time at prevailing market prices if and to the extent it deems it advisable to do so based on its assessment of corporate cash flow, market conditions and other factors.

NOTE 3 - INVENTORIES

Inventories at June 30, 2010 and December 31, 2009 consisted of the following:

	June 30, 2010	December 31, 2009
Raw materials	$6,039	$ 5,799
Work in progress	283	793
Finished goods	10,609	7,373
Total inventories	$16,931	$ 13,965

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at June 30, 2010 and December 31, 2009 are summarized as follows:

	June 30, 2010	December 31, 2009
Land	$1,895	$ 2,112
Building	15,170	15,593
Equipment	54,236	54,068
Construction in progress	5,788	2,676
	77,089	74,449
Less: accumulated depreciation	34,924	32,870
Net property, plant and equipment	$42,165	$ 41,579

NOTE 5 – INTANGIBLE ASSETS

The Company had goodwill in the amount of $28,705 as of June 30, 2010 and $26,658 as of December 31, 2009 subject to the provisions of ASC 350, "Intangibles-Goodwill and Other" (incorporating former SFAS No. 141, "Business Combinations"; and SFAS No. 142, "Goodwill and Other Intangible Assets"). For the six months ended June 30, 2010, the increase in the goodwill is related to an acquisition of a marketer and distributor of propylene oxide for use in the fumigation of certain nut meats. The assets acquired and liabilities assumed as part of this acquisition are not material to the financial statements. Also, the effect of this acquisition on pro forma revenue and earnings for the periods presented is not material to the financial statements.

As of June 30, 2010 and December 31, 2009, the Company had identifiable intangible assets with finite lives with a gross carrying value of approximately $42,387 and $37,592, respectively, less accumulated amortization of $12,945 and $11,088, respectively. For the six months ended June 30, 2010, the increase in the gross carrying amount is primarily attributable to a customer list and registration costs acquired as part of the aforementioned acquisition.

Identifiable intangible assets with finite lives at June 30, 2010 and December 31, 2009 are summarized as follows:

	Amortization Period (in years)	Gross Carrying Amount at 6/30/10	Accumulated Amortization at 6/30/10	Gross Carrying Amount at 12/31/09	Accumulated Amortization at 12/31/09
Customer lists	10	$ 37,750	$ 11,745	$ 34,150	$ 10,011
Regulatory registration costs	10	1,293	25	93	11
Patents & trade secrets	15-17	1,687	552	1,683	504
Trademarks & trade names	17	902	277	911	251
Other	5-10	755	346	755	311
		$ 42,387	$ 12,945	$ 37,592	$ 11,088

Amortization of identifiable intangible assets was approximately $1,858 for the six months ended June 30, 2010. Assuming no change in the gross carrying value of identifiable intangible assets, the estimated amortization expense for the remainder of 2010 is $2,059 and approximately $4,100 per annum for 2011 through 2015. At June 30, 2010, there were no identifiable intangible assets with indefinite useful lives as defined by ASC 350. Identifiable intangible assets are reflected in "Intangible assets with finite lives, net" in the Company's condensed consolidated balance sheets. There were no changes to the useful lives of intangible assets subject to amortization during the six months ended June 30, 2010.

NOTE 6 – NET EARNINGS PER SHARE

The following presents a reconciliation of the net earnings and shares used in calculating basic and diluted net earnings per share:

Three months ended June 30, 2010	Net Earnings (Numerator)	Number of Shares (Denominator)	Per Share Amount
Basic EPS – Net earnings and weighted average common shares outstanding	$ 8,339	27,812,204	$ .30
Effect of dilutive securities – stock options and restricted stock		1,722,089	
Diluted EPS – Net earnings and weighted average common shares outstanding and effect of stock options and restricted stock	$ 8,339	29,534,293	$ .28

Three months ended June 30, 2009	Net Earnings (Numerator)	Number of Shares (Denominator)	Per Share Amount
Basic EPS – Net earnings and weighted average common shares outstanding	$ 6,869	27,335,183	$ .25
Effect of dilutive securities – stock options and restricted stock		1,441,166	
Diluted EPS – Net earnings and weighted average common shares outstanding and effect of stock options and restricted stock	$ 6,869	28,776,349	$ .24

Six months ended June 30, 2010	Net Earnings (Numerator)	Number of Shares (Denominator)	Per Share Amount
Basic EPS – Net earnings and weighted average common shares outstanding	$ 15,368	27,784,956	$ .55
Effect of dilutive securities – stock options and restricted stock		1,654,118	
Diluted EPS – Net earnings and weighted average common shares outstanding and effect of stock options and restricted stock	$ 15,368	29,439,074	$ .52

Six months ended June 30, 2009	Net Earnings (Numerator)	Number of Shares (Denominator)	Per Share Amount
Basic EPS – Net earnings and weighted average common shares outstanding	$ 12,967	27,220,355	$ .48
Effect of dilutive securities – stock options and restricted stock		1,439,841	
Diluted EPS – Net earnings and weighted average common shares outstanding and effect of stock options and restricted stock	$ 12,967	28,660,196	$ .45

The Company had stock options covering 338,250 and 412,200 shares at June 30, 2010 and 2009, respectively, that could potentially dilute basic earnings per share in future periods that were not included in diluted earnings per share because their effect on the period presented was anti-dilutive.

NOTE 7 – INCOME TAXES

The Company accounts for uncertainty in income taxes in accordance with ASC 740-10, "Accounting for Uncertainty in Income Taxes". ASC 740-10 clarifies whether or not to recognize assets or liabilities for tax positions taken that may be challenged by a tax authority. Upon adoption of ASC 740-10, the Company recognized approximately a $291 decrease in its retained earnings balance. The charge before federal tax benefits was $411. The Company includes interest expense or income as well as potential penalties on unrecognized tax positions as a component of income tax expense in the consolidated statements of earnings. The total amount of accrued interest and penalties related to uncertain tax positions at June 30, 2010 was approximately $270 and is included in other long-term obligations. All of the unrecognized tax benefits, if recognized in future periods, would impact the Company's effective tax rate. The Company files income tax returns in the U.S. and in various states and foreign countries. As of June 30, 2010, in the major jurisdictions where the Company operates, it is generally no longer subject to income tax examinations by tax authorities for years before 2006. There was not a significant change in the liabilities for unrecognized tax benefits during the six months ended June 30, 2010.

NOTE 8 - SEGMENT INFORMATION

The Company's reportable segments are strategic businesses that offer products and services to different markets. Presently, the Company has three segments: Specialty Products; Food, Pharma & Nutrition; and Animal Nutrition & Health.

Business Segment Net Sales:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Specialty Products	$10,222	$9,093	$19,890	$17,887
Food, Pharma & Nutrition	10,583	9,091	20,549	17,395
Animal Nutrition & Health	40,653	34,792	80,922	70,680
Total	$61,458	$52,976	$121,361	$105,962

Business Segment Earnings Before Income Taxes:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Specialty Products	$3,618	$3,749	$6,930	$7,136
Food, Pharma & Nutrition	2,847	1,283	4,828	2,242
Animal Nutrition & Health	5,976	5,253	11,177	10,217
Interest and other income (expense)	110	18	277	(126)
Total	$12,551	$10,303	$23,212	$19,469

The following table summarizes domestic (U.S.) and foreign sales for the three and six months ended June 30, 2010 and June 30, 2009:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Domestic	$41,650	$34,960	$80,411	$72,000
Foreign	19,808	18,016	40,950	33,962
Total	$61,458	$52,976	$121,361	$105,962

NOTE 9 – SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid during the six months ended June 30, 2010 and 2009 for income taxes and interest is as follows:

	Six months ended June 30,	
	2010	2009
Income taxes	$8,743	$6,970
Interest	$43	$153

NOTE 10 – LONG-TERM DEBT AND CREDIT AGREEMENTS

On April 30, 2007, the Company and its principal bank entered into a Loan Agreement (the “European Loan Agreement”) providing for an unsecured term loan of $9,156 (the “European Term Loan”), the proceeds of which were used to fund the 2007 Akzo Nobel Acquisition (described in Note 5 of the Company’s Form 10-K as of December 31, 2009) and initial working capital requirements. The European Term Loan is payable in equal monthly installments of

principal, each equal to 1/84th of the principal of the European Term Loan, together with accrued interest, with remaining principal and interest payable at maturity. The European Term Loan has been renewed with a new maturity date of May 1, 2014 and is subject to a monthly interest rate equal to EURIBOR plus 1%. At June 30, 2010, this interest rate was 1.48%. At June 30, 2010, the European Term Loan had an outstanding balance of $5,123. The European Loan Agreement also provides for a short-term revolving credit facility of $3,662 (the "European Revolving Facility"). The European Revolving Facility has been renewed for a period of one year as of May 1, 2010. The European Revolving Facility is subject to a monthly interest rate equal to EURIBOR plus 1.45%, and accrued interest is payable monthly. No amounts are outstanding on the European Revolving Facility as of the date hereof. Management believes that such facility will be renewed in the normal course of business.

On March 16, 2007, the Company and its principal bank entered into a Loan Agreement (the “Loan Agreement”) providing for an unsecured term loan of $29,000 (the “Term Loan”), the proceeds of which were used to fund the 2007 Chinook Acquisition (described in Note 5 of the Company’s Form 10-K as of December 31, 2009). As of June 30, 2010, the Company has paid the Term Loan in full. The Loan Agreement also provides for a short-term revolving credit facility of $6,000 (the "Revolving Facility"). The Revolving Facility is subject to a monthly interest rate equal to LIBOR plus 1%, and accrued interest is payable monthly. No amounts are outstanding on the Revolving Facility as of the date hereof. The Revolving Facility has been renewed with a new maturity date of May 31, 2011. Management believes that such facility will be renewed in the normal course of business.

NOTE 11 - EMPLOYEE BENEFIT PLAN

The Company currently provides postretirement benefits in the form of a retirement medical plan under a collective bargaining agreement covering eligible retired employees of its Verona, Missouri facility.

Net periodic benefit cost for such retirement medical plan for the six months ended June 30, 2010 and June 30, 2009 was as follows:

	2010	2009
Service cost	$17	$16
Interest cost	22	21
Expected return on plan assets	-	-
Amortization of transition obligation	-	-
Amortization of prior service cost	(9)	(9)
Amortization of gain	(1)	(1)
Net periodic benefit cost	$29	$27

The amount recorded on the Company’s balance sheet as of June 30, 2010 for this obligation is $927, and it is included in other long-term obligations. The plan is unfunded and approved claims are paid from Company funds. Historical cash payments made under such plan approximated $50 per year.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

As part of the June 30, 2005 acquisition of certain assets relating to the encapsulation, agglomeration and granulation business of Loders Croklaan USA, LLC, the Company entered into a lease agreement with Loders under which the Company leases a portion of Loders' Channahon, Illinois facility where it principally conducted the manufacturing portion of the acquired business and utilized certain warehouse space. The initial term of the lease commenced in February 2006 and runs through September 30, 2010, subject to earlier termination or extension.

In February 2002, the Company entered into a ten (10) year lease, which became cancelable in 2009, for approximately 20,000 square feet of office space. The office space is now serving as the Company's general offices and as a laboratory facility. The Company leases most of its vehicles, railcars and office equipment under non-cancelable operating leases, which primarily expire at various times through 2015.

Rent expense charged to operations under such lease agreements for the six months ended June 30, 2010 and 2009 aggregated approximately $523 and $560, respectively. Aggregate future minimum rental payments required under all non-cancelable operating leases at June 30, 2010 are as follows:

Year	
July 1, 2010 to December 31, 2010	$482
2011	666
2012	347
2013	177
2014	112
2015	76
Thereafter	54
Total minimum lease payments	$1,914

In 1982, the Company discovered and thereafter removed a number of buried drums containing unidentified waste material from the Company's site in Slate Hill, New York. The Company thereafter entered into a Consent Decree to evaluate the drum site with the New York Department of Environmental Conservation ("NYDEC") and performed a Remedial Investigation/Feasibility Study that was approved by NYDEC in February 1994. Based on NYDEC requirements, the Company cleaned the area and removed additional soil from the drum burial site, which was completed in 1996. The Company continues to be involved in discussions with NYDEC to evaluate test results and determine what, if any, additional actions will be required on the part of the Company to close out the remediation of this site. Additional actions, if any, would likely require the Company to continue monitoring the site. The cost of such monitoring has been less than $5 per year for the period 2003 to date.

The Company's Verona, Missouri facility, while held by a prior owner, was designated by the EPA as a Superfund site and placed on the National Priorities List in 1983, because of dioxin contamination on portions of the site. Remediation conducted by the prior owner under the oversight of the EPA and the Missouri Department of Natural Resources ("MDNR") included removal of dioxin contaminated soil and equipment, separate from the manufacturing facilities, and the installation of wells to monitor groundwater and surface water contamination by organic chemicals. No ground water or surface water treatment was required. The Company believes that remediation of the site is complete. In 1998, the EPA certified the work on the contaminated soils to be complete. In February 2000, after the conclusion of two years of monitoring groundwater and surface water, the former owner submitted a draft third party risk assessment report to the EPA and MDNR recommending no further action. The prior owner is awaiting the response of the EPA and MDNR to the draft risk assessment.

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

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

NOTE 13 – NEW ACCOUNTING PRONOUNCEMENTS

In April 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2010-17, "Revenue Recognition - Milestone Method (Topic 605): Milestone Method of Revenue Recognition" ("ASU 2010-17"). ASU 2010-17 provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for certain research and development transactions. Under ASU 2010-17, a company can recognize as revenue consideration that is contingent upon achievement of a milestone in the period in which it is achieved, only if the milestone meets all criteria to be considered substantive. ASU 2010-17 is effective on a prospective basis for milestones in fiscal years beginning on or after June 15, 2010. The Company does not expect the adoption of this ASU to be significant to its consolidated financial statements.

In February 2010, the FASB issued ASU No. 2010-09, "Subsequent Events (Topic 855) Amendments to Certain Recognition and Disclosure Requirements" ("ASU 2010-09"). ASU 2010-09 amends disclosure requirements within Subtopic 855-10. An entity that is an SEC filer is not required to disclose the date through which subsequent events have been evaluated. This change alleviates potential conflicts between Subtopic 855-10 and the SEC's requirements. ASU 2010-09 is effective for interim and annual periods ending after June 15, 2010. The adoption of this guidance was not significant to the Company's consolidated financial statements.

In October 2009, the FASB issued Accounting Standards Update ("ASU") No. 2009-13, "Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements—a consensus of the FASB Emerging Issues Task Force." This ASU provides amendments to the criteria for separating consideration in multiple-deliverable arrangements. The amendments in this ASU replace the term "fair value" in the revenue allocation guidance with "selling price" to clarify that the allocation of revenue is based on entity-specific assumptions rather than assumptions of a marketplace participant, and they establish a selling price hierarchy for determining the selling price of a deliverable. The amendments in this ASU will eliminate the residual method of allocation and require that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method, and they significantly expand the required disclosures related to multiple-deliverable revenue arrangements. The amendments in this ASU will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning after June 15, 2010. The Company does not expect the adoption of this ASU to be significant to its consolidated financial statements.

In June 2009, the FASB issued amended guidance (incorporating former SFAS No. 167, “Amendments to FASB Interpretation No. 46(R)”) incorporated into ASC 810, “Consolidation”. The amendments include: (1) the elimination of the exemption for qualifying special purpose entities, (2) a new approach for determining who should consolidate a variable-interest entity, and (3) changes to when it is necessary to reassess who should consolidate a variable-interest entity. This amended guidance is effective for the first annual reporting period beginning after November 15, 2009 and for interim periods within that first annual reporting period. The adoption of this guidance was not significant to the Company’s consolidated financial statements.

In June 2009, the FASB issued ASC 860, “Transfers and Servicing” (incorporating former SFAS No. 166, “Accounting for Transfers of Financial Assets, an amendment to SFAS No. 140”.) This guidance eliminates the concept of a “qualifying special-purpose entity,” changes the requirements for derecognizing financial assets, and requires additional disclosures in order to enhance information reported to users of financial statements by providing greater transparency about transfers of financial assets, including securitization transactions, and an entity’s continuing involvement in and exposure to the risks related to transferred financial assets. This guidance is effective for fiscal years beginning after November 15, 2009. The adoption of this guidance was not significant to the Company’s consolidated financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (All dollar amounts in thousands)

This Report contains forward-looking statements, within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, which reflect our expectation or belief concerning future events that involve risks and uncertainties. Our actions and performance could differ materially from what is contemplated by the forward-looking statements contained in this Report. Factors that might cause differences from the forward-looking statements include those referred to or identified in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2009 and other factors that may be identified elsewhere in this Report. Reference should be made to such factors and all forward-looking statements are qualified in their entirety by the above cautionary statements.

Overview

We develop, manufacture, distribute and market specialty performance ingredients and products for the food, nutritional, pharmaceutical, animal health and medical device sterilization industries. Our reportable segments are strategic businesses that offer products and services to different markets. We presently have three reportable segments: Specialty Products; Food, Pharma & Nutrition; and Animal Nutrition & Health.

Specialty Products

Our Specialty Products segment operates in industry as ARC Specialty Products.

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

We also sell propylene oxide principally to customers seeking smaller (as opposed to bulk) quantities and whose requirements include timely delivery and safe handling. Propylene oxide uses can include fumigation of nut meats and spices, various chemical synthesis applications, to make paints more durable, and for manufacturing specialty starches and textile coatings.

Food, Pharma & Nutrition

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

over-the-counter and prescription pharmaceuticals for the treatment of osteoporosis, gastric disorders and calcium deficiencies in the United States.

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Animal Nutrition & Health

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

We sell products for all three segments through our own sales force, independent distributors, and sales agents.

The following tables summarize consolidated net sales by segment and business segment earnings from operations for the three and six months ended June 30, 2010 and June 30, 2009:

Business Segment Net Sales:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Specialty Products	$10,222	$9,093	$19,890	$17,887
Food, Pharma & Nutrition	10,583	9,091	20,549	17,395
Animal Nutrition & Health	40,653	34,792	80,922	70,680
Total	$61,458	$52,976	$121,361	$105,962

Business Segment Earnings From Operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Specialty Products	$3,618	$3,749	$6,930	$7,136
Food, Pharma & Nutrition	2,847	1,283	4,828	2,242
Animal Nutrition & Health	5,976	5,253	11,177	10,217
Total	$12,441	$10,285	22,935	19,595

RESULTS OF OPERATIONS

Three months ended June 30, 2010 compared to three months ended June 30, 2009.

Net Sales

Net sales for the three months ended June 30, 2010 were $61,458, as compared with $52,976 for the three months ended June 30, 2009, an increase of $8,482 or 16.0%. Net sales for the Specialty Products segment were $10,222 for the three months ended June 30, 2010, as compared with $9,093 for the three months ended June 30, 2009, an increase of $1,129 or 12.4%. This increase in sales was derived principally from an increase in volumes sold of propylene oxide, a result of our recent acquisition of a marketer and distributor of propylene oxide for use in the fumigation of certain nut meats. Net sales for the Food, Pharma & Nutrition segment were $10,583 for the three months ended June 30, 2010 compared with $9,091 for the three months ended June 30, 2009, an increase of $1,492 or 16.4%. This result was driven principally by a volume increase in the domestic food sector, primarily due to higher volumes of encapsulated ingredients for baking, preservation and confection markets. Also contributing to the increase was higher sales of human choline products for both food applications and the supplement markets. These increases were partially offset by lower sales of calcium products and Vitashure® products for nutritional enhancement. Net sales of $40,653 were realized for the three months ended June 30, 2010 for the Animal Nutrition & Health segment, as compared with $34,792 for the prior year comparable quarter, an increase of $5,861 or 16.8%. Feed and industrial grade choline product sales and derivatives increased 17.9% or $5,233 over the prior year quarter. Sales of our largest AN&H product group, aqueous and dry feed grade choline products, were flat with the prior year quarter. There were a number of factors contributing to this end result. During the quarter, the Company saw improved sales of liquid and dry choline into the North American feed segment, reflecting poultry production levels that appear to have stabilized. Exports of liquid and dry choline from the Company's North American plants declined due to rising raw material costs in combination with global competition and unfavorable currency rates. Volume sales of liquid and dry Italian produced choline were flat with the prior year quarter; however, sales dollars were lower as Euro denominated sales were negatively impacted by the strength of the U.S. Dollar relative to the Euro. The Company experienced increased sales of industrial grade products being sold for various industrial applications, predominantly in North America, but also in Europe. Sales of our specialty animal nutrition and health products, largely targeted to the ruminant and companion animal markets, increased 11.4% or $628 over the prior year comparable quarter, as some regional improvement in dairy economics supported greater demand for these products, particularly with strong sales of Aminoshure-L®, the Company's rumen protected lysine.

Gross Margin

Gross margin for the three months ended June 30, 2010 increased to $19,116 compared to $17,304 for the three months ended June 30, 2009, an increase of 10.5%. Gross margin percentage for the three months ended June 30, 2010 was 31.1%, as compared to 32.7% for the prior year comparable quarter, as the benefits of increased sales volumes were offset primarily by higher petro-chemical based raw material costs. Gross margin percentage for the Specialty Products segment decreased by 7.2% primarily due to the aforementioned higher petro-chemical based raw material costs. Gross margin percentage in the Food, Pharma & Nutrition segment increased by 10.0% as margins were favorably affected by increased sales volumes, improved product mix and plant efficiencies. Gross margin percentage in the Animal Nutrition and Health segment decreased by 2.9% principally from increases in the cost of certain petro-chemical raw materials used to manufacture choline.

Operating Expenses

Operating expenses for the three months ended June 30, 2010 were $6,675, as compared to $7,019 for the three months ended June 30, 2009, a decrease of $344 or 4.9%. This decrease was primarily due to a reduction in outside contract research expense, principally due to the timing of these activities, and accounts receivable reserves for international accounts that were an expense/reserve item in the prior year comparable quarter. Operating expenses were 10.9% of sales or 2.3 percentage points less than the operating expenses as a percent of sales incurred in last year's comparable quarter. During the three months ended June 30, 2010 and 2009, the Company spent $670 and $880 respectively, on research and development programs, substantially all of which pertained to the Company’s Food, Pharma & Nutrition and Animal Nutrition & Health segments.

Business Segment Earnings From Operations

Earnings from operations for the three months ended June 30, 2010 increased to $12,441 compared to $10,285 for the three months ended June 30, 2009, an increase of $2,156 or 21.0%. This increase was principally driven by increased sales volumes over the prior year comparable quarter, partially offset primarily by higher petro-chemical based raw material costs. Earnings from operations as a percentage of sales (“operating margin”) for the three months ended June 30, 2010 increased to 20.2% from 19.4% for the three months ended June 30, 2009, principally a result of the aforementioned higher sales volumes being partially offset by higher petro-chemical based raw material costs. The Company is continuing to focus on volume growth with new product launches into both domestic and international markets, as well as capitalizing on its varied choline production capabilities. Earnings from operations for the Specialty Products segment were $3,618, a decrease of $131 or 3.5%, primarily due to increased sales volumes being offset by higher petro-chemical based raw material costs, increased expenses related to development work on our ERC technology for repackaging, distribution and delivery of a product for the fruit ripening industry, and certain costs related to the aforementioned acquisition. Earnings from operations for Food, Pharma & Nutrition were $2,847, an increase of $1,564 or 121.9%, due largely to the aforementioned increased sales volumes, favorable product mix and plant efficiencies. Earnings from operations for Animal Nutrition & Health increased by $723 to $5,976, a 13.8% increase from the prior year comparable quarter, principally from favorable operating variances due to the volume improvement in both sales and production. Also contributing to the improvement was the aforementioned reduction in outside contract research expense and accounts receivable reserves for international accounts that were an expense/reserve item in the prior year comparable quarter. These improvements were partially offset by increases in the cost of certain petro-chemical raw materials used to manufacture choline.

Other Expenses (Income)

Interest income for the three months ended June 30, 2010 totaled $69 as compared to $20 for the three months ended June 30, 2009. Interest expense was $18 for the three months ended June 30, 2010 compared to $41 for the three months ended June 30, 2009. This decrease is primarily attributable to the decrease in average current and long-term debt resulting from normal recurring principal payments, as well as paying off revolver borrowings. Other income of $59 for the three months ended June 30, 2010 is primarily the result of favorable fluctuations in foreign currency exchange rates between the U.S. dollar (the reporting currency) and functional foreign currencies.

Income Tax Expense

The Company's effective tax rate for the three months ended June 30, 2010 and 2009 was 33.6% and 33.3% respectively. This slight increase in the effective tax rate is primarily attributable to a change in apportionment relating to state income taxes, as well as a change in the income proportion towards jurisdictions with higher tax rates.

Net Earnings

Principally as a result of the above-noted increase in sales, partially offset primarily by higher costs of certain petro-chemical based raw materials, net earnings were $8,339 for the three months ended June 30, 2010, as compared with $6,869 for the three months ended June 30, 2009, an increase of 21.4%.

Six months ended June 30, 2010 compared to six months ended June 30, 2009.

Net Sales

Net sales for the six months ended June 30, 2010 were $121,361, as compared with $105,962 for the six months ended June 30, 2009, an increase of $15,399 or 14.5%. Net sales for the Specialty Products segment were $19,890 for the six months ended June 30, 2010, as compared with $17,887 for the six months ended June 30, 2009, an increase of $2,003 or 11.2%. This increase in sales was derived principally from an increase in volumes of certain ethylene oxide and propylene oxide products. Net sales for the Food, Pharma & Nutrition segment were $20,549 for the six months ended June 30, 2010 compared with $17,395 for the six months ended June 30, 2009, an increase of $3,154 or 18.1%. This result was driven principally by a volume increase in the domestic food sector, primarily due to higher volumes of encapsulated ingredients for baking, preservation and confection markets. Also contributing to the increase was higher sales of human choline products for both food applications and the supplement markets. These increases were partially offset by lower sales of calcium products and Vitashure® products for nutritional enhancement. Net sales of $80,922 were realized for the six months ended June 30, 2010 for the Animal Nutrition & Health segment, as compared with $70,680 for the prior year comparable period, an increase of $10,242 or 14.5%. Feed and industrial grade choline product sales and derivatives increased 13.8% or $8,199 over the prior period. The Company experienced increased sales of industrial grade products being sold for various industrial applications, predominantly in North America, but also in Europe. Sales of our specialty animal nutrition and health products, largely targeted to the ruminant and companion animal markets, increased 18.0% or $2,043 over the prior year comparable period, as some regional improvement in dairy economics supported greater demand for these products, particularly with strong sales of Aminoshure-L®, the Company's rumen protected lysine.

Gross Margin

Gross margin for the six months ended June 30, 2010 increased to $36,530 compared to $33,602 for the six months ended June 30, 2009, an increase of 8.7%. Gross margin percentage for the six months ended June 30, 2010 was 30.1%, as compared to 31.7% for the prior year comparable period, as the benefits of increased sales volumes were offset primarily by higher petro-chemical based raw material costs. Gross margin percentage for the Specialty Products segment decreased by 6.2% primarily due to the aforementioned higher petro-chemical based raw material costs. Gross margin percentage in the Food, Pharma & Nutrition segment increased by 8.3% as margins were favorably affected by increased sales volumes, improved product mix and plant efficiencies. Gross margin percentage in the Animal Nutrition and Health segment decreased by 2.8% principally from increases in the cost of certain petro-chemical raw materials used to manufacture choline.

Operating Expenses

Operating expenses for the six months ended June 30, 2010 were $13,595, as compared to $14,007 for the six months ended June 30, 2009, a decrease of $412 or 2.9%. This decrease was primarily due to a reduction in outside contract research expense, principally due to the timing of these activities, and accounts receivable reserves for international accounts that were an expense/reserve item in the prior year comparable period. Operating expenses were 11.2% of sales or 2.0 percentage points less than the operating expenses as a percent of sales incurred in last year's comparable period. During the six months ended June 30, 2010 and 2009, the Company spent $1,538 and $1,688 respectively, on research and development programs, substantially all of which pertained to the Company's Food, Pharma & Nutrition and Animal Nutrition & Health segments.

Business Segment Earnings From Operations

Earnings from operations for the six months ended June 30, 2010 increased to $22,935 compared to $19,595 for the six months ended June 30, 2009, an increase of $3,340 or 17.0%. This increase was principally driven by increased sales volumes over the prior year comparable period, partially offset primarily by higher petro-chemical based raw material costs. Earnings from operations as a percentage of sales ("operating margin") for the six months ended June 30, 2010 increased slightly to 18.9% compared to 18.5% for the six months ended June 30, 2009, principally a result of the aforementioned higher sales volumes being partially offset by higher petro-chemical based raw material costs. The Company is continuing to focus on volume growth with new product launches into both domestic and international markets, as well as capitalizing on its varied choline production capabilities. Earnings from operations for the Specialty Products segment were $6,930, a decrease of $206 or 2.9%, primarily due to increased sales volumes being offset by higher petro-chemical based raw material costs and increased expenses related to development work on our ERC technology for repackaging, distribution and delivery of a product for the fruit ripening industry. Earnings from operations for Food, Pharma & Nutrition were $4,828, an increase of $2,586 or 115.3%, due largely to the aforementioned increased sales volumes, favorable product mix and plant efficiencies. Earnings from operations for Animal Nutrition & Health increased by $960 to $11,177, a 9.4% increase from the prior year comparable period, principally from favorable operating variances due to the volume improvement in both sales and production. Also contributing to the improvement was the aforementioned reduction in outside contract research expense and accounts receivable reserves for international accounts that were an expense/reserve item in last year's comparable period. These improvements were partially offset by increases in the cost of certain petro-chemical raw materials used to manufacture choline.

Other Expenses (Income)

Interest income for the six months ended June 30, 2010 totaled $140 as compared to $30 for the six months ended June 30, 2009. Interest expense was $40 for the six months ended June 30, 2010 compared to $115 for the six months ended June 30, 2009. This decrease is primarily attributable to the decrease in average current and long-term debt resulting from normal recurring principal payments, as well as paying off revolver borrowings. Other income of $177 for the six months ended June 30, 2010 is primarily the result of favorable fluctuations in foreign currency exchange rates between the U.S. dollar (the reporting currency) and functional foreign currencies.

Income Tax Expense

The Company’s effective tax rate for the six months ended June 30, 2010 and 2009 was 33.8% and 33.4% respectively. This slight increase in the effective tax rate is primarily attributable to a change in apportionment relating to state income taxes, as well as a change in the income proportion towards jurisdictions with higher tax rates.

Net Earnings

Principally as a result of the above-noted increase in sales, partially offset primarily by higher costs of certain petro-chemical based raw materials, net earnings were $15,368 for the six months ended June 30, 2010, as compared with $12,967 for the six months ended June 30, 2009, an increase of 18.5%.

FINANCIAL CONDITION

LIQUIDITY AND CAPITAL RESOURCES

Contractual Obligations

The Company's contractual obligations and commitments principally include obligations associated with future minimum non-cancelable operating lease obligations, long-term debt obligations, interest payment obligations and purchase obligations principally related to open purchase orders for inventory not yet received or recorded on our balance sheet.

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

During the six months ended June 30, 2010, there were no material changes outside the ordinary course of business in the specified contractual obligations set forth in our Annual Report on Form 10-K for the year ended December 31, 2009. The Company expects its operations to continue generating sufficient cash flow to fund working capital requirements and necessary capital investments. The Company is actively pursuing additional acquisition candidates. The Company could seek additional bank loans or access to financial markets to fund such acquisitions, its operations, working capital, necessary capital investments or other cash requirements should it deem it necessary to do so.

Cash

Cash and cash equivalents increased to $50,374 at June 30, 2010 from $46,432 at December 31, 2009 primarily resulting from the information detailed below. Working capital amounted to $77,130 at June 30, 2010 as compared to $59,197 at December 31, 2009, an increase of $17,933.

Operating Activities

Cash flows from operating activities provided $15,547 for the six months ended June 30, 2010 compared to $26,886 for the six months ended June 30, 2009. The decrease in cash flows from operating activities was primarily due to increases in accounts receivable, principally a result of higher sales; increased inventories, primarily due to higher petro-chemical raw material costs; and a decrease in accounts payable and accrued expenses, partially offset by higher net earnings.

Investing Activities

Capital expenditures were $4,469 for the six months ended June 30, 2010 compared to $1,424 for the six months ended June 30, 2009. Acquisition of a business of $4,633 was primarily due to the Company's aforementioned acquisition of a marketer and distributor of propylene oxide.

Financing Activities

The Company has an approved stock repurchase program. The total authorization under this program is 3,763,038 shares. Since the inception of the program, a total of 1,961,800 shares have been purchased, none of which remained in treasury at June 30, 2010 or 2009. During the six months ended June 30, 2010, no additional shares have been purchased. The Company intends to acquire shares from time to time at prevailing market prices if and to the extent it deems it advisable to do so based on its assessment of corporate cash flow, market conditions and other factors.

On April 30, 2007, the Company and its principal bank entered into a Loan Agreement (the "European Loan Agreement") providing for an unsecured term loan of $9,156 (the "European Term Loan"), the proceeds of which were used to fund the 2007 Akzo Nobel Acquisition (described in Note 5 of the Company's Form 10-K as of December 31, 2009) and initial working capital requirements. The European Term Loan is payable in equal monthly installments of principal, each equal to 1/84th of the principal of the European Term Loan, together with accrued interest, with remaining principal and interest payable at maturity. The European Term Loan has been renewed with a new maturity date of May 1, 2014 and is subject to a monthly interest rate equal to EURIBOR plus 1%. At June 30, 2010, this interest rate was 1.48%. At June 30, 2010, the European Term Loan had an outstanding balance of $5,123. The European Loan Agreement also provides for a short-term revolving credit facility of $3,662 (the "European Revolving Facility"). The European Revolving Facility has been renewed for a period of one year as of May 1, 2010. The European Revolving Facility is subject to a monthly interest rate equal to EURIBOR plus 1.45%, and accrued interest is payable monthly. No amounts are outstanding on the European Revolving Facility as of the date hereof. Management believes that such facility will be renewed in the normal course of business.

On March 16, 2007, the Company and its principal bank entered into a Loan Agreement (the "Loan Agreement") providing for an unsecured term loan of $29,000 (the "Term Loan"), the proceeds of which were used to fund the 2007 Chinook Acquisition (described in Note 5 of the Company's Form 10-K as of December 31, 2009). As of June 30, 2010, the Company has paid the Term Loan in full. The Loan Agreement also provides for a short-term revolving credit facility of $6,000 (the "Revolving Facility"). The Revolving Facility is subject to a monthly interest rate equal to LIBOR plus 1%, and accrued interest is payable monthly. No amounts are outstanding on the Revolving Facility as of the date hereof. The Revolving Facility has been renewed with a new maturity date of May 31, 2011. Management believes that such facility will be renewed in the normal course of business.

Significant financial covenants in our loan agreements include maintaining at certain levels our Current Ratio, Funded Debt Ratio, and a Fixed Charge Coverage Ratio. We were in compliance with all material covenants related to our loan agreements as of June 30, 2010 and we expect to be in compliance with all material covenants during fiscal 2010. Our loan agreements require compliance with all of the covenants defined in the agreement. If we were out of compliance with any debt covenant required by our loan agreements following the applicable cure period, our lender could terminate its commitment, unless we successfully negotiate a covenant waiver.

Proceeds from stock options exercised totaled $1,036 and $2,038 for the six months ended June 30, 2010 and 2009, respectively. Dividend payments were $3,091 and $2,008 for the six months ended June 30, 2010 and 2009, respectively.

Other Matters Impacting Liquidity

The Company currently provides postretirement benefits in the form of a retirement medical plan under a collective bargaining agreement covering eligible retired employees of its Verona, Missouri facility. The amount recorded on the Company's balance sheet as of June 30, 2010 for this obligation is $927. The postretirement plan is not funded. Historical cash payments made under such plan have approximated $50 per year.

Critical Accounting Policies

There were no changes to the Company's Critical Accounting Policies, as described in its December 31, 2009 Annual Report on Form 10-K, during the six months ended June 30, 2010.

Related Party Transactions

The Company was not engaged in related party transactions during the six months ended June 30, 2010.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

Cash and cash equivalents are invested primarily in money market accounts. The Company has no derivative financial instruments or derivative commodity instruments, nor does the Company have any financial instruments entered into for trading or hedging purposes. As of June 30, 2010, the Company's borrowings were under a bank term loan bearing interest at EURIBOR plus 1.00%. A 100 basis point increase or decrease in interest rates, applied to the Company's borrowings at June 30, 2010, would result in an increase or decrease in annual interest expense and a corresponding reduction or increase in cash flow of approximately $51. The Company is exposed to market risks for changes in foreign currency rates and has exposure to commodity price risks, including prices of our primary raw materials. Our objective is to seek a reduction in the potential negative earnings impact of changes in foreign exchange rates and raw material pricing arising in our business activities. The Company manages these financial exposures, where possible, through pricing and operational means. Our practices may change as economic conditions change.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Pursuant to the requirements of the Sarbanes-Oxley Act of 2002, the Company's management, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated, as of the end of the period covered by this Quarterly Report on Form 10-Q, the effectiveness of the Company's disclosure controls and procedures (including its internal controls and procedures.)

Based upon management's evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures were effective in identifying the information required to be disclosed in the Company's periodic reports filed with the Securities and Exchange Commission ("SEC"), including this Quarterly Report on Form 10-Q, and ensuring that such information is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

(b) Changes in Internal Controls

During the most recent fiscal quarter, there has been no significant change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II. Other Information

Item 1A. Risk Factors

There have been no material changes in the Risk Factors identified in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

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

On June 17, 2010, the Company held its Annual Meeting of stockholders. The following actions were voted upon at the meeting:

1. The following individuals were elected Class 1 directors to serve until the annual meeting of stockholders in 2013 and until the election and qualification of their respective successors. A total of 24,970,938 shares were represented in person or by proxy at the Annual Meeting. The numbers of shares that were voted for, and that were withheld from, each of the director nominees are as follows:

Director	For	Votes Withheld
Dino A. Rossi	20,033,790	1,009,835
Elaine R. Wedral	20,800,294	242,331

The terms of our other directors, Perry W. Premdas, John Y. Televantos and Edward McMillan continued after the Annual Meeting, except that Kenneth Mitchell announced his retirement from the Company's Board of Directors, effective August 6, 2010.

2. The stockholders approved the appointment of McGladrey & Pullen, LLP as the Company's independent registered public accounting firm for the 2010 fiscal year by a vote of 24,861,621 in favor, 74,587 against, with 34,730 abstentions.

Item 6. Exhibits

Exhibit 31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a).
Exhibit 31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a).
Exhibit 32.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code.
Exhibit 32.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code.

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.

BALCHEM CORPORATION

By: /s/ Dino A. Rossi
Dino A. Rossi, Chairman, President and
Chief Executive Officer

Date: August 6, 2010

Exhibit Index

Exhibit No.	Description
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