QUAKER CHEMICAL CORP
Form 10-Q
October 27, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2009

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________ to ________

Commission file number 001-12019

QUAKER CHEMICAL CORPORATION

(Exact name of Registrant as specified in its charter)

Pennsylvania	**23-0993790**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
One Quaker Park, 901 E. Hector Street, Conshohocken, Pennsylvania	**19428 2380**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: 610-832-4000

Not Applicable

Former name, former address and former fiscal year, if changed since last report.

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨ (Do not check if smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

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

Number of Shares of Common Stock Outstanding as of September 30, 2009	**11,072,352**

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QUAKER CHEMICAL CORPORATION AND CONSOLIDATED SUBSIDIARIES

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited).

Quaker Chemical Corporation

Condensed Consolidated Balance Sheet

	Unaudited (Dollars in thousands, except par value and share amounts)	
	September 30, 2009	**December 31, 2008***
ASSETS		
Current assets		
Cash and cash equivalents	$ 25,369	$ 20,892
Construction fund (restricted cash)	3,805	8,281
Accounts receivable, net	100,926	98,702
Inventories		
Raw materials and supplies	22,392	27,401
Work-in-process and finished goods	24,771	30,018
Prepaid expenses and other current assets	11,229	15,532
Total current assets	188,492	200,826
Property, plant and equipment, at cost	193,924	179,565
Less accumulated depreciation	(127,420)	(118,620)
Net property, plant and equipment	66,504	60,945
Goodwill	46,362	40,997
Other intangible assets, net	5,852	6,417
Investments in associated companies	8,676	7,987
Deferred income taxes	36,456	34,179
Other assets	38,776	34,088
Total assets	$ 391,118	$ 385,439
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Short-term borrowings and current portion of long-term debt	$ 2,835	$ 4,631
Accounts and other payables	55,495	51,341
Accrued restructuring and related activities	232	2,198
Accrued compensation	13,652	7,741
Accrued pension and postretirement benefits	1,869	7,380
Other current liabilities	16,114	10,573
Total current liabilities	90,197	83,864
Long-term debt	64,875	84,236
Deferred income taxes	9,055	7,156
Accrued pension and postretirement benefits	35,946	37,638
Other non-current liabilities	44,746	42,670

Total liabilities	244,819	255,564
Quaker shareholders equity		
Common stock $1 par value; authorized 30,000,000 shares; issued 2009 11,072,352; 2008 10,833,325 shares	11,072	10,833
Capital in excess of par value	26,937	25,238
Retained earnings	117,757	117,089
Accumulated other comprehensive loss	(14,515)	(27,237)
Total Quaker shareholders equity	141,251	125,923
Noncontrolling interest	5,048	3,952
Total shareholders equity	146,299	129,875
Total liabilities and shareholders equity	$ 391,118	$ 385,439

* Condensed from audited financial statements and reclassified to improve comparability.

The accompanying notes are an integral part of these condensed consolidated financial statements.

Quaker Chemical Corporation

Condensed Consolidated Statement of Income

	Unaudited (Dollars in thousands, except per share amounts)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net sales	$ 118,922	$ 159,506	$ 319,764	$ 465,412
Cost of goods sold	74,450	112,981	210,541	330,466
Gross margin	44,472	46,525	109,223	134,946
Selling, general and administrative expenses	34,646	38,278	90,393	109,935
Restructuring and related activities			2,289	
CEO transition costs	1,250	1,625	2,443	3,505
Operating income	8,576	6,622	14,098	21,506
Other income (expense), net	217	(96)	2,027	1,752
Interest expense	(1,356)	(1,330)	(4,136)	(4,086)
Interest income	178	286	551	881
Income before taxes and equity in net income of associated companies	7,615	5,482	12,540	20,053
Taxes on income	2,747	967	4,063	5,848
Income before equity in net income of associated companies	4,868	4,515	8,477	14,205
Equity in net income of associated companies	555	191	640	490
Net income	5,423	4,706	9,117	14,695
Less: Net income attributable to noncontrolling interest	371	266	829	841
Net income attributable to Quaker Chemical Corporation	$ 5,052	$ 4,440	$ 8,288	$ 13,854
Per share data:				
Net income attributable to Quaker Chemical Corporation Common Shareholders basic	$ 0.46	$ 0.41	$ 0.76	$ 1.33
Net income attributable to Quaker Chemical Corporation Common Shareholders diluted	$ 0.45	$ 0.41	$ 0.75	$ 1.31
Dividends declared	$ 0.23	$ 0.23	$ 0.69	$ 0.69

The accompanying notes are an integral part of these condensed consolidated financial statements.

Quaker Chemical Corporation

Condensed Consolidated Statement of Cash Flows

	Unaudited (Dollars in thousands) For the Nine Months Ended September 30, 2009	2008
Cash flows from operating activities		
Net income	$ 9,117	$ 14,695
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	6,948	8,279
Amortization	797	906
Equity in undistributed earnings of associated companies, net of dividends	(610)	(490)
Deferred compensation and other, net	(30)	840
Stock-based compensation	1,585	3,642
Restructuring and related activities	2,289	
Gain on disposal of property, plant and equipment	(1,194)	(3)
Insurance settlement realized	(1,104)	(981)
Pension and other postretirement benefits	(5,877)	(3,541)
Increase (decrease) in cash from changes in current assets and current liabilities, net of acquisitions:		
Accounts receivable	951	(3,723)
Inventories	12,547	(8,550)
Prepaid expenses and other current assets	3,283	(863)
Accounts payable and accrued liabilities	10,273	788
Change in restructuring liabilities	(4,240)	
Net cash provided by operating activities	34,735	10,999
Cash flows from investing activities		
Investments in property, plant and equipment	(9,811)	(9,198)
Payments related to acquisitions	(1,000)	(1,000)
Proceeds from disposition of assets	1,640	139
Insurance settlement received and interest earned	5,164	5,234
Change in restricted cash, net	416	(13,578)
Net cash used in investing activities	(3,591)	(18,403)
Cash flows from financing activities		
Net decrease in short-term borrowings	(1,796)	(1,389)
Proceeds from long-term debt	3,500	10,000
Repayments of long-term debt	(22,875)	(3,165)
Dividends paid	(7,565)	(6,994)
Stock options exercised, other	353	13,974
Distributions to noncontrolling shareholders	(274)	(252)
Net cash (used in) provided by financing activities	(28,657)	12,174
Effect of exchange rate changes on cash	1,990	(899)
Net increase in cash and cash equivalents	4,477	3,871
Cash and cash equivalents at beginning of period	20,892	20,195
Cash and cash equivalents at end of period	$ 25,369	$ 24,066

The accompanying notes are an integral part of these condensed consolidated financial statements.

Quaker Chemical Corporation

Notes to Condensed Consolidated Financial Statements

(Dollars in thousands, except per share amounts)

(Unaudited)

Note 1 Condensed Financial Information

The condensed consolidated financial statements included herein are unaudited and have been prepared in accordance with generally accepted accounting principles in the United States for interim financial reporting and the United States Securities and Exchange Commission regulations. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the financial statements reflect all adjustments (consisting only of normal recurring adjustments, except as discussed below) which are necessary for a fair statement of the financial position, results of operations and cash flows for the interim periods. Certain reclassifications of prior year s data have been made to improve comparability, for the adoption of the Financial Accounting Standards Board s (FASB) authoritative guidance regarding noncontrolling interests, and for the adoption of FASB s authoritative guidance regarding the calculation of earnings per share for nonvested stock awards with rights to non-forfeitable dividends. The results for the three and nine months ended September 30, 2009 are not necessarily indicative of the results to be expected for the full year. These financial statements should be read in conjunction with the Company s Annual Report filed on Form 10-K for the year ended December 31, 2008.

The Company incurred charges related to the former CEO s supplemental retirement income plan of $2,443 for the first nine months of 2009, which represents the total amount for 2009, and expects to incur a final charge of $1,000 in 2010. The Company incurred $1,250 of these charges in the third quarter of 2009 and $1,193 of these charges in the second quarter of 2009.

As of January 1, 2009, the Company adopted the provisions of FASB s authoritative guidance regarding noncontrolling interests. The guidance requires the Company to present its interest in less than 100% owned subsidiaries for which it retains control as a component of shareholders equity in the balance sheet and recharacterize that component formerly known as minority interest as noncontrolling interest in subsidiaries. Furthermore, the guidance requires the Company to show the amount of net income or loss attributable to both the Company and the noncontrolling interest on the face of the statement of income and in the summary of comprehensive income (see Note 10 Comprehensive Income). In accordance with the provisions of the guidance, the presentation and disclosure requirements regarding noncontrolling interests have been adopted on a retrospective basis, and the Company s balance sheet, income statement, statement of cash flows and summary of comprehensive income have been recharacterized accordingly. The effect of adoption on the Company s balance sheet was an increase of $3,952 to total shareholders equity on the Company s December 31, 2008 balance sheet, and a corresponding decrease to the mezzanine minority interest. The Company is also required to measure future transactions involving noncontrolling interests at fair value, with any gains or losses arising from those transactions reported in equity. The adoption of the guidance regarding noncontrolling interests did not result in any material adverse effects on the Company s financial statements or results.

The Company adopted FASB s authoritative guidance regarding the calculation of earnings per share for nonvested stock awards with rights to non-forfeitable dividends as of January 1, 2009. The guidance requires nonvested stock awards with rights to non-forfeitable dividends to be included as part of the basic weighted average share calculation under the two-class method. The Company previously included such shares in its diluted weighted average share calculation under the treasury stock method, in accordance with the authoritative guidance regarding share-based payments. The guidance requires retrospective application for all prior periods presented. The effect of adoption of the guidance on the Company s diluted earnings per share for the three and nine months ended September 30, 2008 was not material. Refer to Note 8 Earnings Per Share for further information.

Effective with the second quarter of 2009, the Company adopted FASB s authoritative guidance regarding subsequent events. The guidance does not require new accounting with regard to subsequent events, but requires disclosure of the date as to when subsequent events were evaluated, whether that date is the date the financial statements were issued or available to be issued and supplementing the historical financial statements with pro-forma financial data, giving effect of any non-recognized subsequent events as if they had occurred as of the balance sheet date. The adoption of the guidance had no impact on the Company s financial position or results of operations as of September 30, 2009. Refer to Note 16 Subsequent Events for further information.

As part of the Company s chemical management services, certain third-party product sales to customers are managed by the Company. Where the Company acts as principal, revenues are recognized on a gross reporting basis at the selling price negotiated with customers. Where the Company acts as an agent, such revenue is recorded using net reporting as service revenues at the amount of the administrative fee earned by the Company for ordering the goods. Third-party products transferred under arrangements resulting in net reporting totaled $16,598 and $25,008 for the nine months ended September 30, 2009 and 2008, respectively.

Quaker Chemical Corporation

Notes to Condensed Consolidated Financial Statements Continued

(Dollars in thousands, except per share amounts)

(Unaudited)

Note 2 Recently Issued Accounting Guidance

In December 2008, the FASB released authoritative guidance regarding employer disclosures about postretirement benefit plan assets. This guidance requires enhanced disclosures about postretirement benefit plan assets, including how investment decisions are made, the major categories of plan assets, inputs and valuation techniques used to measure the fair value of plan assets and significant concentrations of risk within plan assets. The guidance is effective for fiscal years ending after December 15, 2009. The Company is currently evaluating the effect of this guidance on the Company s financial statements.

Note 3 Restructuring and Related Activities

In the fourth quarter of 2008, Quaker s management approved a restructuring plan to reduce operating costs, primarily in North America and Europe. Included in the restructuring plans were provisions for severance for 57 employees. The Company recognized a $2,916 restructuring charge in the fourth quarter of 2008. Employee separation benefits varied depending on local regulations within certain foreign countries and included severance and other benefits. The Company expects to complete the initiatives contemplated under this program during 2009.

In the first quarter of 2009, Quaker s management implemented an additional restructuring program which included provisions for severance for 60 employees totaling $2,289. The Company expects to complete the initiatives contemplated under this program during 2009.

Accrued restructuring balances, assigned to the Metalworking Process Chemicals segment, are as follows:

	Employee Separations
2008 4th Quarter Program:	
Restructuring charges	$ 2,916
Payments	(749)
Currency translation	31
December 31, 2008 ending balance	2,198
Payments	(1,617)
Currency translation	(54)
March 31, 2009 ending balance	527
Payments	(375)
Currency translation	1
June 30, 2009 ending balance	153
Payments	(111)
Currency translation	(1)
September 30, 2009 ending balance	41
2009 1st Quarter Program:	
Restructuring charges	2,289
Payments	(1,035)

Currency translation		23
March 31, 2009 ending balance		1,277
Payments		(858)
Currency translation		18
June 30, 2009 ending balance		437
Payments		(244)
Currency translation		(2)
September 30, 2009 ending balance		191
Total accrued restructuring ending balances as of September 30, 2009	$	232

Quaker Chemical Corporation

Notes to Condensed Consolidated Financial Statements Continued

(Dollars in thousands, except per share amounts)

(Unaudited)

Note 4 Uncertain Income Tax Positions

The FASB s authoritative guidance regarding accounting for uncertainty in income taxes prescribes the recognition threshold and measurement attributes for financial statement recognition and measurement of tax positions taken or expected to be taken on a tax return. In addition, the guidance requires the determination of whether the benefits of tax positions will be more likely than not sustained upon audit based upon the technical merits of the tax position. For tax positions that are determined to be more likely than not sustained upon audit, a company recognizes the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement in the financial statements. For tax positions that are not determined to be more likely than not sustained upon audit, a company does not recognize any portion of the benefit in the financial statements. The guidance provides for de-recognition, classification, penalties and interest, accounting in interim periods and disclosure.

At December 31, 2008, the Company s cumulative liability for gross unrecognized tax benefits was $10,012. As of September 30, 2009, the Company s cumulative liability for gross unrecognized tax benefits was $11,145.

The Company continues to recognize interest and penalties associated with uncertain tax positions as a component of taxes on income in its Consolidated Statement of Income. The Company had accrued $1,345 for cumulative interest and $911 for cumulative penalties at December 31, 2008. The Company has recognized $82 and $360 for interest and $32 and $94 for penalties on its Consolidated Statement of Income for the three-month and nine-month periods ended September 30, 2009, respectively, and, as of September 30, 2009, the Company had accrued $1,777 for cumulative interest and $1,034 for cumulative penalties.

The Company estimates that, during the year ending December 31, 2009, it will reduce its cumulative liability for gross unrecognized tax benefits by approximately $500 due to the expiration of the statute of limitations with regard to certain tax positions. This estimated reduction in the cumulative liability for unrecognized tax benefits does not consider any increase in liability for unrecognized tax benefits with regard to existing tax positions or any increase in cumulative liability for unrecognized tax benefits with regard to new tax positions for the year ending December 31, 2009.

The Company and its subsidiaries are subject to U.S. Federal income tax, as well as the income tax of various state and foreign tax jurisdictions. Tax years that remain subject to examination by major tax jurisdictions include The Netherlands from 2003, Italy, United Kingdom and Brazil from 2004, China and Spain from 2005, the United States from 2006 and various U.S. state tax jurisdictions from 1993.

Note 5 Fair Value Measurements

The FASB s authoritative guidance regarding fair value measurements establishes a common definition for fair value to be applied to guidance requiring use of fair value, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements. The guidance does not require any new fair value measurements, but rather applies to all other accounting guidance that requires or permits fair value measurements.

The guidance utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3: Unobservable inputs that reflect the reporting entity s own assumptions.

Quaker Chemical Corporation

Notes to Condensed Consolidated Financial Statements Continued

(Dollars in thousands, except per share amounts)

(Unaudited)

The Company values its interest rate swaps, company-owned life insurance policies and various deferred compensation assets and liabilities at fair value. The Company s assets and liabilities subject to fair value measurement are as follows:

	Fair Value as of September 30, 2009	Fair Value Measurements at September 30, 2009 Using Fair Value Hierarchy		
		Level 1	Level 2	Level 3
Assets				
Company-owned life insurance	$ 1,819	$	$ 1,819	$
Company-owned life insurance Deferred compensation assets	614		614	
Other deferred compensation assets	121	121		
Total	$ 2,554	$ 121	$ 2,433	$
Liabilities				
Deferred compensation liabilities	$ 1,168	$ 1,168	$	$
Interest rate derivatives	2,507		2,507	
Total	$ 3,675	$ 1,168	$ 2,507	$

	Fair Value as of December 31, 2008	Fair Value Measurements at December 31, 2008 Using Fair Value Hierarchy		
		Level 1	Level 2	Level 3
Assets				
Company-owned life insurance	$ 3,437	$	$ 3,437	$
Company-owned life insurance Deferred compensation assets	688		688	
Other deferred compensation assets	104	104		
Total	$ 4,229	$ 104	$ 4,125	$
Liabilities				
Deferred compensation liabilities	$ 1,061	$ 1,061	$	$
Interest rate derivatives	3,105		3,105	
Total	$ 4,166	$ 1,061	$ 3,105	$

The fair values of Company-owned life insurance (COLI) and COLI deferred compensation assets are based on quotes for like instruments with similar credit ratings and terms. The fair values of Other deferred compensation assets and liabilities are based on quoted prices in active markets. The fair values of interest rate derivatives are based on quoted market prices from various banks for similar instruments.

Note 6 Hedging Activities

Effective January 1, 2009, the Company adopted FASB s authoritative guidance regarding disclosure of derivative instruments and hedging activities. The guidance requires additional disclosure about the Company s derivative activities, but does not require any new accounting related to derivative activities. The Company has applied the requirements of the guidance on a prospective basis. Accordingly, disclosures related to interim periods prior to the date of adoption have not been presented.

The Company is exposed to the impact of changes in interest rates, foreign currency fluctuations, changes in commodity prices and credit risk. The Company does not use derivative instruments to mitigate the risks associated with foreign currency fluctuations, changes in commodity prices or credit risk. Quaker uses interest rate swaps to mitigate the impact of changes in interest rates. The swaps are designated as cash flow hedges and reported on the balance sheet at fair value. The effective portions of the hedges are reported in Other Comprehensive Income (OCI) until reclassified to earnings during the same period the hedged item affects earnings. The Company has no derivatives designated as fair value hedges and only has derivatives designated as hedging instruments under the FASB s authoritative guidance. The notional amount of the Company s interest rate swaps was $40,000 as of September 30, 2009.

Quaker Chemical Corporation

Notes to Condensed Consolidated Financial Statements Continued

(Dollars in thousands, except per share amounts)

(Unaudited)

Information about the Company s interest rate derivatives is as follows:

	September 30, 2009	
	Balance Sheet Location	Fair Value
Derivatives designated as cash flow hedges:		
Interest rate swaps	Other non-current liabilities	$ 2,507

	Amount of Gain (Loss) Recognized in Accumulated OCI on Derivative (Effective Portion) Three Months Ended September 30, 2009	Amount and Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) Three Months Ended September 30, 2009		Amount and Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) Three Months Ended September 30, 2009	
Cash Flow Hedges:					
Interest rate swaps	$ 21	$ (430)	Interest Expense	$	Other Income

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2009		Nine Months Ended September 30, 2009	
Cash Flow Hedges:					
Interest rate swaps	$ 389	$ (1,135)	Interest Expense	$	Other Income

Note 7 Stock-Based Compensation

The Company recognized approximately $1,585 of share-based compensation expense and $555 of related tax benefits in its unaudited condensed consolidated statement of income for the nine months ended September 30, 2009. The compensation expense was comprised of $178 related to stock options, $722 related to nonvested stock awards, $38 related to the Company s Employee Stock Purchase Plan, $551 related to the Company s non-elective 401(k) matching contribution in stock and $96 related to the Company s Director Stock Ownership Plan.

Based on its historical experience, the Company has assumed a forfeiture rate of 13% on the nonvested stock. Under the true-up provisions of the guidance, the Company will record additional expense if the actual forfeiture rate is lower than estimated and will record a recovery of prior expense if the actual forfeiture rate is higher than estimated.

The Company has a long-term incentive program (LTIP) for key employees which provides for the granting of options to purchase stock at prices not less than market value on the date of the grant. Most options become exercisable between one and three years after the date of the grant for a period of time determined by the Company not to exceed seven years from the date of grant for options issued in 1999 or later and ten years for options issued in prior years. Beginning in 1999, the LTIP program provided for common stock awards, the value of which was generally derived from Company performance over a three-year period. Common stock awards issued under the LTIP program are subject only to time vesting over a three to five-year period. In addition, as part of the Company s Global Annual Incentive Plan (GAIP), nonvested shares may be issued to key employees, which generally vest over a two to five-year period.

Quaker Chemical Corporation

Notes to Condensed Consolidated Financial Statements Continued

(Dollars in thousands, except per share amounts)

(Unaudited)

Stock option activity under all plans is as follows:

	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (years)
Balance at December 31, 2008	402,504	$ 21.26	
Options granted	165,990	6.93	
Options expired	(41,986)	22.27	
Balance at September 30, 2009	526,508	$ 16.66	3.9
Exercisable at September 30, 2009	311,875	$ 21.24	2.4

As of September 30, 2009, the total intrinsic value of options outstanding was approximately $2,896, and the total intrinsic value of exercisable options was approximately $362. Intrinsic value is calculated as the difference between the current market price of the underlying security and the strike price of a related option.

A summary of the Company s outstanding stock options at September 30, 2009 is as follows:

Range of Exercise Prices	Number Outstanding at 9/30/2009	Weighted Average Contractual Life	Weighted Average Exercise Price	Number Exercisable at 9/30/2009	Weighted Average Exercise Price
$5.33 - $7.98	165,990	6.4	$ 6.93		$
$7.99 - $18.62					
$18.63 - $21.28	210,005	2.9	19.64	175,237	19.67
$21.29 - $23.94	131,513	2.6	22.82	117,638	22.78
$23.95 - $26.60	19,000	1.5	26.05	19,000	26.05
	526,508	3.9	16.66	311,875	21.24

As of September 30, 2009, unrecognized compensation expense related to options granted during 2007 was $27, for options granted during 2008 was $96 and for options granted during 2009 was $272.

During the first quarter of 2009, the Company granted 165,990 stock options under the Company s LTIP plan that are subject only to time vesting over a three-year period. The options were valued using the Black-Scholes model with the following assumptions: dividend yield of 3.9%, expected volatility of 44.22%, a risk-free interest rate of 2.09%, an expected term of six years, and a forfeiture rate of 3% over the remaining life of the options. Approximately $66 of expense was recorded on these options during the nine months ended September 30, 2009. The fair value of these awards is amortized on a straight-line basis over the vesting period of the awards.

Under the Company s LTIP plan, 89,791 shares of nonvested stock were outstanding at December 31, 2008. In the first quarter of 2009, 75,760 shares of nonvested stock were granted at a weighted average grant date fair value of $6.93. In the second quarter of 2009, 19,056 shares of nonvested stock were granted to Directors at a weighted average grant date fair value of $15.11. As of September 30, 2009, 24,900 of these awards were vested, 1,500 shares were forfeited and 158,207 shares were outstanding. The fair value of the nonvested stock is based on the trading price of the Company s common stock on the date of grant. The Company adjusts the grant date fair value for expected forfeitures based on historical experience for similar awards. As of September 30, 2009, unrecognized compensation expense related to these awards was $1,136 to be recognized over a weighted average remaining period of 1.84 years.

Under the Company s GAIP Plan, 8,750 shares were outstanding at December 31, 2008. Through September 30, 2009, 66,000 shares were granted at a weighted average grant date fair value of $7.72, 4,375 shares vested, 700 shares were forfeited and 69,675 shares were outstanding. As of September 30, 2009, unrecognized compensation expense related to these awards was $428, to be recognized over a weighted average remaining period of 2.46 years.

Employee Stock Purchase Plan

In 2000, the Board adopted an Employee Stock Purchase Plan (ESPP) whereby employees may purchase Company stock through a payroll deduction plan. Purchases are made from the plan and credited to each participant s account at the end of each month, the Investment Date. The purchase price of the stock is 85% of the fair market value on the Investment Date. The plan is compensatory and the 15% discount is expensed on the Investment Date. All employees, including officers, are eligible to participate in this plan. A participant may withdraw all uninvested payment balances credited to a participant s account at any time by giving written notice to the Committee designated by the Board. An employee whose stock ownership of the Company exceeds five percent of the outstanding common stock is not eligible to participate in this plan.

Quaker Chemical Corporation

Notes to Condensed Consolidated Financial Statements Continued

(Dollars in thousands, except per share amounts)

(Unaudited)

2003 Director Stock Ownership Plan

In March 2003, the Company s Board of Directors approved a stock ownership plan for each member of the Company s Board to encourage the Directors to increase their investment in the Company. The Plan was effective on the date it was approved and remains in effect for a term of ten years or until it is earlier terminated by the Board. The maximum number of shares of Common Stock which may be issued under the Plan is 75,000, subject to certain conditions that the Compensation/Management Development Committee (the Committee) may elect to adjust the number of shares. As of September 30, 2009, the Committee has not made any elections to adjust the shares under this plan. Each Director is eligible to receive an annual retainer for services rendered as a member of the Board of Directors. Currently, each Director who owns less than 7,500 shares of Company Common Stock is required to receive 75% of the annual retainer in Common Stock and 25% of the annual retainer in cash. Each Director who owns 7,500 or more shares of Company Common Stock receives 25% of the annual retainer in Common Stock and 75% of the annual retainer in cash with the option to receive Common Stock in lieu of the cash portion of the retainer. The number of shares issued in payment of the fees is calculated based on an amount equal to the average of the closing prices per share of Common Stock as reported on the composite tape of the New York Stock Exchange for the two trading days immediately preceding the retainer payment date. The retainer payment date is June 1. For the three and nine months ended September 30, 2009, the Company recorded approximately $32 and $96 of compensation expense, respectively. For the three and nine months ended September 30, 2008, the Company recorded approximately $31 and $95, respectively.

Note 8 Earnings Per Share

Effective January 1, 2009, the Company adopted FASB s authoritative guidance regarding the calculation of earnings per share for nonvested stock awards with rights to non-forfeitable dividends. The guidance requires nonvested stock awards with rights to non-forfeitable dividends to be included as part of the basic weighted average share calculation under the two-class method. The Company previously included such shares as part of its diluted share calculation under the treasury stock method, in accordance with FASB s authoritative guidance regarding share-based payments. The guidance requires retrospective application for all prior periods presented.

The following table summarizes earnings per share (EPS) calculations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Numerator for basic and diluted earnings per common share (1)	$ 4,953	$ 4,381	$ 8,157	$ 13,690
Denominator for basic EPS weighted average shares	10,834,048	10,573,497	10,791,629	10,315,769
Effect of dilutive securities, employee stock options				