

QUAKER CHEMICAL CORP
Form 10-Q
October 30, 2008
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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, 2008

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)

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Pennsylvania (State or other jurisdiction of incorporation or organization)	23-0993790 (I.R.S. Employer Identification No.)
One Quaker Park, 901 Hector Street, Conshohocken, Pennsylvania (Address of principal executive offices)	19428 0809 (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 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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

(Do not check if a smaller reporting company)

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

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

Number of Shares of Common Stock	10,832,828
Outstanding on September 30, 2008	

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QUAKER CHEMICAL CORPORATION AND CONSOLIDATED SUBSIDIARIES

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Table of Contents**PART I****FINANCIAL INFORMATION****Item 1. Financial Statements.****Quaker Chemical Corporation****Condensed Consolidated Balance Sheet**

	Unaudited	
	(Dollars in thousands, except par value and share amounts)	
	September 30, 2008	December 31, 2007*
ASSETS		
Current assets		
Cash and cash equivalents	\$ 24,066	\$ 20,195
Construction fund (restricted cash)	9,325	
Accounts receivable, net	119,538	118,135
Inventories		
Raw materials and supplies	30,043	24,447
Work-in-process and finished goods	37,534	36,291
Prepaid expenses and other current assets	14,562	14,433
Deferred compensation	2,795	
Total current assets	237,863	213,501
Property, plant and equipment, at cost	180,846	175,878
Less accumulated depreciation	(118,497)	(113,591)
Net property, plant and equipment	62,349	62,287
Goodwill	43,300	43,789
Other intangible assets, net	6,873	7,873
Investments in associated companies	8,027	7,323
Deferred income taxes	31,542	30,257
Other assets	35,275	34,019
Total assets	\$ 425,229	\$ 399,049
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings and current portion of long-term debt	\$ 2,635	\$ 4,288
Accounts and other payables	71,196	67,380
Accrued compensation	14,034	17,287
Deferred compensation	3,006	
Other current liabilities	17,501	17,396
Total current liabilities	108,372	106,351
Long-term debt	85,364	78,487
Deferred income taxes	8,217	7,583
Other non-current liabilities	68,294	71,722

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Total liabilities		270,247	264,143
Minority interest in equity of subsidiaries		4,339	4,513
Shareholders' equity			
Common stock \$1 par value; authorized 30,000,000 shares; issued 2008 10,832,828; 2007 10,147,239 shares		10,833	10,147
Capital in excess of par value		27,034	10,104
Retained earnings		122,320	115,767
Accumulated other comprehensive loss		(9,544)	(5,625)
Total shareholders' equity		150,643	130,393
Total liabilities and shareholders' equity	\$	425,229	\$ 399,049

* Condensed from audited financial statements.

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

Table of Contents**Quaker Chemical Corporation****Condensed Consolidated Statement of Income**

	Unaudited			
	(Dollars in thousands, except per share and share amounts)			
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Net sales	\$ 159,506	\$ 140,715	\$ 465,412	\$ 403,204
Cost of goods sold	112,981	97,547	330,466	278,878
Gross margin	46,525	43,168	134,946	124,326
Selling, general and administrative expenses	38,278	36,602	109,935	103,930
CEO transition costs	1,625		3,505	
Environmental charges		3,300		3,300
Operating income	6,622	3,266	21,506	17,096
Other (expense) income, net	(96)	382	1,752	1,618
Interest expense	(1,330)	(1,714)	(4,086)	(4,929)
Interest income	286	344	881	708
Income before taxes	5,482	2,278	20,053	14,493
Taxes on income	967	(1,066)	5,848	3,076
	4,515	3,344	14,205	11,417
Equity in net income of associated companies	191	166	490	557
Minority interest in net income of subsidiaries	(266)	(350)	(841)	(1,126)
Net income	\$ 4,440	\$ 3,160	\$ 13,854	\$ 10,848
Per share data:				
Net income basic	\$ 0.42	\$ 0.32	\$ 1.34	\$ 1.09
Net income diluted	\$ 0.41	\$ 0.31	\$ 1.31	\$ 1.07
Dividends declared	\$ 0.23	\$ 0.215	\$ 0.69	\$ 0.645
Based on weighted average number of shares outstanding:				
Basic	10,573,497	10,016,801	10,315,769	9,969,739
Diluted	10,796,716	10,134,909	10,544,070	10,095,945

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

Table of Contents**Quaker Chemical Corporation****Condensed Consolidated Statement of Cash Flows**

	Unaudited	
	(Dollars in thousands)	
	For the Nine Months Ended	
	September 30,	
	2008	2007
Cash flows from operating activities		
Net income	\$ 13,854	\$ 10,848
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	8,279	8,579
Amortization	906	900
Equity in undistributed earnings of associated companies, net of dividends	(490)	(83)
Minority interest in earnings of subsidiaries	841	1,126
Deferred compensation and other, net	840	(620)
Stock-based compensation	3,642	863
Environmental charges		3,300
(Gain) loss on disposal of property, plant and equipment	(3)	33
Insurance settlement realized	(981)	(1,266)
Pension and other postretirement benefits	(3,541)	(2,532)
Increase (decrease) in cash from changes in current assets and current liabilities, net of acquisitions:		
Accounts receivable	(3,723)	(5,795)
Inventories	(8,550)	(3,227)
Prepaid expenses and other current assets	(863)	(1,750)
Accounts payable and accrued liabilities	788	6,009
Net cash provided by operating activities	10,999	16,385
Cash flows from investing activities		
Investments in property, plant and equipment	(9,198)	(5,431)
Payments related to acquisitions	(1,000)	(1,543)
Proceeds from disposition of assets	139	176
Insurance settlement received and interest earned	5,234	5,534
Change in restricted cash, net	(13,578)	(4,268)
Net cash used in investing activities	(18,403)	(5,532)
Cash flows from financing activities		
Short-term debt borrowings		1,305
Net decrease in short-term borrowings	(1,389)	(3,267)
Proceeds from long-term debt	10,000	3,132
Repayments of long-term debt	(3,165)	(674)
Dividends paid	(6,994)	(6,484)
Stock options exercised, other	13,974	2,935
Distributions to minority shareholders	(252)	(864)
Net cash provided by (used in) financing activities	12,174	(3,917)
Effect of exchange rate changes on cash	(899)	1,226
Net increase in cash and cash equivalents	3,871	8,162
Cash and cash equivalents at beginning of period	20,195	16,062

Cash and cash equivalents at end of period