QUAKER CHEMICAL CORP
Form 10-Q
October 25, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2011

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 (State or other jurisdiction of incorporation or organization)	23-0993790 (I.R.S. Employer Identification No.)
One Quaker Park, 901 E. Hector Street, Conshohocken, Pennsylvania (Address of principal executive offices)	19428 – 2380 (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 x 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 on September 30, 2011	12,875,113

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, 2011		December 31, 2010*	
ASSETS				
Current assets				
Cash and cash equivalents	$	20,579	$	25,766
Accounts receivable, net		147,414		116,266
Inventories				
Raw materials and supplies		44,718		31,909
Work-in-process and finished goods		34,150		28,932
Prepaid expenses and other current assets		15,744		12,609
Total current assets		262,605		215,482
Property, plant and equipment, at cost		215,257		205,359
Less accumulated depreciation		(135,066)		(128,824)
Net property, plant and equipment		80,191		76,535
Goodwill		57,764		52,758
Other intangible assets, net		26,315		24,030
Investments in associated companies		7,937		9,218
Deferred income taxes		22,862		28,846
Other assets		42,159		42,561
Total assets	$	499,833	$	449,430
LIABILITIES AND EQUITY				
Current liabilities				
Short-term borrowings and current portion of long-term debt	$	754	$	890
Accounts and other payables		73,616		63,893
Accrued compensation		13,997		17,140
Other current liabilities		23,314		19,268
Total current liabilities		111,681		101,191
Long-term debt		43,397		73,855
Deferred income taxes		7,492		6,108
Other non-current liabilities		78,033		81,177
Total liabilities		240,603		262,331

Equity				
Common stock $1 par value; authorized 30,000,000 shares; issued and outstanding				
2011 – 12,875,113 shares; 2010 – 11,492,142 shares		12,875		11,492
Capital in excess of par value		88,492		38,275
Retained earnings		169,265		144,347
Accumulated other comprehensive loss		(19,097)		(13,736)
Total Quaker shareholders' equity		251,535		180,378
Noncontrolling interest		7,695		6,721
Total equity		259,230		187,099
Total liabilities and equity	$	499,833	$	449,430

*Condensed from audited financial statements

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

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Quaker Chemical Corporation

Condensed Consolidated Statement of Income

	Unaudited (Dollars in thousands, except per share and share amounts) Three Months Ended September 30,		Unaudited (Dollars in thousands, except per share and share amounts) Nine Months Ended September 30,	
	2011	2010	2011	2010
Net sales	$ 182,313	$ 137,669	$ 509,970	$ 401,980
Cost of goods sold	122,827	88,641	343,984	257,081
Gross profit	59,486	49,028	165,986	144,899
Selling, general and administrative expenses	41,982	34,699	119,441	103,486
Non-income tax contingency charge	—	3,581	—	3,581
CEO transition costs	—	1,317	—	1,317
Operating income	17,504	9,431	46,545	36,515
Other income (expense), net	2,740	(320)	4,070	1,566
Interest expense	(1,166)	(1,345)	(3,584)	(4,042)
Interest income	262	313	805	840
Income before taxes and equity in net income of associated companies	19,340	8,079	47,836	34,879
Taxes on income before equity in net income of associated companies	5,640	1,661	12,961	8,985
Income before equity in net income of associated companies	13,700	6,418	34,875	25,894
Equity in net income of associated companies	105	439	715	734
Net income	13,805	6,857	35,590	26,628
Less: Net income attributable to noncontrolling interest	447	517	1,791	1,716
Net income attributable to Quaker Chemical Corporation	$ 13,358	$ 6,340	$ 33,799	$ 24,912
Per share data:				
Net income attributable to Quaker Chemical Corporation Common				
Shareholders – basic	$ 1.04	$ 0.56	$ 2.77	$ 2.22
Net income attributable to Quaker Chemical Corporation Common				
Shareholders – diluted	$ 1.03	$ 0.55	$ 2.73	$ 2.19
Dividends declared	$ 0.24	$ 0.235	$ 0.715	$ 0.70

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

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Quaker Chemical Corporation

Condensed Consolidated Statement of Cash Flows

	Unaudited (Dollars in thousands) For the Nine Months Ended September 30, 2011	2010
Cash flows from operating activities		
Net income	$ 35,590	$ 26,628
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	8,527	7,448
Amortization	1,596	736
Equity in undistributed earnings of associated companies, net of dividends	(136)	(523)
Deferred compensation and other, net	6,987	1,559
Stock-based compensation	2,675	2,371
Non-cash gain from purchase of equity affiliate	(2,718)	—
Gain on disposal of property, plant and equipment	(61)	(24)
Insurance settlement realized	(1,242)	(1,225)
Pension and other postretirement benefits	(4,099)	(3,184)
(Decrease) increase in cash from changes in current assets and current liabilities, net of acquisitions:		
Accounts receivable	(29,390)	(7,982)
Inventories	(16,334)	(8,645)
Prepaid expenses and other current assets	(3,061)	(2,656)
Accounts payable and accrued liabilities	6,196	5,007
Net cash provided by operating activities	4,530	19,510
Cash flows from investing activities		
Investments in property, plant and equipment	(8,914)	(6,259)
Payments related to acquisitions, net of cash acquired	(10,981)	(6,862)
Proceeds from disposition of assets	221	147
Insurance settlement received and interest earned	61	5,099
Change in restricted cash, net	1,181	(1,516)
Net cash used in investing activities	(18,432)	(9,391)
Cash flows from financing activities		
Net decrease in short-term borrowings	(185)	(1,394)
Proceeds from long-term debt	—	29
Repayment of long-term debt	(30,613)	(5,367)
Dividends paid	(8,492)	(7,768)
Stock options exercised, other	629	3,829
Excess tax benefit related to stock option exercises	153	2,294

Proceeds from sale of common stock, net of related expenses		48,143		—
Net cash provided by (used in) financing activities		9,635		(8,377)
Effect of exchange rate changes on cash		(920)		356
Net (decrease) increase in cash and cash equivalents		(5,187)		2,098
Cash and cash equivalents at beginning of period		25,766		25,051
Cash and cash equivalents at end of period	$	20,579	$	27,149
Supplemental cash flow disclosures:				
Non-cash activities:				
Restricted insurance receivable (See also Note 13 of Notes to Condensed Consolidated Financial Statements)	$	—	$	5,000

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

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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. The results for the three and nine months ended September 30, 2011 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, 2010.

During the third quarter of 2011, the Company purchased the remaining ownership interest in its Mexican equity affiliate. In connection with this purchase, the Company revalued its previously held ownership interest to its fair value, resulting in a one-time, non-cash gain of approximately $2,718 or approximately $0.22 per diluted share.

During the third quarter of 2010, the Company incurred a net charge of approximately $3,581, or approximately $0.21 per diluted share, related to a non-income tax contingency. Refer to Note 13 for further information.

The Company recognized certain costs related to the retirement of the Company's former CEO. Included in these costs was a final charge of $1,317, or approximately $0.08 per diluted share, recorded in the third quarter of 2010 related to the former CEO's supplemental retirement plan.

Effective January 1, 2010, the Venezuelan economy was considered to be hyperinflationary under generally accepted accounting principles in the United States, since it has experienced a rate of general inflation in excess of 100% over the latest three-year period, based upon the blended Consumer Price Index and National Consumer Price Index. Accordingly, all gains and losses resulting from the remeasurement of the Company's Venezuelan 50% equity affiliate (Kelko Quaker Chemical, S.A.) are required to be recorded directly in the statement of operations. On January 8, 2010, the Venezuelan government announced the devaluation of the Bolivar Fuerte. As a result of the devaluation, the Company recorded a charge of approximately $0.03 per diluted share in the first quarter of 2010.

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, revenue is 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 $37,787 and $42,560 for the nine months ended September 30, 2011 and 2010, respectively.

Note 2 – Recently Issued Accounting Standards

The FASB updated its guidance in June 2011 regarding presentation of comprehensive income. Comprehensive income will be required to be presented with the Consolidated Statement of Income or as a separate financial statement immediately following the Consolidated Statement of Income. Presentation of comprehensive income will no longer be presented as part of the Statement of Shareholders' Equity. The guidance is effective for annual and interim fiscal periods beginning after December 15, 2011. The Company is currently evaluating the effect of this guidance.

The FASB updated its guidance in May 2011 regarding disclosures pertaining to assets and liabilities measured at fair value. The guidance requires quantitative measures regarding unobservable inputs for Level 3 assets and liabilities. Additionally, the guidance requires a sensitivity analysis regarding those inputs. The guidance is effective for annual and interim fiscal periods beginning after December 15, 2011. The Company is currently evaluating the effect of this guidance.

The FASB updated its guidance in September 2011 regarding goodwill impairment testing. The updated guidance permits a Company to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If the Company determines that their reporting units' fair value is more than likely above its carrying value, no further impairment testing would be required. However, if the Company concludes otherwise, then the first step of the traditional two-step goodwill impairment test is required to be performed. The guidance is effective for annual and interim fiscal periods beginning after December 15, 2011, with early adoption permitted if an entity's financial statements have not been issued as of the date of the entity's interim or annual impairment test. The Company elected to test goodwill for impairment under the traditional two-step method during the current year but is currently evaluating the effect of this guidance for future applicability.

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Quaker Chemical Corporation

Notes to Condensed Consolidated Financial Statements - Continued
(Dollars in thousands, except per share amounts)
(Unaudited)

Note 3 – Income Taxes and Uncertain Income Tax Positions

The Company's year-to-date 2011 effective tax rate of 27.1% was higher than the year-to-date 2010 effective tax rate of 25.8%. Both year-to-date effective tax rates reflect the derecognition of uncertain tax positions due to the expiration of applicable statutes of limitations for certain tax years of approximately $0.14 and $0.15 per diluted share for 2011 and 2010, respectively. The most significant other item affecting the comparison of year-to-date effective tax rates is a change in the mix of income among tax jurisdictions.

The FASB's 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. The guidance further 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. Additionally, the guidance provides for derecognition, classification, penalties and interest, accounting in interim periods, disclosure and transition.

At December 31, 2010, the Company's cumulative liability for gross unrecognized tax benefits was $10,464. As of September 30, 2011, the Company's cumulative liability for gross unrecognized tax benefits was $10,548.

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 $1,824 for cumulative interest and $857 for cumulative penalties at December 31, 2010. The Company has recognized $63 and $122 for interest and $110 and $535 for penalties on its Consolidated Statement of Income for the three and nine months ended September 30, 2011, respectively, and, as of September 30, 2011, the Company had accrued $1,954 for cumulative interest and $1,378 for cumulative penalties.

During the three and nine months ended September 30, 2011, the Company derecognized uncertain tax positions due to expiration of the applicable statutes of limitations for certain tax years of approximately $424 and $1,382, respectively.

The Company estimates that during the year ending December 31, 2011 it will reduce its cumulative liability for gross unrecognized tax benefits by approximately $1,600 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, 2011.

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 2005, United Kingdom, Italy and Brazil, from 2006, Spain from 2007, the United States from 2008, China from 2009 and various domestic state tax jurisdictions from 1993.

Note 4 – Fair Value Measurements

The FASB's 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.

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Quaker Chemical Corporation

Notes to Condensed Consolidated Financial Statements - Continued
(Dollars in thousands, except per share amounts)
(Unaudited)

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.

The Company values its interest rate swaps, company-owned life insurance policies and various deferred compensation assets and liabilities, acquisition-related consideration and an obligation related to a non-competition agreement at fair value. The Company's assets and liabilities subject to fair value measurement are as follows (in thousands):

Assets	Fair Value as of September 30, 2011	Fair Value Measurements at September 30, 2011 Using Fair Value Hierarchy Level 1	Level 2	Level 3
Company-owned life insurance	$ 1,408	$ —	$ 1,408	$ —
Company-owned life insurance - Deferred compensation assets	471	—	471	—
Other deferred compensation assets				
Large capitalization registered investment companies	57	57	—	—
Mid capitalization registered investment companies	4	4	—	—
Small capitalization registered investment companies	6	6	—	—
International developed and emerging markets registered investment companies	31	31	—	—
Fixed income registered investment companies	8	8	—	—
Total	$ 1,985	$ 106	$ 1,879	$ —

Fair Value Measurements at September 30, 2011

Liabilities	Fair Value as of September 30, 2011	Using Fair Value Hierarchy Level 1	Level 2	Level 3
Deferred compensation liabilities				
Large capitalization registered investment companies	$ 288	$ 288	$ —	$ —
Mid capitalization registered investment companies	74	74	—	—
Small capitalization registered investment companies	60	60	—	—
International developed and emerging markets registered investment companies	162	162	—	—
Fixed income registered investment companies	50	50	—	—
Fixed general account	175	—	175	—
Interest rate derivatives	586	—	586	—
Acquisition-related consideration	7,748	—	—	7,748
Obligation related to a non-competition agreement	663	—	—	663
Total	$ 9,806	$ 634	$ 761	$ 8,411

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Quaker Chemical Corporation
Notes to Condensed Consolidated Financial Statements - Continued
(Dollars in thousands, except per share amounts)
(Unaudited)

Assets	Fair Value as of December 31, 2010	Fair Value Measurements at December 31, 2010 Using Fair Value Hierarchy Level 1	Level 2	Level 3
Company-owned life insurance	$ 2,033	$ —	$ 2,033	$ —
Company-owned life insurance - Deferred compensation assets	593	—	593	—
Other deferred compensation assets				
Large capitalization registered investment companies	69	69	—	—
Mid capitalization registered investment companies	4	4	—	—
Small capitalization registered investment companies	8	8	—	—
International developed and emerging markets registered investment companies	40	40	—	—
Fixed income registered investment companies	10	10	—	—
Total	$ 2,757	$ 131	$ 2,626	$ —

Liabilities	Fair Value as of December 31, 2010	Fair Value Measurements at December 31, 2010 Using Fair Value Hierarchy Level 1	Level 2	Level 3
Deferred compensation liabilities				
Large capitalization registered investment companies	$ 347	$ 347	$ —	$ —
Mid capitalization registered investment companies	88	88	—	—
Small capitalization registered investment companies	71	71	—	—
International developed and emerging markets registered investment companies	213	213	—	—
Fixed income registered investment companies	52	52	—	—
Fixed general account	182	—	182	—

Interest rate derivatives	1,026	—	1,026	—
Acquisition-related consideration	5,350	—	—	5,350
Total	$ 7,329	$ 771	$ 1,208	$ 5,350

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, with the exception of the fixed general account, which is based on quotes for like instruments with similar credit ratings and terms. The fair values of interest rate derivatives are based on quoted market prices from various banks for similar instruments. The fair value of acquisition-related consideration is based on unobservable inputs and is classified as Level 3. Significant inputs and assumptions are management's estimate of the probability of the earnouts ultimately being met/paid and the discount rate used to present value the liabilities. The fair value of the obligation related to a non-competition agreement is based on unobservable inputs and is classified as Level 3. Significant inputs and assumptions are management's estimate of the discount rate used to present value the liability.

Changes in the fair value of the Level 3 liabilities during the nine months ended September 30, 2011 was as follows:

	Earnout Summit	Hold-back Tecniquimia	Non-competition Agreement Obligation	Total
Balance at December 31, 2010	$ 5,350	$ —	$ —	$ 5,350
Purchases, sales, acquisitions and settlements, net	—	1,754	900	2,654
Interest accretion	582	62	13	657
Payments	—	—	(250)	(250)
Balance at September 30, 2011	$ 5,932	$ 1,816	$ 663	$ 8,411

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Quaker Chemical Corporation
Notes to Condensed Consolidated Financial Statements - Continued
(Dollars in thousands, except per share amounts)
(Unaudited)

Note 5 – Hedging Activities

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 convert a portion of the Company's variable interest rate debt to fixed interest rate debt and 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 guidance. The notional amount of the Company's interest rate swaps was $15,000 as of September 30, 2011 and December 31, 2010.

Information about the Company's interest rate derivatives is as follows (in thousands of dollars):

		Fair Value	
	Balance Sheet Location	September 30, 2011	December 31, 2010
Derivatives designated as cash flow hedges:			
Interest rate swaps	Other current liabilities	$ 586	$ —
Interest rate swaps	Other non-current liabilities	—	1,026
		$ 586	$ 1,026

Cash Flow Hedges
Interest Rate Swaps

		Three Months Ended September 30,		Nine Months Ended September 30,	
		2011	2010	2011	2010
Amount of Gain Recognized in Accumulated OCI on Derivative (Effective Portion)		$ 112	$ 191	$ 286	$ 487
Amount and Location of Loss Reclassified from Accumulated OCI into					
Income (Effective Portion)	Interest Expense	$ (168)	$ (444)	$ (496)	$ (1,352)

Note 6 – Stock-Based Compensation

The Company recognized approximately $2,675 of share-based compensation expense for the nine months ended September 30, 2011. The compensation expense was comprised of $360 related to stock options, $1,031 related to nonvested stock awards, $33 related to the Company's Employee Stock Purchase Plan, $1,206 related to the Company's non elective 401(k) matching contribution and a portion of its elective 401(k) matching contribution in stock, and $45 related to the Company's Director Stock Ownership Plan.

Based on historical experience, the Company has assumed a forfeiture rate of 13% on the nonvested stock. 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 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 as determined by the Company but not to exceed seven years from the date of grant. 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.

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, 2010	303,444	$ 14.19	
Options granted	36,835	37.37	
Options exercised	(36,748)	16.85	
Options forfeited	(11,018)	13.67	
Balance at September 30, 2011	292,513	$ 16.79	4.5
Exercisable at September 30, 2011	137,410	$ 13.91	3.7

As of September 30, 2011, the total intrinsic value of options outstanding was approximately $3,306, and the total intrinsic value of exercisable options was $1,766. 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, 2011 is as follows:

Range of Exercise Prices		Number Outstanding at 9/30/2011	Weighted Average Contractual Life	Weighted Average Exercise Price	Number Exercisable at 9/30/2011	Weighted Average Exercise Price
$ 3.74 -	$ 7.47	117,157	4.4	$ 6.93	66,597	$ 6.93
$ 7.48 -	$ 18.69	—	—	—	—	—
$ 18.70 -	$ 22.42	113,677	5.0	18.91	45,969	19.04
$ 22.43 -	$ 26.16	24,844	0.01	23.13	24,844	23.13
$ 26.17 -	$ 33.63	—	—	—	—	—
$ 33.64 -	$ 37.37	36,835	6.4	37.37	—	—
		292,513	4.5	16.79	137,410	13.91

As of September 30, 2011, unrecognized compensation expense related to options granted during 2009 was $44, for options granted during 2010 was $287 and for options granted in 2011 was $402.

During the first quarter of 2011, the Company granted 36,835 stock options under the Company's LTIP plan that are subject only to time vesting over a three-year period. For the purposes of determining the fair value of stock option awards, the Company uses the Black-Scholes option pricing model and the assumptions set forth in the table below:

	2011
Dividend Yield	5.00%
Expected Volatility	62.13%
Risk-free interest rate	1.99%
Expected term (years)	5.0
Expected forfeiture rate	3.00%

Approximately $97 of expense was recorded on these options during the first nine months of 2011. The fair value of these awards is amortized on a straight-line basis over the vesting period of the awards.

(Dollars in thousands, except per share amounts)

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Nonvested shares granted under the Company's LTIP plans are shown below:

	Number of Shares		Weighted Average Grant Date Fair Value (per share)
Nonvested awards, December 31, 2010	163,076	$	14.89
Granted	58,350	$	36.53
Vested	(42,412)	$	22.25
Forfeited	(9,151)	$	11.65
Nonvested awards, September 30, 2011	169,863	$	20.66

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, 2011, unrecognized compensation expense related to these awards was $2,010 to be recognized over a weighted average remaining period of 2.00 years.

Nonvested shares granted under the Company's GAIP plan are shown below:

	Number of Shares		Weighted Average Grant Date Fair Value (per share)
Nonvested awards, December 31, 2010	63,250	$	7.72
Granted	—	$	—
Vested	—	$	—
Forfeited	(500)	$	7.72
Nonvested awards, September 30, 2011	62,750	$	7.72

As of September 30, 2011, unrecognized compensation expense related to these awards was $81, to be recognized over a weighted average remaining period of 0.50 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 Company. An employee whose stock ownership of the Company exceeds five percent of the outstanding common stock is not eligible to participate in this plan.

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 which would adjust the number of shares. As of September 30, 2011, 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 may elect to receive payment of a percentage (up to 100%) of the annual retainer in shares of common stock. Currently, the annual retainer is $40. 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.

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Note 7 – Earnings Per Share

The Company applies FASB's guidance regarding the calculation of earnings per share using the two-class method. The Company includes nonvested stock awards with rights to non-forfeitable dividends as part of its basic weighted average share calculation.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Basic Earnings per Common Share				
Net income attributable to Quaker Chemical Corporation	$ 13,358	$ 6,340	$ 33,799	$ 24,912
Less: income allocated to participating securities	(224)	(126)	(611)	(522)
Net income available to common shareholders	$ 13,134	$ 6,214	$ 33,188	$ 24,390
Basic weighted average common shares outstanding	12,621,459	11,088,830	11,989,748	10,981,302
Basic earnings per common share	$ 1.04	$ 0.56	$ 2.77	$ 2.22
Diluted Earnings per Common Share				
Net income attributable to Quaker Chemical Corporation	$ 13,358	$ 6,340	$ 33,799	$ 24,912
Less: income allocated to participating securities	(222)	(125)	(604)	(516)
Net income available to common shareholders	$ 13,136	$ 6,215	$ 33,195	$ 24,396
Basic weighted average common shares outstanding	12,621,459	11,088,830	11,989,748	10,981,302
Effect of dilutive securities, employee stock options	148,919	209,624	166,787	181,620
Diluted weighted average common shares outstanding	12,770,378	11,298,454	12,156,535	11,162,922
Diluted earnings per common share	$ 1.03	$ 0.55	$ 2.73	$ 2.19

The following number of stock options are not included in diluted earnings per share since the effect would have been anti-dilutive: 15,740 and 0 for the three months ended September 30, 2011 and 2010, and 11,356 and 0 for the nine months ended September 30, 2011 and 2010, respectively.

Note 8 – Business Segments

The Company organizes its segments by type of product sold. The Company's reportable segments are as follows:

(1) Metalworking process chemicals – industrial process fluids for various heavy industrial and manufacturing applications.

(2) Coatings – temporary and permanent coatings for metal and concrete products and chemical milling maskants.

(3) Other chemical products – other various chemical products.

Segment data includes direct segment costs as well as general operating costs.

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The table below presents information about the reported segments:

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Metalworking Process Chemicals				
Net sales	$ 171,222	$ 128,764	$ 478,727	$ 376,931
Operating income for reportable segments	30,443	25,290	83,527	75,926
Coatings				
Net sales	10,378	8,424	29,347	23,698
Operating income for reportable segments	2,452	1,980	6,861	5,306
Other Chemical Products				
Net sales	713	481	1,896	1,351
Operating income (loss) for reportable segments	32	(6)	71	(40)
Total				
Net sales	182,313	137,669	509,970	401,980
Operating income for reportable segments	32,927	27,264	90,459	81,192
Non-operating expenses	(14,800)	(12,661)	(42,318)	(39,043)
Non-income tax related contingency charge	—	(3,581)	—	(3,581)
CEO transition costs	—	(1,317)	—	(1,317)
Amortization	(623)	(274)	(1,596)	(736)
Interest expense	(1,166)	(1,345)	(3,584)	(4,042)
Interest income	262	313	805	840
Other income (loss), net	2,740	(320)	4,070	1,566
Consolidated income before taxes and equity in net income of associated companies	$ 19,340	$ 8,079	$ 47,836	$ 34,879

Operating income is comprised of revenue less related costs and expenses. Non-operating items primarily consist of general corporate expenses identified as not being a cost of operation, interest expense, interest income, and license fees from non-consolidated affiliates.

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Note 9 – Equity, Noncontrolling Interest and Comprehensive Income

The following table presents the changes in equity, noncontrolling interest and comprehensive income for the three and nine months ended September 30, 2011 and 2010:

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Comprehensive Income	Total
Balance at June 30, 2011	$ 12,823	$ 87,249	$ 158,998	$ (5,507)	$ 8,142		$ 261,705
Net income	—	—	13,358		447	$ 13,805	
Currency translation adjustments	—	—	—	(13,042)	(894)	(13,936)	
Defined benefit retirement plans	—	—	—	(637)	—	(637)	
Current period changes in fair value of derivatives	—	—	—	112	—	112	
Unrealized loss on available-for-sale securities	—	—	—	(23)	—	(23)	
Comprehensive loss						(679)	(679)
Comprehensive income attributable to noncontrolling interest						447	
Comprehensive loss attributable to Quaker Chemical Corporation						$ (232)	
Dividends ($0.24 per share)	—	—	(3,091)	—	—		(3,091)
Share issuance and equity-based compensation plans	52	1,252	—	—	—		1,304
Excess tax benefit from stock option exercises	—	(9)	—	—	—		(9)
Balance at September 30, 2011	$ 12,875	$ 88,492	$ 169,265	$ (19,097)	$ 7,695		$ 259,230
Balance at June 30, 2010	$ 11,259	$ 32,798	$ 136,497	$ (20,070)	$ 6,063		$ 166,547
Net income	—	—	6,340		517	$ 6,857	
	—	—	—	11,085	493	11,578	

Currency translation adjustments							
Defined benefit retirement plans	—	—	—	862	—	862	
Current period changes in fair value of derivatives	—	—	—	191	—	191	
Unrealized loss on available-for-sale securities	—	—	—	13	—	13	
Comprehensive income						19,501	19,501
Comprehensive loss attributable to noncontrolling interest						(1,010)	
Comprehensive income attributable to Quaker Chemical Corporation						$ 18,491	
Dividends ($0.235 per share)	—	—	(2,676)	—	—		(2,676)
Share issuance and equity-based compensation plans	117	2,757	—	—	—		2,874
Excess tax benefit from stock option exercises	—	176	—	—	—		176
Balance at September 30, 2010	$ 11,376	$ 35,731	$ 140,161	$ (7,919)	$ 7,073		$ 186,422

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	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Comprehensive Income	Total
Balance at December 31, 2010	$ 11,492	$ 38,275	$ 144,347	$ (13,736)	$ 6,721		