

QUAKER CHEMICAL CORP
Form 10-Q
August 01, 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 June 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

23-0993790
(I.R.S. Employer Identification No.)

incorporation or organization)

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
Non-accelerated filer

Accelerated filer
Smaller reporting company

(Do not check if 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

10,612,269

Outstanding on June 30, 2008

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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)	
	June 30, 2008	December 31, 2007*
ASSETS		
Current assets		
Cash and cash equivalents	\$ 22,170	\$ 20,195
Construction fund (restricted cash)	9,325	
Accounts receivable, net	121,599	118,135
Inventories		
Raw materials and supplies	27,893	24,447
Work-in-process and finished goods	38,667	36,291
Prepaid expenses and other current assets	14,516	14,433
Total current assets	234,170	213,501
Property, plant and equipment, at cost	190,596	175,878
Less accumulated depreciation	(123,836)	(113,591)
Net property, plant and equipment	66,760	62,287
Goodwill	47,129	43,789
Other intangible assets, net	7,480	7,873
Investments in associated companies	7,972	7,323
Deferred income taxes	30,480	30,257
Other assets	40,315	34,019
Total assets	\$ 434,306	\$ 399,049
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings and current portion of long-term debt	\$ 2,818	\$ 4,288
Accounts and other payables	73,718	67,380
Accrued compensation	11,403	17,287
Other current liabilities	17,280	17,396
Total current liabilities	105,219	106,351
Long-term debt	87,405	78,487
Deferred income taxes	8,784	7,583
Other non-current liabilities	75,118	71,722

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Total liabilities		276,526	264,143
Minority interest in equity of subsidiaries		4,883	4,513
Shareholders' equity			
Common stock \$1 par value; authorized 30,000,000 shares; issued 2008 10,612,269; 2007 10,147,239 shares		10,612	10,147
Capital in excess of par value		19,029	10,104
Retained earnings		120,375	115,767
Accumulated other comprehensive income (loss)		2,881	(5,625)
Total shareholders' equity		152,897	130,393
Total liabilities and shareholders' equity		\$ 434,306	\$ 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 June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net sales	\$ 158,188	\$ 137,598	\$ 305,906	\$ 262,489
Cost of goods sold	113,402	94,986	217,485	181,331
Gross margin	44,786	42,612	88,421	81,158
Selling, general and administrative expenses	37,153	35,409	71,657	67,328
CEO transition costs	1,880		1,880	
Operating income	5,753	7,203	14,884	13,830
Other income, net	1,687	909	1,848	1,236
Interest expense	(1,337)	(1,660)	(2,756)	(3,215)
Interest income	358	159	595	364
Income before taxes	6,461	6,611	14,571	12,215
Taxes on income	2,116	2,298	4,881	4,142
	4,345	4,313	9,690	8,073
Equity in net income of associated companies	187	266	299	391
Minority interest in net income of subsidiaries	(211)	(428)	(575)	(776)
Net income	\$ 4,321	\$ 4,151	\$ 9,414	\$ 7,688
Per share data:				
Net income basic	\$ 0.42	\$ 0.42	\$ 0.92	\$ 0.77
Net income diluted	\$ 0.41	\$ 0.41	\$ 0.91	\$ 0.76
Dividends declared	\$ 0.23	\$ 0.215	\$ 0.46	\$ 0.43
Based on weighted average number of shares outstanding:				
Basic	10,285,121	9,983,535	10,185,490	9,945,819
Diluted	10,559,449	10,118,653	10,366,569	10,074,060

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 Six Months Ended	
	June 30,	
	2008	2007
Cash flows from operating activities		
Net income	\$ 9,414	\$ 7,688
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	5,457	5,500
Amortization	606	611
Equity in undistributed earnings of associated companies, net of dividends	(299)	(26)
Minority interest in earnings of subsidiaries	575	776
Deferred compensation and other, net	2,498	1,276
Stock-based compensation	1,762	561
(Gain) loss on disposal of property, plant and equipment	(76)	6
Insurance settlement realized	(685)	(913)
Pension and other postretirement benefits	(3,311)	(1,773)
Increase (decrease) in cash from changes in current assets and current liabilities, net of acquisitions:		
Accounts receivable	1,013	(14,785)
Inventories	(3,806)	(3,921)
Prepaid expenses and other current assets	(885)	(989)
Accounts payable and accrued liabilities	(4,146)	3,123
Net cash provided by (used in) operating activities	8,117	(2,866)
Cash flows from investing activities		
Investments in property, plant and equipment	(7,038)	(4,180)
Payments related to acquisitions	(1,000)	(1,527)
Proceeds from disposition of assets	117	106
Insurance settlement received and interest earned	5,178	5,326
Change in restricted cash, net	(13,818)	(4,413)
Net cash used in investing activities	(16,561)	(4,688)
Cash flows from financing activities		
Net decrease in short-term borrowings	(1,488)	(2,841)
Proceeds from long-term debt	10,000	10,921
Repayments of long-term debt	(2,120)	(448)
Dividends paid	(4,550)	(4,304)
Stock options exercised, other	7,628	2,605
Distributions to minority shareholders		(270)
Net cash provided by financing activities	9,470	5,663
Effect of exchange rate changes on cash	949	346
Net increase (decrease) in cash and cash equivalents	1,975	(1,545)
Cash and cash equivalents at beginning of period	20,195	16,062

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Cash and cash equivalents at end of period	\$ 22,170	\$ 14,517
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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 six months ended June 30, 2008 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, 2007.

During the first quarter of 2008 and as required by SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, the Company changed the measurement date of its U.S. pension plan