QUAKER CHEMICAL CORP
Form 10-Q
November 07, 2007
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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, 2007

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 Hector Street,	
Conshohocken, Pennsylvania	**19428 0809**

(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check one).

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

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 October 31, 2007	10,127,066

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QUAKER CHEMICAL CORPORATION AND CONSOLIDATED SUBSIDIARIES

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Item 1. Financial Statements

Quaker Chemical Corporation

Condensed Consolidated Balance Sheet

	Unaudited (Dollars in thousands, except par value and share amounts)	
	September 30, 2007	**December 31, 2006***
ASSETS		
Current assets		
Cash and cash equivalents	$ 24,224	$ 16,062
Accounts receivable, net	118,217	107,340
Inventories		
Raw materials and supplies	23,392	21,589
Work-in-process and finished goods	34,516	30,395
Prepaid expenses and other current assets	15,229	10,855
Total current assets	215,578	186,241
Property, plant and equipment, at cost	169,425	158,934
Less accumulated depreciation	108,934	98,007
Net property, plant and equipment	60,491	60,927
Goodwill	43,067	38,740
Other intangible assets, net	8,097	8,330
Investments in associated companies	7,123	7,044
Deferred income taxes	33,037	28,573
Other assets	31,196	27,527
Total assets	$ 398,589	$ 357,382
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Short-term borrowings and current portion of long-term debt	$ 3,098	$ 4,950
Accounts and other payables	63,279	56,345
Accrued compensation	15,704	15,225
Other current liabilities	19,076	13,659
Total current liabilities	101,157	90,179
Long-term debt	89,364	85,237
Deferred income taxes	6,838	5,317
Other non-current liabilities	75,477	61,783
Total liabilities	272,836	242,516
Minority interest in equity of subsidiaries	4,679	4,035
Shareholders equity		
Common stock $1 par value; authorized 30,000,000 shares; issued 2007 10,125,249 shares, 2006 - 9,925,976 shares	10,125	9,926
Capital in excess of par value	9,065	5,466

Retained earnings	113,326	114,498
Accumulated other comprehensive (loss)	(11,442)	(19,059)
Total shareholders equity	121,074	110,831
Total Liabilities and Shareholders Equity	$ 398,589	$ 357,382

* Condensed from audited financial statements.

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 and share amounts)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net sales	$ 140,715	$ 116,425	$ 403,204	$ 344,924
Cost of goods sold	97,547	79,650	278,878	239,599
Gross margin	43,168	36,775	124,326	105,325
Selling, general and administrative expenses	36,602	31,485	103,930	88,636
Environmental charges	3,300		3,300	
Operating income	3,266	5,290	17,096	16,689
Other income, net	382	539	1,618	1,054
Interest expense	(1,714)	(1,432)	(4,929)	(4,040)
Interest income	344	214	708	605
Income before taxes	2,278	4,611	14,493	14,308
Taxes on income	(1,066)	1,378	3,076	5,058
	3,344	3,233	11,417	9,250
Equity in net income of associated companies	166	218	557	456
Minority interest in net income of subsidiaries	(350)	(312)	(1,126)	(1,033)
Net income	$ 3,160	$ 3,139	$ 10,848	$ 8,673
Per share data:				
Net income basic	$ 0.32	$ 0.32	$ 1.09	$ 0.89
Net income diluted	$ 0.31	$ 0.32	$ 1.07	$ 0.88
Dividends declared	$ 0.215	$ 0.215	$ 0.645	$ 0.645
Based on weighted average number of shares outstanding:				
Basic	10,016,801	9,792,187	9,969,739	9,762,019
Diluted	10,134,909	9,854,625	10,095,945	9,833,903

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, 2007	2006
Cash flows from operating activities		
Net income	$ 10,848	$ 8,673
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	8,579	7,406
Amortization	900	1,058
Equity in undistributed earnings of associated companies, net of dividends	(83)	(251)
Minority interest in earnings of subsidiaries	1,126	1,033
Deferred income taxes	(1,498)	834
Deferred compensation and other, net	878	387
Stock-based compensation	863	601
Environmental charges	3,300	
Loss on disposal of property, plant and equipment	33	19
Insurance settlement realized	(1,266)	(252)
Pension and other postretirement benefits	(2,532)	(3,108)
Increase (decrease) in cash from changes in current assets and current liabilities, net of acquisitions:		
Accounts receivable	(5,795)	(10,077)
Inventories	(3,227)	(4,561)
Prepaid expenses and other current assets	(1,750)	(3,022)
Accounts payable and accrued liabilities	6,009	8,351
Change in restructuring liabilities		(3,731)
Net cash provided by operating activities	16,385	3,360
Cash flows from investing activities		
Investments in property, plant and equipment	(5,431)	(8,513)
Payments related to acquisitions	(1,543)	(1,069)
Proceeds from disposition of assets	176	64
Insurance settlement received and interest earned	5,534	240
Change in restricted cash, net	(4,268)	12
Net cash used in investing activities	(5,532)	(9,266)
Cash flows from financing activities		
Short-term debt borrowings	1,305	1,873
Repayments of short-term debt	(3,267)	(4,519)
Long-term debt borrowings	3,132	15,680
Repayments of long-term debt	(674)	(704)
Dividends paid	(6,484)	(6,320)
Stock options exercised, other	2,935	429
Distributions to minority shareholders	(864)	(1,464)
Net cash (used in) provided by financing activities	(3,917)	4,975
Effect of exchange rate changes on cash	1,226	595

Net increase (decrease) in cash and cash equivalents	8,162	(336)
Cash and cash equivalents at beginning of period	16,062	16,121
Cash and cash equivalents at end of period	$ 24,224	$ 15,785

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 Out of Period Adjustments

During the third quarter of 2007, the Company identified errors of a cumulative $993 overstatement of its consolidated income tax expense for the years 2004, 2005 and 2006. These errors were related to the deferred tax accounting for the Company s foreign pension plans and intangible assets regarding one of the Company s 2002 acquisitions. The Company corrected these errors during the third quarter 2007, which had the effect of reducing tax expense by $993, and increasing net income by $993 for the three and nine months ended September 30, 2007. The Company does not believe this adjustment is material to the consolidated financial statements for the years ended December 31, 2004, 2005 or 2006, or to our projected results for the current year, and as a result, has not restated any prior period amounts. As the Company s assessment was based on projected full year 2007 results, the Company will update its assessment at year-end based upon actual 2007 results.

Note 2 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 described in note 1 above) 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, 2007 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, 2006.

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 a 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 $40,233 and $44,408 for the nine months ended September 30, 2007 and 2006, respectively.

Note 3 Recently Issued Accounting Standards

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 establishes a common definition for fair value to be applied to U.S. GAAP guidance requiring use of fair value, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact of SFAS No. 157 on its consolidated financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 (SFAS No. 159). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. This statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact of SFAS No. 159 on its consolidated financial position and results of operations.

Note 4 Uncertain Income Tax Positions

The Company adopted FASB Interpretation 48, Accounting for Uncertainty in Income Taxes (FIN 48), on January 1, 2007. As a result of the implementation, the Company recognized a $5,503 increase to reserves for uncertain tax positions. This increase was accounted for as an adjustment to the beginning balance of retained earnings on the Balance Sheet. Including the cumulative effect increase, at the beginning of 2007, the Company had approximately $8,902 of total gross unrecognized tax benefits. Of this amount, $5,479 (net of the Federal benefit of state taxes and other offsetting taxes) represents the amount of unrecognized tax benefits that, if recognized, would affect the effective income tax rate in any future periods. At September 30, 2007, the Company had $10,159 of total gross unrecognized tax benefits.

The Company and its subsidiaries are subject to U.S. Federal income tax, as well as income tax of multiple state and foreign jurisdictions. The Company has concluded all U.S. Federal income tax matters for years through 2002. Substantially, all material state and local tax matters have been concluded for years through 1992. With few exceptions, the Company is no longer subject to non-U.S. income tax examinations by foreign taxing authorities for years before 2000.

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Quaker Chemical Corporation

Notes to Condensed Consolidated Financial Statements (Continued)

(Dollars in thousands, except per share amounts)

(Unaudited)

The Company is currently under audit by French taxing authorities for 2000 through 2004 tax years. As of December 31, 2006, the French taxing authorities have proposed certain significant adjustments to the Company s transfer pricing and intercompany charges. Management is currently evaluating those proposed adjustments to determine if it agrees, but the Company does not anticipate the adjustments would result in a material change to its financial position.

In addition, the Company is currently under a routine Federal audit in the U.S. for the year 2005.

The Company s continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense. The Company had $728 accrued for interest and $592 accrued for penalties at January 1, 2007. As of September 30, 2007, the Company had $1,077 accrued for interest and $768 accrued for penalties.

Note 5 Stock-Based Compensation

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), *Share-Based Payment,* (SFAS 123R). SFAS 123R requires the recognition of the fair value of stock compensation in net income. The Company elected the modified prospective method in adopting SFAS 123R. Under this method, the provisions of SFAS 123R apply to all awards granted or modified after the date of adoption. In addition, the unrecognized expense of awards not yet vested at the date of adoption is recognized in net income in the periods after the date of adoption using the same valuation method (e.g. Black-Scholes) and assumptions determined under the original provisions of SFAS 123, *Accounting for Stock-Based Compensation,* as disclosed in the Company s previous filings.

Prior to January 1, 2006, the Company accounted for employee stock option grants using the intrinsic method in accordance with Accounting Principles Board (APB) Opinion No. 25 *Accounting for Stock Issued to Employees* . As such, no compensation cost was recognized for employee stock options that had exercise prices equal to the fair market value of our common stock at the date of granting the option. The Company also complied with the pro forma disclosure requirements of SFAS No. 123 *Accounting for Stock Based Compensation* , and SFAS No. 148 *Accounting for Stock Based Compensation Transition and Disclosure* .

The Company recognized approximately $863 of share-based compensation expense and $302 of related tax benefits in our unaudited condensed consolidated statement of operations for the nine months ended September 30, 2007. The compensation expense was comprised of $304 related to stock options, $437 related to nonvested stock awards, $30 related to the Company s Employee Stock Purchase Plan, and $92 related to the Company s Director Stock Ownership Plan.

Approximately $73 of the amount of compensation cost recognized in 2006 for stock option awards reflects amortization relating to the remaining unvested portion of stock option awards granted prior to January 1, 2006. The estimated fair value of the options granted during prior years was calculated using a Black-Scholes model. The Black-Scholes model incorporates assumptions to value stock-based awards. The Company will continue to use the Black-Scholes option pricing model to value share-based awards. The estimated fair value of the Company s share-based awards is amortized on a straight-line basis over the vesting period of the awards. The risk-free rate of interest for periods within the contractual life of the option is based on U.S. Government Securities Treasury Constant Maturities over the contractual term of the equity instrument. Expected volatility is based on the historical volatility of the Company s stock. The Company uses historical data on exercise timing to determine the expected life assumption. The assumptions used for stock option grants made in the first quarter of 2005 include the following: dividend yield of 3.4%, expected volatility of 22.6%, risk-free interest rate of 3.9%, an expected life of 5 years, and a forfeiture rate of 8% over the remaining life of these options.

Based on our historical experience, we have assumed a forfeiture rate of 13% on the nonvested stock. Under the true-up provisions of SFAS 123R, we will record additional expense if the actual forfeiture rate is lower than we estimated, and we will record a recovery of prior expense if the actual forfeiture is higher than we estimated.

The adoption of SFAS 123R had an impact of $66 and $156 due to the accrual of compensation expense on the unvested stock options for the three and nine months ended September 30, 2006.

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 determined based on Company performance over a two to five-year period. Common stock awards issued in 2006 and 2007 under the LTIP program are subject only to time vesting over a two 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.

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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, 2006	1,092,420	20.69	
Options granted	166,065	23.13	
Options exercised	(166,935)	18.52	
Options forfeited	(29,956)	23.16	
Options expired	(11,519)	24.16	
Balance at September 30, 2007	1,050,075	21.31	3.3
Exercisable at September 30, 2007	824,935	21.10	2.5

The total intrinsic value of options exercised during 2007 was approximately $676. Intrinsic value is calculated as the difference between the current market price of the underlying security and the strike price of a related option. As of September 30, 2007, the total intrinsic value of options outstanding was approximately $2,699, and the total intrinsic value of exercisable options was approximately $2,377.

A summary of the Company s outstanding stock options at September 30, 2007 is as follows:

Range of Exercise Prices	Number Outstanding at 9/30/2007	Weighted Average Contractual Life	Weighted Average Exercise Price	Number Exercisable at 9/30/2007	Weighted Average Exercise Price
$13.30 - $15.96	1,000	1.5	$ 14.13	1,000	$ 14.13
15.97 - 18.62	142,400	0.4	17.56	142,400	17.56
18.63 - 21.28	437,875	2.8	20.10	363,475	20.12
21.29 - 23.94	320,000	5.2	22.45	169,260	21.85
23.95 - 26.60	148,800	3.1	26.06	148,800	26.06
	1,050,075	3.3	21.31	824,935	21.10

As of September 30, 2007, unrecognized compensation expense related to options granted during 2006 was $253, and for options granted during 2007 was $577.

During the first quarter of 2007, the Company granted 166,065 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 4.4%, expected volatility of 27.0%, risk-free interest rate of 4.7%, an expected term of 6 years, and a forfeiture rate of 3% over the remaining life of the options. Approximately $140 of expense was recorded on these options during 2007. 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, 49,550 shares of nonvested stock were outstanding at December 31, 2006. In the first quarter of 2007, 38,240 shares of nonvested stock were granted at a weighted average grant date fair value of $23.13. None of these awards were vested, 15,680 shares were forfeited and 72,110 shares were outstanding as of September 30, 2007. 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, 2007, unrecognized compensation expense related to these awards was $953, to be recognized over a weighted average remaining period of 2.2 years.

Under the Company s GAIP plan, 42,500 shares of nonvested stock were granted during the second quarter of 2005 at a weighted average grant date fair value of $20.12 per share. At December 31, 2006, 40,250 shares were outstanding. Through September 30, 2007, 12,750 shares vested and were issued, no shares were forfeited and 27,500 shares were outstanding. As of September 30, 2007, unrecognized compensation expense related to these awards was $168, to be recognized over a weighted average remaining period of 1.6 years.

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Quaker Chemical Corporation

Notes to Condensed Consolidated Financial Statements (Continued)

(Dollars in thousands, except per share amounts)

(Unaudited)

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. 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, our Board of Directors approved a stock ownership plan for each member of our 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 Committee may elect to adjust the number of shares. As of September 30, 2007, 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. Effective as of the 2007 Annual Meeting, each Director who owns 7,500 or more shares of Company Common Stock received 20% of the annual retainer in Common Stock and 80% of the annual retainer in cash with the option to receive Common Stock in lieu of the cash portion of the retainer. Effective as of the 2007 Annual Meeting, the annual retainer is $28. 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, 2007, the Company recorded approximately $31 and $92 of compensation expense, respectively. For the three and nine months ended September 30, 2006, the Company recorded approximately $32 and $94, respectively.

Note 6 Earnings Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Numerator for basic EPS and diluted EPS net income	$ 3,160	$ 3,139	$ 10,848	$ 8,673
Denominator for basic EPS weighted average shares	10,016,801	9,792,187	9,969,739	9,762,019
Effect of dilutive securities, primarily employee stock options	118,108	62,438	126,206	71,884
Denominator for diluted EPS weighted average shares and assumed conversions	10,134,909	9,854,625	10,095,945	9,833,903
Basic EPS	$ 0.32	$ 0.32	$ 1.09	$ 0.89
Diluted EPS	$ 0.31	$ 0.32	$ 1.07	$ 0.88

The following number of stock options are not included in the earnings per share since in each case the exercise price is greater than the market price: 299,540 and 787,520 for the three and nine months ended September 30, 2007 and 2006, respectively.

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Quaker Chemical Corporation

Notes to Condensed Consolidated Financial Statements (Continued)

(Dollars in thousands, except per share amounts)

(Unaudited)

Note 7 Business Segments

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.

The table below presents information about the reported segments:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Metalworking Process Chemicals				
Net sales	$ 129,944	$ 107,416	$ 373,090	$ 318,282
Operating income	18,772	15,894	56,020	45,452
Coatings				
Net sales	10,043	8,668	28,200	24,940
Operating income	2,193	2,093	6,360	6,285
Other Chemical Products				
Net sales	728	341	1,914	1,702
Operating income	22	(3)	107	150
Total				
Net sales	140,715	116,425	403,204	344,924
Operating income	20,987	17,984	62,487	51,887
Non-operating expenses	(14,132)	(12,344)	(41,191)	(34,140)
Environmental charges	(3,300)		(3,300)	
Amortization	(289)	(350)	(900)	(1,058)
Interest expense	(1,714)	(1,432)	(4,929)	(4,040)
Interest income	344	214	708	605
Other income, net	382	539	1,618	1,054
Consolidated income before taxes	$ 2,278	$ 4,611	$ 14,493	$ 14,308

Operating income comprises 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 associates.

Note 8 Comprehensive Income

The following table summarizes comprehensive income:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net income	$ 3,160	$ 3,139	$ 10,848	$ 8,673
Change in fair value of derivatives	(595)	(472)	(366)	131
Unrealized gain on available-for-sale securities	49	77	181	156
Minimum pension liability	(164)		355	
Foreign currency translation adjustments	3,307	(408)	7,447	4,255
Comprehensive income	$ 5,757	$ 2,336	$ 18,465	$ 13,215

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Quaker Chemical Corporation

Notes to Condensed Consolidated Financial Statements (Continued)

(Dollars in thousands, except per share amounts)

(Unaudited)

Note 9 Business Acquisitions and Divestitures

In March 2005, the Company acquired the remaining 40% interest in its Brazilian joint venture for $6,700. In addition, annual $1,000 payments for four years will be paid subject to the former minority partners compliance with the terms of the purchase agreement. The second $1,000 payment was made in February 2007 and was recorded as goodwill assigned to the Metalworking Process Chemicals Segment.

In May 2007, the Company s Q2 Technologies (Q2T) joint venture acquired the hydrogen sulfide and natural gas field business of Frontier Research and Chemicals Company, Inc., for $527 cash. The acquisition of this business is compatible with the products provided by Q2T and represents an attractive market addition. In connection with the acquisition, $394 of intangible assets was recorded to be amortized over five years.

Note 10 Goodwill and Other Intangible Assets

The Company completed its annual impairment assessment as of the end of the third quarter 2007 and no impairment charge was warranted. The changes in carrying amount of goodwill for the nine months ended September 30, 2007 are as follows:

	Metalworking Process Chemicals	Coatings	Total
Balance as of December 31, 2006	$ 31,471	$ 7,269	$ 38,740
Goodwill additions	1,016		1,016
Currency translation adjustments and other	2,499	812	3,311
Balance as of September 30, 2007	$ 34,986	$ 8,081	$ 43,067

Gross carrying amounts and accumulated amortization for definite-lived intangible assets as of September 30, 2007 and December 31, 2006 are as follows:

	Gross Carrying Amount		Accumulated Amortization	
Amortized intangible assets	**2007**	**2006**	**2007**	**2006**
Customer lists and rights to sell	$ 8,315	$ 7,682	$ 3,178	$ 2,812
Trademarks and patents	1,788	1,788	1,788	1,781
Formulations and product technology	3,278	3,278	1,865	1,645
Other	3,339	3,143	2,392	1,923
Total	$ 16,720	$ 15,891	$ 9,223	$ 8,161

The Company recorded $900 and $1,058 of amortization expense in the first nine months of 2007 and 2006, respectively. Estimated annual aggregate amortization expense for the current year and subsequent five years is as follows:

For the year ended December 31, 2007	$ 1,185
For the year ended December 31, 2008	$ 1,131
For the year ended December 31, 2009	$ 1,068
For the year ended December 31, 2010	$ 873
For the year ended December 31, 2011	$ 810
For the year ended December 31, 2012	$ 712

The Company has one indefinite-lived intangible asset of $600 for trademarks recorded in connection with the Company s 2002 acquisition of Epmar.

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Quaker Chemical Corporation

Notes to Condensed Consolidated Financial Statements (Continued)

(Dollars in thousands, except per share amounts)

(Unaudited)

Note 11 Pension and Other Postretirement Benefits

The components of net periodic benefit cost, for the three and nine months ended September 30, are as follows:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	Pension Benefits		Other Postretirement Benefits		Pension Benefits		Other Postretirement Benefits	
	2007	2006	2007	2006	2007	2006	2007	2006
Service cost	$ 631	$ 725	$ 5	$ 8	$ 1,861	$ 1,947	$ 15	$ 23
Interest cost and other	1,472	638	135	155	4,379	4,111	405	465
Expected return on plan assets	(1,271)	(281)			(3,783)	(3,600)		
Other amortization, net	324	424			970	1,131		
FAS 88 (Gain)/loss due to curtailments						(942)		
Net periodic benefit cost	$ 1,156	$ 1,506	$ 140	$ 163	$ 3,427			