QUAKER CHEMICAL CORP
Form 10-Q
October 28, 2015

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, 2015

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 [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 [X]	Accelerated filer [ ]
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, 2015	**13,305,629**

QUAKER CHEMICAL CORPORATION AND CONSOLIDATED SUBSIDIARIES

PART I

FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited).

Quaker Chemical Corporation

Condensed Consolidated Statements of Income

(Dollars in thousands, except per share data)

	Unaudited			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net sales	$ 189,224	$ 198,867	$ 554,280	$ 571,827
Cost of goods sold	117,895	128,567	346,006	368,197
Gross profit	71,329	70,300	208,274	203,630
Selling, general and administrative expenses	52,601	49,747	150,237	142,759
Operating income	18,728	20,553	58,037	60,871
Other income (expense), net	185	914	(97)	558
Interest expense	(697)	(641)	(1,891)	(1,747)
Interest income	422	642	1,117	1,990
Income before taxes and equity in net income of associated companies	18,638	21,468	57,166	61,672
Taxes on income before equity in net income of associated companies	4,541	5,724	15,624	18,808
Income before equity in net income of associated companies	14,097	15,744	41,542	42,864
Equity in net income (loss) of associated companies	738	375	(688)	2,506
Net income	14,835	16,119	40,854	45,370
Less: Net income attributable to noncontrolling interest	464	423	1,067	1,517
Net income attributable to Quaker Chemical Corporation	$ 14,371	$ 15,696	$ 39,787	$ 43,853
Per share data:				
Net income attributable to Quaker Chemical Corporation				
Common Shareholders – basic	$ 1.08	$ 1.18	$ 2.99	$ 3.31

Net income attributable to Quaker Chemical Corporation								
Common Shareholders – diluted	$	1.08	$	1.18	$	2.98	$	3.31
Dividends declared	$	0.32	$	0.30	$	0.94	$	0.85

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

Quaker Chemical Corporation

Condensed Consolidated Statements of Comprehensive Income

(Dollars in thousands)

	Unaudited			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	$ 14,835	$ 16,119	$ 40,854	$ 45,370
Other comprehensive (loss) income, net of tax				
Currency translation adjustments	(11,380)	(11,655)	(19,995)	(9,400)
Defined benefit retirement plans	706	1,797	3,133	2,956
Unrealized gain on available-for-sale securities	(687)	(214)	(958)	(316)
Other comprehensive loss	(11,361)	(10,072)	(17,820)	(6,760)
Comprehensive income	3,474	6,047	23,034	38,610
Less: Comprehensive income attributable to noncontrolling interest	(97)	(177)	(606)	(1,470)
Comprehensive income attributable to Quaker Chemical Corporation	$ 3,377	$ 5,870	$ 22,428	$ 37,140

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

Quaker Chemical Corporation

Condensed Consolidated Balance Sheets

(Dollars in thousands, except par value and share amounts)

	Unaudited September 30, 2015	December 31, 2014
ASSETS		
Current assets		
Cash and cash equivalents	$ 96,155	$ 64,731
Accounts receivable, net	194,852	189,484
Inventories		
Raw materials and supplies	38,585	37,961
Work-in-process and finished goods	39,948	39,747
Prepaid expenses and other current assets	20,477	19,595
Total current assets	390,017	351,518
Property, plant and equipment, at cost	234,587	234,516
Less accumulated depreciation	(148,096)	(148,753)
Net property, plant and equipment	86,491	85,763
Goodwill	78,412	77,933
Other intangible assets, net	75,829	70,408
Investments in associated companies	19,617	21,751
Deferred income taxes	21,071	24,411
Other assets	32,306	33,742
Total assets	$ 703,743	$ 665,526
LIABILITIES AND EQUITY		
Current liabilities		
Short-term borrowings and current portion of long-term debt	$ 395	$ 403
Accounts and other payables	77,212	78,977
Accrued compensation	17,709	19,853
Other current liabilities	27,230	25,668
Total current liabilities	122,546	124,901
Long-term debt	107,913	75,328
Deferred income taxes	11,194	8,584
Other non-current liabilities	85,939	91,578
Total liabilities	327,592	300,391
Commitments and contingencies (Note 14)		
Equity		
Common stock $1 par value; authorized 30,000,000 shares; issued and outstanding 2015 – 13,305,629 shares; 2014 – 13,300,891 shares	13,306	13,301
Capital in excess of par value	104,839	99,056
Retained earnings	321,856	299,524

Accumulated other comprehensive loss		(71,765)		(54,406)
Total Quaker shareholders’ equity		368,236		357,475
Noncontrolling interest		7,915		7,660
Total equity		376,151		365,135
Total liabilities and equity	$	703,743	$	665,526

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

Quaker Chemical Corporation

Condensed Consolidated Statements of Cash Flows

(Dollars in thousands)

	Unaudited For the Nine Months Ended September 30, 2015	2014
Cash flows from operating activities		
Net income	$ 40,854	$ 45,370
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	9,229	9,154
Amortization	4,998	2,754
Equity in undistributed earnings of associated companies, net of dividends	1,362	(2,306)
Deferred compensation and other, net	(551)	1,672
Stock-based compensation	4,500	3,959
Gain on disposal of property, plant and equipment and other assets	(95)	(125)
Insurance settlement realized	(549)	(1,214)
Pension and other postretirement benefits	2,204	178
(Decrease) increase in cash from changes in current assets and current liabilities, net of acquisitions:		
Accounts receivable	(4,039)	(23,061)
Inventories	(1,028)	(9,143)
Prepaid expenses and other current assets	(3,545)	1,332
Accounts payable and accrued liabilities	(2,521)	9,470
Net cash provided by operating activities	50,819	38,040
Cash flows from investing activities		
Investments in property, plant and equipment	(6,115)	(8,376)
Payments related to acquisitions, net of cash acquired	(23,990)	(51,947)
Proceeds from disposition of assets	130	178
Insurance settlement interest earned	28	34
Change in restricted cash, net	521	1,180
Net cash used in investing activities	(29,426)	(58,931)
Cash flows from financing activities		
Proceeds from long-term debt	30,668	45,000
Repayment of long-term debt	(304)	(1,106)
Dividends paid	(12,257)	(10,580)
Stock options exercised, other	947	(194)
Payments for repurchase of common stock	(4,989)	—
Excess tax benefit related to stock option exercises	400	430
Purchase of a noncontrolling interest in an affiliate	—	(7,422)

Payment of acquisition-related earnout liability		—		(4,709)
Distributions to noncontrolling affiliate shareholders		—		(1,806)
Net cash provided by financing activities		14,465		19,613
Effect of exchange rate changes on cash		(4,434)		(2,993)
Net increase (decrease) in cash and cash equivalents		31,424		(4,271)
Cash and cash equivalents at beginning of period		64,731		68,492
Cash and cash equivalents at end of period	$	96,155	$	64,221

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 share and 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 ("U.S. GAAP") for interim financial reporting and the United States Securities and Exchange Commission ("SEC") regulations. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP 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 certain material adjustments, 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 nine months ended September 30, 2015 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, 2014.

In 2003, the Venezuelan government suspended the free exchange of Bolivar Fuerte ("BsF") for foreign currency and implemented certain foreign exchange controls that served to centralize the purchase and sale of foreign currency within the country. As of December 31, 2014, there were three legally available exchange rates in Venezuela, the CADIVI (or the official rate, 6.3 BsF per U.S. Dollar), the SICAD I (approximately 12 BsF per U.S. Dollar) and the SICAD II (approximately 52 BsF per U.S. Dollar). In the first quarter of 2015, the Company understood that the Venezuelan government announced changes to its exchange controls. The Company understood that there continued to be three exchange mechanisms in Venezuela; however, they now consisted of the CADIVI, a combined SICAD I and SICAD II auction mechanism (the "SICAD") and a newly created, marginal currency system (the "SIMADI"). The CADIVI exchange largely remained the same, except that the government further restricted what products qualify and can, therefore, legally be imported or traded under this exchange. The government has yet to fully disclose who can access or trade on the newly formed combined SICAD market and minimal related auctions have occurred since late 2014. Finally, the newly created SIMADI is legally available to all parties, however, at significantly higher exchange rates than the CADIVI or SICAD. As of September 30, 2015, the published rate for the SIMADI is approximately 199 BsF per U.S. Dollar.

The Company has a Venezuelan equity affiliate, Kelko Quaker Chemical, S.A. ("Kelko Venezuela"). Venezuela's economy has been considered hyper inflationary under U.S. GAAP since 2010, at which time Kelko Venezuela's functional currency was changed to the U.S. Dollar. Accordingly, all gains and losses resulting from the remeasurement of Kelko Venezuela's monetary assets and liabilities to the CADIVI or other published exchange rates are required to be recorded directly to the Condensed Consolidated Statement of Income. As of December 31, 2014, Kelko Venezuela had access to the CADIVI for imported goods, had not been invited to participate in any SICAD I auctions and had limited access to the SICAD II mechanism. Accordingly, the Company measured its equity investment and other related assets with Kelko Venezuela at the CADIVI exchange rate at December 31, 2014. In light of the first quarter of 2015 changes to Venezuela's foreign exchange controls and the on-going economic challenges in Venezuela, the Company re-assessed Kelko Venezuela's access to U.S. Dollars, the impact on the operations of Kelko Venezuela, and the impact on the Company's equity investment and other related assets. During the first quarter of 2015, the Company determined that the CADIVI was no longer available to Kelko Venezuela for import transactions and the government has yet to fully disclose who can access or trade on the newly formed combined SICAD mechanism and minimal related auctions have occurred to date. As a result, the Company revalued its equity investment in Kelko Venezuela and other related assets to the SIMADI exchange rate of approximately 193 BsF per U.S. Dollar as of March 31, 2015. This resulted in a charge of approximately $2,806, or $0.21 per diluted share, recorded in the first quarter of 2015. Comparatively, during the second quarter of 2014, the Company recorded a charge of $321, or $0.02 per diluted share, related to the conversion of certain Venezuelan Bolivar Fuerte to U.S. Dollars on the historical SICAD II exchange. As of September 30, 2015, the Company's equity investment in Kelko Venezuela was $174, which continues to be valued at the SIMADI exchange rate.

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 the 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 $12,140 and $36,193 for the three and nine months ended September 30, 2015, respectively. Comparatively, third-party products transferred under arrangements resulting in net reporting totaled $11,829 and $33,328 for the three and nine months ended September 30, 2014, respectively.

Quaker Chemical Corporation

Notes to Condensed Consolidated Financial Statements - Continued

(Dollars in thousands, except share and per share amounts)

(Unaudited)

Note 2 – Recently Issued Accounting Standards

The Financial Accounting Standards Board ("FASB") issued an accounting standard update in September 2015 regarding the accounting and disclosure for measurement period adjustments for business combinations. The update requires that the cumulative impact of a measurement period adjustment be recognized in the reporting period in which the adjustment is identified, rather than restating prior period financial statements. The guidance within this accounting standard update is effective for annual and interim periods beginning after December 15, 2015, and should be applied on a prospective basis for the reporting periods presented. The Company is currently evaluating the effects of this guidance, but does not expect a material impact.

The FASB issued an accounting standard update in July 2015 regarding simplifying the measurement of inventory. The guidance is applicable for entities that measure inventory using the first-in, first-out or average cost methods. Specifically, the update requires that inventory be measured at lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The amendments in this update are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. This guidance should be applied prospectively with early adoption permitted. The Company is currently evaluating the effects of this guidance, but does not expect a material impact.

The FASB issued an accounting standard update in May 2015 regarding the required disclosures for entities that elect to measure the fair value of certain investments using the net asset value per share (or its equivalent) practical expedient in accordance with the fair value measurement authoritative guidance. The update removes the requirement to categorize within the fair value hierarchy, and, also, limits the requirement to make certain other disclosures, for all such investments. The amendments in this update are effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years, and should be applied on a retrospective basis for the periods presented. Early adoption is permitted. The Company is currently evaluating the effects of this guidance, but does not expect a material impact.

The FASB issued an accounting standard update in April 2015 regarding the presentation of debt issuance costs on the balance sheet. The update requires capitalized debt issuance costs be presented on the balance sheet as a reduction to debt, rather than recorded as a separate asset. The amendments in this update are effective for annual and interim periods beginning after December 15, 2015 and should be applied on a retrospective basis for the periods presented. Early adoption is permitted. Also, in June 2015, the SEC staff announced that the guidance within this accounting standard update was not applicable to revolving debt arrangements or credit facilities. The Company is currently evaluating the effects of this guidance, and the SEC’s announcement, but does not expect a material impact.

The FASB issued an accounting standard update in May 2014 regarding the accounting for and disclosure of revenue recognition. Specifically, the update outlined a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers, which will be common to both U.S. GAAP and International Financial Reporting Standards. The guidance was effective for annual and interim periods beginning after December 15, 2016, which allowed for full retrospective adoption of prior period data or a modified retrospective adoption. Early adoption was not permitted. In August 2015, the FASB issued an accounting standard update to delay the effective date of the new revenue standard by one year, or, in other words, to be effective for annual and interim periods beginning after December 15, 2017. Entities will be permitted to adopt the new revenue standard early, but not before the original effective date. The Company is currently evaluating the effects of this guidance.

Note 3 – Business Segments

The Company's reportable operating segments are organized by geography as follows: (i) North America, (ii) Europe, Middle East and Africa ("EMEA"), (iii) Asia/Pacific and (iv) South America. Operating earnings, excluding indirect operating expenses, for the Company's reportable operating segments are comprised of revenues less costs of goods sold and selling, general and administrative expenses ("SG&A") directly related to the respective regions' product sales. The indirect operating expenses consist of SG&A related expenses that are not directly attributable to the product sales of each respective reportable operating segment. Other items not specifically identified with the Company's reportable operating segments include interest expense, interest income, license fees from non-consolidated affiliates and other income (expense).

Quaker Chemical Corporation

Notes to Condensed Consolidated Financial Statements - Continued

(Dollars in thousands, except share and per share amounts)

(Unaudited)

The following table presents information about the performance of the Company's reportable operating segments for the three and nine months ended September 30, 2015 and 2014:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	**2014**	**2015**	**2014**
Net sales				
North America	$ 90,010	$ 87,909	$ 258,977	$ 247,137
EMEA	45,989	49,352	130,345	148,769
Asia/Pacific	46,067	49,601	138,913	136,661
South America	7,158	12,005	26,045	39,260
Total net sales	$ 189,224	$ 198,867	$ 554,280	$ 571,827
Operating earnings, excluding indirect operating expenses				
North America	$ 21,893	$ 17,771	$ 59,938	$ 51,350
EMEA	7,106	8,589	20,538	24,794
Asia/Pacific	11,250	11,925	33,874	32,064
South America	261	883	2,270	3,281
Total operating earnings, excluding indirect operating expenses	40,510	39,168	116,620	111,489
Indirect operating expenses	(20,031)	(17,489)	(53,585)	(47,864)
Amortization expense	(1,751)	(1,126)	(4,998)	(2,754)
Consolidated operating income	18,728	20,553	58,037	60,871
Other income (expense), net	185	914	(97)	558
Interest expense	(697)	(641)	(1,891)	(1,747)
Interest income	422	642	1,117	1,990
Consolidated income before taxes and equity in net income of associated companies	$ 18,638	$ 21,468	$ 57,166	$ 61,672

Inter-segment revenue for the three and nine months ended September 30, 2015 was $2,250 and $6,885 for North America, $5,185 and $14,559 for EMEA, $267 and $523 for Asia/Pacific and $0 and $13 for South America, respectively. Inter-segment revenue for the three and nine months ended September 30, 2014 was $2,605 and $6,411 for North America, $5,801 and $16,582 for EMEA, $127 and $329 for Asia/Pacific and zero for South America, respectively. However, all inter-segment transactions have been eliminated from each reportable operating segment's net sales and earnings for all periods presented above.

Note 4 – Stock-Based Compensation

The Company recognized the following share-based compensation expense in selling, general and administrative expenses in its Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2015 and 2014:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Stock options	$ 164	$ 171	$ 548	$ 492
Nonvested stock awards and restricted stock units	668	593	2,179	1,758
Employee stock purchase plan	19	18	56	54
Non-elective and elective 401(k) matching contribution in stock	449	413	1,624	1,561
Director stock ownership plan	31	32	93	94
Total share-based compensation expense	$ 1,331	$ 1,227	$ 4,500	$ 3,959

As of September 30, 2015 and 2014, the Company recorded $400 and $430, respectively, of excess tax benefits in capital in excess of par value on its Condensed Consolidated Balance Sheets related to stock option exercises. The Company's estimated taxes payable was sufficient to fully recognize these benefits as cash inflows from financing activities in its Condensed Consolidated Statement of Cash Flows, which represented the Company's estimate of cash savings through the nine months ended September 30, 2015 and 2014, respectively.

Quaker Chemical Corporation

Notes to Condensed Consolidated Financial Statements - Continued

(Dollars in thousands, except share and per share amounts)

(Unaudited)

Stock option activity under all plans is as follows:

	Number of Options		Weighted Average Exercise Price (per option)	Weighted Average Remaining Contractual Term (years)
Options outstanding at December 31, 2014	87,075	$	59.09	
Options granted	38,698		87.30	
Options exercised	(21,157)		46.61	
Options forfeited	(4,945)		78.42	
Options outstanding at September 30, 2015	99,671	$	71.73	5.3
Options exercisable at September 30, 2015	31,457	$	56.46	4.3

As of September 30, 2015, the total intrinsic value of options outstanding was approximately $890, and the total intrinsic value of exercisable options was $643. 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, 2015 is as follows:

Range of Exercise Prices		Number of Options Outstanding	Weighted Average Remaining Contractual Term (years)	Weighted Average Exercise Price (per option)	Number of Options Exercisable	Weighted Average Exercise Price (per option)
$ — -	$ 10.00	—	—	$ —	—	$ —
$ 10.01 -	$ 20.00	2,367	1.3	18.82	2,367	18.82
$ 20.01 -	$ 30.00	—	—	—	—	—
$ 30.01 -	$ 40.00	6,317	3.4	38.13	6,317	38.13
$ 40.01 -	$ 50.00	—	—	—	—	—
$ 50.01 -	$ 60.00	21,055	4.4	58.26	11,997	58.26
$ 60.01 -	$ 70.00	—	—	—	—	—
$ 70.01 -	$ 80.00	33,786	5.4	73.47	10,776	73.47
$ 80.01 -	$ 90.00	36,146	6.4	87.30	—	—
		99,671	5.3	71.73	31,457	56.46

As of September 30, 2015, unrecognized compensation expense related to options granted during 2013 was $85, for options granted during 2014 was $360 and for options granted in 2015 was $664.

During the first quarter of 2015, the Company granted stock options under its 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:

2015

Number of options granted	38,698
Dividend Yield	1.55%
Expected Volatility	36.32%
Risk-free interest rate	1.22%
Expected term (years)	4.0

Approximately $62 and $163 of expense was recorded on these options during the three and nine months ended September 30, 2015, respectively. The fair value of these awards is amortized on a straight-line basis over the vesting period of the awards.

Quaker Chemical Corporation

Notes to Condensed Consolidated Financial Statements - Continued

(Dollars in thousands, except share and per share amounts)

(Unaudited)

Activity of nonvested shares granted under the Company's LTIP plan is shown below:

	Number of Shares		Weighted Average Grant Date Fair Value (per share)
Nonvested awards, December 31, 2014	124,450	$	61.80
Granted	27,266	$	86.39
Vested	(33,681)	$	46.76
Forfeited	(7,644)	$	61.12
Nonvested awards, September 30, 2015	110,391	$	72.51

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, 2015, unrecognized compensation expense related to these awards was $4,207 to be recognized over a weighted average remaining period of 1.88 years.

Activity of nonvested restricted stock units granted under the Company's LTIP plan is shown below:

	Number of Units		Weighted Average Grant Date Fair Value (per unit)
Nonvested awards, December 31, 2014	7,158	$	61.03
Granted	1,450	$	87.30
Vested	(2,434)	$	43.45
Nonvested awards, September 30, 2015	6,174	$	74.14

The fair value of the nonvested restricted stock units 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, 2015, unrecognized compensation expense related to these awards was $200 to be recognized over a weighted average remaining period of 1.77 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. An employee whose stock ownership of the Company exceeds five percent of the outstanding common stock is not eligible to participate in this plan.

2013 Director Stock Ownership Plan

In 2013, the Company adopted the 2013 Director Stock Ownership Plan (the “Plan”), to encourage the Directors to increase their investment in the Company, which was approved at the Company’s May 2013 shareholders’ meeting. The Plan authorizes the issuance of up to 75,000 shares of Quaker common stock in accordance with the terms of the Plan in payment of all or a portion of the annual cash retainer payable to each of the Company’s non-employee directors in 2013 and subsequent years during the term of the Plan. Under the Plan, each director who, on May 1 of the applicable calendar year, owns less than 400% of the annual cash retainer for the applicable calendar year, divided by the average of the closing price of a share of Quaker Common Stock as reported by the composite tape of the New York Stock Exchange for the previous calendar year (the “Threshold Amount”), is required to receive 75% of the annual cash retainer in Quaker common stock and 25% of the retainer in cash, unless the director elects to receive a greater percentage of Quaker common stock (up to 100%) of the annual cash retainer for the applicable year. Each director who owns more than the Threshold Amount may elect to receive common stock in payment of a percentage (up to 100%) of the annual cash retainer. The annual retainer is $50 and the retainer payment date is June 1.

Quaker Chemical Corporation

Notes to Condensed Consolidated Financial Statements - Continued

(Dollars in thousands, except share and per share amounts)

(Unaudited)

Note 5 – Pension and Other Postretirement Benefits

The components of net periodic benefit cost for the three and nine months ended September 30, 2015 and 2014 are as follows:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	Pension Benefits		Other Postretirement Benefits		Pension Benefits		Other Postretirement Benefits	
	2015	2014	2015	2014	2015	2014	2015	2014
Service Cost	$ 763	$ 716	$ 1	$ 5	$ 2,297	$ 2,186	$ 12	$ 15
Interest Cost	1,256	1,506	47	58	3,772	4,567	146	174
Expected return on plan assets	(1,367)	(1,588)	—	—	(4,165)	(4,796)	—	—
Actuarial loss amortization	862	763	12	16	2,620	2,311	64	48
Prior service cost amortization	(25)	(21)	—	—	(76)	830	—	—
Net periodic benefit cost	$ 1,489	$ 1,376	$ 60	$ 79	$ 4,448	$ 5,098	$ 222	$ 237

During 2013, it was discovered that the Company's subsidiary in the United Kingdom ("U.K.") did not appropriately amend a trust for a legacy change in its pension scheme, as it related to a past retirement age equalization law. Given the lack of an official deed to the pension trust, the effective date of the change to the subsidiary's pension scheme differed from the Company's historical beliefs, but the extent of the potential exposure was not estimable. In the first quarter of 2014, the Company recorded costs of $902, or $0.05 per diluted share, related to prior service cost and interest cost, to appropriately reflect the past plan amendment related to the retirement age equalization law.

Employer Contributions

The Company previously disclosed in its financial statements for the year ended December 31, 2014, that it expected to make minimum cash contributions of $4,176 to its pension plans and $568 to its other postretirement benefit plan in 2015. As of September 30, 2015, $1,835 and $449 of contributions have been made to the Company's pension plans and its postretirement benefit plans, respectively.

Note 6 – Other income (expense), net

The components of other income (expense), net for the three and nine months ended September 30, 2015 and 2014 are as follows:

	Three Months Ended September 30,	Nine Months Ended September 30,

	2015	2014	2015	2014
Income from third party license fees	$ 161	$ 181	$ 619	$ 736
Foreign exchange (losses) gains, net	(79)	160	(978)	(824)
Gain on fixed asset disposals, net	21	25	76	130
Non-income tax and other related refunds				