QUAKER CHEMICAL CORP
Form 10-Q
October 26, 2017

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, 2017

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

	Large accelerated filer [X]		Accelerated filer [ ]	
	Non-accelerated filer [ ] (Do not check if a smaller reporting company)		Smaller reporting company [ ]	
	Emerging growth company [ ]			

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

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, 2017	**13,299,294**

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,	
	2017	2016	2017	2016
Net sales	$ 212,918	$ 190,428	$ 609,010	$ 555,420
Cost of goods sold	138,142	119,531	391,512	345,141
Gross profit	74,776	70,897	217,498	210,279
Selling, general and administrative expenses	51,092	47,877	148,740	144,720
Combination-related expenses	9,675	1,157	23,088	1,157
Operating income	14,009	21,863	45,670	64,402
Other income (expense), net	249	(10)	(1,427)	(245)
Interest expense	(793)	(758)	(2,229)	(2,226)
Interest income	762	551	1,825	1,444
Income before taxes and equity in net income of associated companies	14,227	21,646	43,839	63,375
Taxes on income before equity in net income of associated companies	3,140	6,121	14,229	19,664
Income before equity in net income of associated companies	11,087	15,525	29,610	43,711
Equity in net income of associated companies	617	826	2,049	1,389
Net income	11,704	16,351	31,659	45,100
Less: Net income attributable to noncontrolling interest	562	343	1,619	1,131
Net income attributable to Quaker Chemical Corporation	$ 11,142	$ 16,008	$ 30,040	$ 43,969
Per share data:				
Net income attributable to Quaker Chemical Corporation				
Common Shareholders – basic	$ 0.84	$ 1.21	$ 2.26	$ 3.32

Net income attributable to Quaker Chemical Corporation Common Shareholders – diluted	$	0.83	$	1.21	$	2.25	$	3.32
Dividends declared	$	0.355	$	0.345	$	1.055	$	1.010

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,	
	2017	2016	2017	2016
Net income	$ 11,704	$ 16,351	$ 31,659	$ 45,100
Other comprehensive income (loss), net of tax				
Currency translation adjustments	5,764	(715)	18,528	(1,074)
Defined benefit retirement plans	62	460	2,171	1,641
Unrealized gain on available-for-sale securities	286	195	453	808
Other comprehensive income (loss)	6,112	(60)	21,152	1,375
Comprehensive income	17,816	16,291	52,811	46,475
Less: Comprehensive income attributable to noncontrolling interest	(409)	(520)	(2,037)	(1,217)
Comprehensive income attributable to Quaker Chemical Corporation	$ 17,407	$ 15,771	$ 50,774	$ 45,258

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, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 109,088	$ 88,818
Accounts receivable, net	218,243	195,225
Inventories		
Raw materials and supplies	44,300	37,772
Work-in-process and finished goods	45,952	39,310
Prepaid expenses and other current assets	24,272	15,343
Total current assets	441,855	376,468
Property, plant and equipment, at cost	253,548	236,006
Less accumulated depreciation	(167,270)	(150,272)
Net property, plant and equipment	86,278	85,734
Goodwill	85,816	80,804
Other intangible assets, net	73,514	73,071
Investments in associated companies	25,191	22,817
Non-current deferred tax assets	22,229	24,382
Other assets	29,644	28,752
Total assets	$ 764,527	$ 692,028
LIABILITIES AND EQUITY		
Current liabilities		
Short-term borrowings and current portion of long-term debt	$ 700	$ 707
Accounts and other payables	95,584	82,164
Accrued compensation	20,470	19,356
Accrued restructuring	—	670
Other current liabilities	39,367	24,514
Total current liabilities	156,121	127,411
Long-term debt	72,374	65,769
Non-current deferred tax liabilities	12,618	12,008
Other non-current liabilities	71,355	74,234
Total liabilities	312,468	279,422
Commitments and contingencies (Note 16)		
Equity		
Common stock, $1 par value; authorized 30,000,000 shares; issued and outstanding 2017 – 13,299,294 shares; 2016 – 13,277,832 shares	13,299	13,278

Capital in excess of par value		113,129		112,475
Retained earnings		380,421		364,414
Accumulated other comprehensive loss		(66,673)		(87,407)
Total Quaker shareholders' equity		440,176		402,760
Noncontrolling interest		11,883		9,846
Total equity		452,059		412,606
Total liabilities and equity	$	764,527	$	692,028

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 Nine Months Ended September 30, 2017	2016
Cash flows from operating activities		
Net income	$ 31,659	$ 45,100
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	9,464	9,469
Amortization	5,490	5,319
Equity in undistributed earnings of associated companies, net of dividends	(1,919)	(1,314)
Deferred compensation and other, net	(1,190)	3,083
Stock-based compensation	3,269	4,942
(Gain) loss on disposal of property, plant, equipment and other assets	(50)	44
Insurance settlement realized	(542)	(809)
Combination-related expenses, net of payments	10,367	1,157
Pension and other postretirement benefits	608	(3,373)
(Decrease) increase in cash from changes in current assets and current liabilities, net of acquisitions:		
Accounts receivable	(12,946)	(5,926)
Inventories	(9,272)	(3,741)
Prepaid expenses and other current assets	(5,217)	(868)
Accounts payable and accrued liabilities	11,755	4,088
Restructuring liabilities	(675)	(4,194)
Net cash provided by operating activities	40,801	52,977
Cash flows from investing activities		
Investments in property, plant and equipment	(8,032)	(6,311)
Payments related to acquisitions, net of cash acquired	(5,363)	(3,244)
Proceeds from disposition of assets	67	54
Insurance settlement interest earned	35	24
Change in restricted cash, net	507	785
Net cash used in investing activities	(12,786)	(8,692)
Cash flows from financing activities		
Proceeds from long-term debt	4,472	—
Repayments of long-term debt	(488)	(6,842)
Dividends paid	(13,893)	(13,052)
Stock options exercised, other	(2,594)	64

Payments for repurchase of common stock	—	(5,859)
Excess tax benefit related to stock option exercises	—	167
Net cash used in financing activities	(12,503)	(25,522)
Effect of foreign exchange rate changes on cash	4,758	(792)
Net increase in cash and cash equivalents	20,270	17,971
Cash and cash equivalents at beginning of period	88,818	81,053
Cash and cash equivalents at end of period	$ 109,088	$ 99,024

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, unless otherwise stated)

(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 SEC 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 three and nine months ended September 30, 2017, respectively, 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, 2016. During the first quarter of 2017, the Company early adopted an accounting standard update regarding the classification of pension costs. The guidance in this accounting standard update was required to be applied retrospectively, which resulted in a reclassification to the Company's Condensed Consolidated Statement of Income for the three and nine months ended September 30, 2016, respectively. See Note 3 of Notes to Condensed Consolidated Financial Statements.

Venezuela's economy has been considered hyper inflationary under U.S. GAAP since 2010, at which time the Company's Venezuela equity affiliate, Kelko Quaker Chemical, S.A. ("Kelko Venezuela"), changed its functional currency from the bolivar fuerte ("BsF") to the U.S. dollar. Accordingly, all gains and losses resulting from the remeasurement of Kelko Venezuela's monetary assets and liabilities to published exchange rates are required to be recorded directly to the Condensed Consolidated Statements of Income. During the first quarter of 2016, the Venezuela government announced changes to its foreign exchange controls, including eliminating the CADIVI, SICAD and SIMADI exchange rate mechanisms and replacing them with a dual exchange rate system, which consists of a protected DIPRO exchange rate, with a rate fixed at 10 BsF per U.S. dollars and, also, a floating exchange rate known as the DICOM. The DIPRO rate is only available for payment of certain imports of essential goods in the food and health sectors while the DICOM governs all other transactions not covered by the DIPRO. In light of these changes to the foreign exchange controls, during the first quarter of 2016 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. The Company did not believe it had access to the DIPRO and, therefore, believed the DICOM to be the exchange rate system available to Kelko Venezuela, which resulted in a currency conversion charge of $0.1 million in the first quarter of 2016. Due to ongoing economic and political instability in Venezuela, the DICOM BsF per U.S dollar exchange rate has continued to devalue during 2017. This resulted in the Company recording a currency conversion charge of less than $0.1 million and $0.4 million in the three and nine months ended September 30, 2017, respectively, to write down the Company's equity investment to the current DICOM exchange rate. These currency conversion charges were recorded through equity in net income of associated companies in the Company's Condensed Consolidated Statement of Income for each period, respectively. As of September 30, 2017, the Company's equity investment in Kelko Venezuela was $0.1 million, valued at the current DICOM exchange rate of approximately 3,341 BsF per U.S. dollar.

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, 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 of service revenue, 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 $11.2 million and $33.0 million for the three and nine months ended September 30, 2017, respectively. Comparatively, third-party products transferred under arrangements resulting in net reporting totaled $10.7 million and $32.8 million for the three and nine months ended September 30, 2016, respectively.

Note 2 – Houghton Combination

On April 4, 2017, Quaker entered into a share purchase agreement with Gulf Houghton Lubricants, Ltd. to purchase the entire issued and outstanding share capital of Houghton International, Inc. ("Houghton") (herein referred to as "the Combination"). The shares will be bought for aggregate purchase consideration consisting of: (i) $172.5 million in cash; (ii) a number of shares of common stock, $1.00 par value per share, of the Company comprising 24.5% of the common stock outstanding upon the closing of the Combination; and (iii) the Company's assumption of Houghton's net indebtedness as of the closing of the Combination, which was approximately $690 million at signing. At closing, the total aggregate purchase consideration is dependent on the Company's stock price and the level of Houghton's indebtedness.

The Company secured $1.15 billion in commitments from Bank of America Merrill Lynch and Deutsche Bank to fund the Combination and to provide additional liquidity, and has since replaced these commitments with a syndicated bank agreement ("the New Credit Facility") with a group of lenders for $1.15 billion. The New Credit Facility is contingent upon and will not be effective until the closing of the Combination. The New Credit Facility currently includes a $400.0 million multicurrency revolver, a $575.0

million USD term loan and a $175.0 million EUR equivalent term loan, each with a five year term from the date the New Credit Facility becomes effective. The maximum amount available under the New Credit Facility can be increased by $200.0 million at the Company's option if the lenders agree and the Company satisfies certain conditions. Borrowings under the New Credit Facility will generally bear interest at a base rate or LIBOR rate plus a margin. The Company currently estimates the annual floating rate cost will be in the 3.0% to 3.5% range based on current market interest rates. The New Credit Facility will be subject to certain financial and other covenants, including covenants that the Company's consolidated net debt to adjusted EBITDA ratio cannot exceed 4.25 to 1 and the Company's consolidated adjusted EBITDA to interest expense ratio cannot be lower than 3.0 to 1. Both the USD and EUR equivalent term loans will have quarterly principal amortization during their respective five year terms, with 5% amortization of the principal balance due in years 1 and 2, 7.5% in year 3, and 10% in years 4 and 5, with the remaining principal amounts due at maturity. Until closing, the Company will only incur certain interest costs paid to maintain the banks' committed capital ("ticking fees"), which began to accrue on September 29, 2017. The ticking fees will bear an interest rate of 0.30% per annum.

In addition, the issuance of the Company's shares at closing of the Combination was subject to approval by Quaker's shareholders under the rules of the New York Stock Exchange, and approval was received at a meeting of the Company's shareholders during the third quarter of 2017. Also, the Combination is subject to regulatory approval in the United States, Europe, China and Australia. The Company received regulatory approval from China in July 2017 and from Australia in October 2017. Depending on the remaining regulatory approvals and other customary terms and conditions set forth in the share purchase agreement, the Company currently estimates closing of the Combination to occur either late in the fourth quarter of 2017 or the first quarter of 2018.

The Company incurred costs of $9.7 million and $23.1 million during the three and nine months ending September 30, 2017, respectively, and $1.2 million during the three and nine months ending September 30, 2016, respectively, for certain legal, environmental, financial, and other advisory and consultant costs related to due diligence, regulatory and shareholder approvals as well as integration planning associated with the Combination. As of September 30, 2017 and December 31, 2016, the Company had current liabilities related to the Combination of $11.4 million and $0.5 million, respectively, primarily recorded within other current liabilities on its Condensed Consolidated Balance Sheets. In addition, the Company has made certain reclassifications to prior year disclosures regarding combination-related items to conform with the current period presentation.

Note 3 – Recently Issued Accounting Standards

The Financial Accounting Standards Board ("FASB") issued an accounting standard update in August 2017 to increase transparency of the economics related to risk management activities within the financial statements and enhance transparency and understandability of hedge results. This accounting standard update eliminates the requirement to separately measure and report hedge ineffectiveness and requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. The guidance within this accounting standard update is effective for annual and interim periods beginning after December 15, 2018. All transition requirements and elections should be applied to hedging relationships existing on the date of adoption. For cash flow and net investment hedges existing at the date of adoption, the Company should apply a cumulative-effect adjustment related to eliminating the separate measurement of ineffectiveness to accumulated other comprehensive income with a corresponding adjustment to the opening balance of retained earnings as of the beginning of the fiscal year that the Company adopts. The amended presentation and disclosure guidance is required only prospectively. Early adoption is permitted including adoption in any interim period for which financial statements have not been issued or made available for issuance. The Company does not currently use any derivative instruments designated as hedges, but may choose to in the future. The Company has not early adopted the guidance and will evaluate the potential impact of this guidance on future transactions, as applicable.

The FASB issued an accounting standard update in May 2017 to clarify when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. This accounting standard update will reduce diversity in practice and result in fewer changes to the terms of an award being accounted for as modifications. This accounting standard update will allow companies to make certain changes to awards without accounting for them as modifications and an entity is not required to estimate the value of the award immediately before and after the change if the change doesn't affect any of the inputs to the model used to value the award. The guidance within this accounting standard update is effective for annual and interim periods beginning after December 15, 2017. The guidance within this accounting standard update should be applied prospectively to awards modified on or after the adoption date. Early adoption is permitted including adoption in any interim period for which financial statements have not been issued or made available for issuance. During the second quarter of 2017, the Company elected to early adopt this guidance with no impact to its financial statements.

The FASB issued an accounting standard update in March 2017 to improve the presentation of net periodic pension and postretirement benefit cost. Defined benefit pension and postretirement benefit costs ("net benefit cost") comprise several components that reflect different aspects of an employer's financial arrangements as well as the cost of benefits provided to employees. This accounting standard update requires that an employer disaggregate the service cost component from the other components of net benefit cost, provides explicit guidance on how to present the service cost component and the other components of net benefit cost in the income statement and allows only the service cost component of net benefit cost to be eligible for capitalization. The guidance within this accounting standard update should be applied retrospectively for the presentation of the service cost component and the other components of net periodic benefit cost in the income statement and prospectively for the capitalization of the service cost component of net periodic benefit in assets. This accounting standard update is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. Early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance. During the first quarter of 2017, the Company elected to early adopt the guidance within this accounting standard update, including the use of a practical expedient which allows the Company to use amounts previously disclosed in its pension and other postretirement benefits note for the prior period as the estimation basis for applying the required retrospective presentation. Adoption of this guidance resulted in a reclassification to the Company's Condensed Consolidated Statement of Income for the three and nine months ended September 30, 2016, as previously reported cost of goods sold ("COGS") were reduced by $0.1 and $0.4 million, respectively, and selling, general and administrative expenses ("SG&A") were reduced by $0.4 million and $1.3 million, respectively, with a corresponding increase to other expense, net, of $0.5 million and $1.7 million, respectively. In addition, these required retrospective reclassifications resulted in an immaterial adjustment to previously reported direct operating earnings within the Company's reportable operating segment disclosures for the three and nine months ended September 30, 2016, respectively. See Note 4, Note 7 and Note 8 of Notes to Condensed Consolidated Financial Statements.

The FASB issued an accounting standard update in January 2017 simplifying the test for goodwill impairment by eliminating the Step 2 computation. The accounting standard update modifies the concept of impairment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. The guidance removes the requirement to determine a goodwill impairment by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. The guidance within this accounting standard update should be applied on a prospective basis, and is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. During the third quarter of 2017, in connection with the Company's 2017 annual goodwill impairment test, the Company elected to early adopt this guidance with no impact to its financial statements.

The FASB issued an accounting standard update in January 2017 to clarify the definition of a business with the objective of adding guidance to assist companies with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments in this accounting standard update provide a more robust framework to use in determining when a set of assets and activities is a business. The guidance within this accounting standard update is effective for annual and interim periods beginning after December 15, 2017. Early adoption is permitted in limited circumstances, and the amendments in this accounting standard update should be applied prospectively, with no disclosures required at transition. The Company does not currently meet the criteria for early application of the amendments and therefore has not early adopted the guidance. The Company will evaluate the potential impact of this guidance on future transactions, as applicable.

The FASB issued an accounting standard update in November 2016 requiring that the statement of cash flows explain both the change in the total cash and cash equivalents, and, also, the amounts generally described as restricted cash or restricted cash equivalents. This will require amounts generally described as restricted cash or restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning and ending amounts shown on the statement of cash flows. The guidance within this accounting standard update is effective for annual and interim periods beginning after December 15, 2017. Early adoption is permitted and the guidance requires application using a retrospective transition method to each period presented when adopted. While permitted, the Company has not early adopted the guidance and is currently evaluating the appropriate implementation strategy. Adoption of the guidance will not have an impact on the Company’s earnings or balance sheet but will result in changes to certain disclosures within the statement of cash flows, notably cash flows from investing activities.

The FASB issued an accounting standard update in August 2016 to standardize how certain transactions are classified in the statement of cash flows. Specific transactions covered by the accounting standard update include debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate and bank owned life insurance policies, distributions received from equity method investments and beneficial interest in securitization transactions. The guidance within this accounting standard update is effective for annual and interim periods beginning after December 15, 2017. Early adoption is permitted, provided that all of the amendments are adopted in the same period. The guidance requires application using a retrospective transition method. While permitted, the Company has not early adopted the guidance and is currently evaluating the appropriate implementation strategy. Adoption of the guidance will not have an impact on the Company’s earnings or balance sheet but may result in certain reclassifications on the statement of cash flows, including reclassifications between cash flows from operating activities, investing activities and financing activities, respectively.

Quaker Chemical Corporation

Notes to Condensed Consolidated Financial Statements - Continued

(Dollars in thousands, except share and per share amounts, unless otherwise stated)

(Unaudited)

The FASB issued an accounting standard update in March 2016 involving several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, use of a forfeiture rate, and classification on the statement of cash flows. The guidance within this accounting standard update was effective for annual and interim periods beginning after December 15, 2016. When adopted, application of the guidance will vary based on each aspect of the update, including adoption under retrospective, modified retrospective or prospective approaches. Early adoption was permitted. During the first quarter of 2017, the Company adopted the guidance within the accounting standard update as required. The impact of adoption for the Company included the elimination of recording the tax effects of deductions in excess of compensation cost through equity as the guidance in this accounting standard update requires all tax effects related to share-based payments to now be recorded through the income statement. The tax effects of awards are required to be treated as discrete items in the interim reporting period in which the stock compensation-related tax benefits occur. In addition, when applying the treasury stock method for computing diluted earnings per share, there are no longer assumed proceeds from the stock compensation-related tax benefits and as a result, there are fewer shares considered to be repurchased in the calculation. This results in an assumption of more incremental shares being issued upon the exercise of share-based payment awards; therefore, equity awards will have a more dilutive effect on earnings per share. As required, the Company has applied these changes in the guidance prospectively, beginning in the first quarter of 2017. The result of these changes was a tax benefit of $0.6 million and $1.4 million recorded during the three and nine months ended September 30, 2017, respectively, and an immaterial number of dilutive shares added to the Company's earnings per share calculation for the three and nine months ended September 30, 2017, respectively. In addition, all tax-related cash flows resulting from share-based payments are now required to be reported as operating activities in the statement of cash flows under this new guidance. Either prospective or retrospective transition of this provision was permitted, and the Company has elected to apply the cash flow classification guidance on a prospective basis, consistent with the prospective transition for the treatment of excess tax benefits in the income statement. Lastly, the accounting standard update permitted Companies to make an accounting policy election to account for forfeitures as they occur for service condition aspects of certain share-based awards, rather than estimating forfeitures each period. While permitted, the Company has decided not to elect this accounting policy change, and instead has elected to continue utilizing a forfeiture rate assumption. Based on historical experience, the Company has assumed a forfeiture rate of 13% on certain of its nonvested stock awards. See Note 6, Note 9 and Note 10 of Notes to Condensed Consolidated Financial Statements.

The FASB issued an accounting standard update in February 2016 regarding the accounting and disclosure for leases. Specifically, the update will require entities that lease assets to recognize the assets and liabilities for the rights and obligations created by those leases on the balance sheet, in most instances. The guidance within this accounting standard update is effective for annual and interim periods beginning after December 15, 2018, and should be applied on a modified retrospective basis for the reporting periods presented. Early adoption is permitted. The Company has not early adopted and is currently evaluating the potential impact of this guidance and an appropriate implementation strategy. The Company has begun its impact assessment, including taking an inventory of its outstanding leases globally. While the Company's evaluation of this guidance is in the early stages, the Company currently expects adoption of this guidance to have an impact on its balance sheet.

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, and 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 are permitted to adopt the new revenue standard early but not before the original effective date. During 2016 and 2017, the FASB issued a series of accounting standard updates to clarify and expand on the implementation guidance, including principal versus agent considerations, identification of performance obligations, licensing, other technical corrections and adding certain practical expedients. The amendments in these 2016 and 2017 updates did not change the core principles of the guidance previously issued in May 2014.

During 2016, the Company reviewed its historical accounting policies and practices to identify potential differences with the requirements of the new revenue recognition standard, as it related to the Company’s contracts and sales arrangements. As of September 30, 2017, the Company has substantially completed its impact assessment for the implementation of the new revenue recognition guidance. This impact assessment and work performed to date included global and cross functional interviews and questionnaires, sales agreement and other sales document reviews, as well as technical considerations for the Company’s future transactional accounting, financial reporting and disclosure requirements. The Company expects to adopt the guidance in the first quarter of 2018, as required, using a modified retrospective adoption approach applied to those contracts which will not be completed as of December 31, 2017. In addition, the Company will elect to apply certain of the permitted practical expedients within the revenue recognition guidance, including practical expedients around significant financing components, sales taxes and shipping and handling activities.

Quaker Chemical Corporation

Notes to Condensed Consolidated Financial Statements - Continued

(Dollars in thousands, except share and per share amounts, unless otherwise stated)

(Unaudited)

The Company has begun preliminary considerations for how the new revenue recognition guidance may impact Houghton, as it pertains to the potential Combination. The Company anticipates using the remainder of 2017 to finalize its impact assessment and to further develop its considerations for the potential Houghton Combination. Based on information reviewed to date and the impact assessment conclusions reached so far, the Company does not expect the adoption of this revenue recognition guidance to have a material impact on its reported earnings, cash flows, or balance sheet; however, the Company does expect the adoption to increase the amount and level of disclosures concerning the Company's net sales.

Note 4 – 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 is comprised of revenues less COGS and SG&A directly related to the respective region's product sales. The indirect operating expenses consist of SG&A 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, amortization expense and other income (expense), net.

The following table presents information about the performance of the Company's reportable operating segments for the three and nine months ended September 30, 2017 and 2016:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Net sales				
North America	$ 90,450	$ 86,126	$ 268,122	$ 251,586
EMEA	58,775	49,825	167,209	150,582
Asia/Pacific	54,200	45,892	147,074	130,555
South America	9,493	8,585	26,605	22,697
Total net sales	$ 212,918	$ 190,428	$ 609,010	$ 555,420
Operating earnings, excluding indirect operating expenses				
North America	$ 18,888	$ 20,397	$ 59,146	$ 59,334
EMEA	8,862	8,340	26,325	25,385
Asia/Pacific	13,963	11,737	36,018	33,865
South America	965	680	2,826	703
Total operating earnings, excluding indirect operating expenses	42,678	41,154	124,315	119,287
Combination-related expenses	(9,675)	(1,157)	(23,088)	(1,157)
Nonoperating charges	(17,108)	(16,404)	(50,067)	(48,409)

Amortization expense	(1,886)	(1,730)	(5,490)	(5,319)
Consolidated operating income	14,009	21,863	45,670	64,402
Other income (expense), net	249	(10)	(1,427)	(245)
Interest expense	(793)	(758)	(2,229)	(2,226)
Interest income	762	551	1,825	1,444
Consolidated income before taxes and equity in net income of associated companies	$ 14,227	$ 21,646	$ 43,839	$ 63,375

Inter-segment revenues for the three and nine months ended September 30, 2017 were $2.8 million and $7.4 million for North America, $6.2 million and $16.0 million for EMEA, $0.2 million and $0.3 million for Asia/Pacific, respectively, and less than $0.1 million for South America in both periods. Inter-segment revenues for the three and nine months ended September 30, 2016 were $2.5 million and $6.3 million for North America, $5.3 million and $13.2 million for EMEA, $0.1 million and $0.5 million for Asia/Pacific, respectively, and less than $0.1 million for South America in both periods. However, all inter-segment transactions have been eliminated from each reportable operating segment's net sales and earnings for all periods presented above.

Quaker Chemical Corporation

Notes to Condensed Consolidated Financial Statements - Continued

(Dollars in thousands, except share and per share amounts, unless otherwise stated)

(Unaudited)

Note 5 – Restructuring and Related Activities

During the fourth quarter of 2015, in response to weak economic conditions and market declines in many regions, Quaker's management approved a global restructuring plan (the "2015 Program") to reduce its operating costs. The 2015 Program included the re-organization of certain commercial functions, the consolidation of certain distribution, laboratory and administrative offices, and other related severance charges. The 2015 Program included provisions for the reduction of total headcount of approximately 65 employees globally. Employee separation benefits varied depending on local regulations within certain foreign countries and included severance and other benefits. The Company completed all of the remaining initiatives under the 2015 Program during the second quarter of 2017 and does not expect to incur further restructuring charges under this program.

Restructuring activity recognized by reportable operating segment in connection with the 2015 Program during the nine months ended September 30, 2017 is as follows:

	North America	EMEA	Total
Accrued restructuring as of December 31, 2016	$ 196	$ 474	$ 670
Restructuring charges and adjustments	(126)	126	—
Cash payments	(70)	(605)	(675)
Currency translation adjustments	—	5	5
Accrued restructuring as of September 30, 2017	$ —	$ —	$ —

Note 6 – Stock-Based Compensation

The Company recognized the following stock-based compensation expense in SG&A in its Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2017 and 2016:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Stock options	$ 243	$ 215	$ 714	$ 632
Nonvested stock awards and restricted stock units	717	773	2,314	2,366
Employee stock purchase plan	22	21	66	64
Non-elective and elective 401(k) matching contribution in stock	8	473	72	1,749
Director stock ownership plan	34	37	103	131
Total stock-based compensation expense	$ 1,024	$ 1,519	$ 3,269	$ 4,942

During the first quarter of 2017, the Company began matching non-elective and elective 401(k) contributions in cash rather than stock. Also, the Company's estimated taxes payable as of September 30, 2016 was sufficient to fully recognize $0.2 million of excess tax benefits related to stock option exercises as cash inflows from financing activities in its Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2016.

During the first quarter of 2017, the Company granted stock options under its long-term incentive plan (“LTIP”) 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 used the Black-Scholes option pricing model and the assumptions set forth in the table below:

Number of options granted	42,477
Dividend yield	1.49%
Expected volatility	25.52%
Risk-free interest rate	1.67%
Expected term (years)	4.0

The fair value of these options is amortized on a straight-line basis over the vesting period. As of September 30, 2017, unrecognized compensation expense related to options granted was $1.5 million, to be recognized over a weighted average remaining period of 1.9 years. There were no stock options granted in the second or third quarters of 2017, respectively.

During the first nine months of 2017, the Company granted 17,315 nonvested restricted shares and 1,332 nonvested restricted stock units under its LTIP plan that are subject only to time vesting, generally over a three-year period. The fair value of these awards 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 of these awards for expected forfeitures based on historical experience. As of September 30, 2017, unrecognized compensation expense related to the nonvested restricted shares was $2.7 million, to be recognized over a weighted average remaining period of 1.7 years, and unrecognized compensation expense related to nonvested restricted stock units was $0.2 million, to be recognized over a weighted average remaining period of 2.0 years.

(Dollars in thousands, except share and per share amounts, unless otherwise stated)

Note 7 – Pension and Other Postretirement Benefits

The components of net periodic benefit cost for the three and nine months ended September 30, 2017 and 2016 are as follows:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	Pension Benefits		Other Postretirement Benefits		Pension Benefits		Other Postretirement Benefits	
	2017	2016	2017	2016	2017	2016	2017	2016
Service cost	$ 921	$ 672	$ 2	$ —	$ 2,710	$ 2,025	$ 6	$ 8
Interest cost	994	1,111	36	28	3,005	3,344	108	106
Expected return on plan assets	(1,276)	(1,329)	—	—	(3,857)	(4,027)	—	—
Settlement charge	—	—	—	—	1,860	—	—	—
Actuarial loss (gain) amortization	798	769	13	(30)	2,459	2,389	40	—
Prior service cost amortization	(28)	(25)	—	—	(76)	(76)	—	—
Net periodic benefit cost	$ 1,409	$ 1,198	$ 51	$ (2)	$ 6,101	$ 3,655	$ 154	$ 114

During the second quarter of 2017, the Company's U.S. pension plan offered a cash settlement to its vested terminated participants, which allowed them to receive the value of their pension benefits as a single lump sum payment. As payments from the U.S. pension plan for this cash out offering exceeded the service and interest cost components of the U.S. pension plan expense for 2017, the Company recorded a settlement charge of approximately $1.9 million. This settlement charge represented the immediate recognition into expense of a portion of the unrecognized loss within accumulated other comprehensive loss ("AOCI") on the balance sheet in proportion to the share of the projected benefit obligation that was settled by these payments. The gross pension benefit obligation was reduced by approximately $4.0 million as a result of these payments. The settlement charge was recognized through other expense, net, on the Company's Condensed Consolidated Statement of Income.

Employer Contributions

The Company previously disclosed in its financial statements for the year ended December 31, 2016, that it expected to make minimum cash contributions of $7.8 million to its pension plans and $0.5 million to its other postretirement benefit plans in 2017. As of September 30, 2017, $5.1 million and $0.3 million of contributions have been made to the Company's pension plans and its postretirement benefit plans, respectively.

Note 8 – Other Income (Expense), Net

The components of other income (expense), net, for the three and nine months ended September 30, 2017 and 2016 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Income from third party license fees	$ 141	$ 264	$ 612	$ 713
Foreign exchange gains, net	545	149	580	463
Gain on fixed asset disposals, net	22	3	50	7
Non-income tax refunds and other related credits	130	72	748	133
Pension and postretirement benefit costs, non-service components	(537)	(524)	(3,539)	(1,736)
Other non-operating income	47	54	288	265
Other non-operating expense	(99)	(28)	(166)	(90)
Other income (expense), net	$ 249	$ (10)	$ (1,427)	$ (245)

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Notes to Condensed Consolidated Financial Statements - Continued

(Dollars in thousands, except share and per share amounts, unless otherwise stated)

(Unaudited)

Note 9 – Income Taxes and Uncertain Income Tax Positions

The Company's effective tax rate for the three months ended September 30, 2017 was 22.1% compared to 28.3% for the three months ended September 30, 2016. The Company's effective tax rate for the nine months ended September 30, 2017 was 32.5% compared to 31.0% for the nine months ended September 30, 2016. The Company's effective tax rates for the three and nine months ended September 30, 2017, respectively, include the impact of certain non-deductible Houghton combination-related expenses, as well as tax benefits for deductions in excess of compensation cost associated with stock option exercises and restricted stock vesting. There were no comparable non-deductible combination-related expenses or stock compensation-related tax benefits recorded through tax expense during the three or nine months ended September 30, 2016. The Company's effective tax rates for the three and nine months ended September 30, 2016, respectively, reflect earnings taxed at one of the Company's subsidiaries at a statutory rate of 25% while awaiting recertification of a concessionary 15% tax rate, which the Company received and recorded the full year benefit of during the fourth quarter of 2016. This concessionary tax rate was available to the Company during the three and nine months ended September 30, 2017. The Company's effective tax rates for both the three and nine months ended September 30, 2017 and September 30, 2016 include the tax benefit of changes in uncertain tax positions, which were more favorable to the effective tax rate in the prior year periods as compared to the current year.

As of September 30, 2017, the Company's cumulative liability for gross unrecognized tax benefits was $7.0 million. As of December 31, 2016, the Company's cumulative liability for gross unrecognized tax benefits was $6.2 million.

The Company continues to recognize interest and penalties associated with uncertain tax positions as a component of taxes on income before equity in net income of associated companies in its Condensed Consolidated Statements of Income. The Company recognized a credit of less than $0.1 million and $0.1 million for interest, and an expense of $0.1 million and $0.2 million for penalties in its Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2017, respectively. The Company recognized a credit of $0.7 million and $0.6 million for interest and a credit of $0.1 million and expense of $0.2 million for penalties in its Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2016, respectively. As of September 30, 2017, the Company had accrued $0.7 million for cumulative interest and $2.0 million for cumulative penalties in its Condensed Consolidated Balance Sheets, compared to $0.7 million for cumulative interest and $1.6 million for cumulative penalties accrued at December 31, 2016.

During the nine months ended September 30, 2017 and 2016, the Company recognized a decrease of $0.8 million and $1.5 million, respectively, in its cumulative liability for gross unrecognized tax benefits due to the expiration of the applicable statutes of limitations for certain tax years. During the nine months ended September 30, 2016, the Company recognized a decrease of $3.6 million in its cumulative liability for gross unrecognized tax benefits due to settlements with tax authorities. There were no similar settlements during the nine months ended September 30, 2017.

The Company estimates that during the year ending December 31, 2017, it will reduce its cumulative liability for gross unrecognized tax benefits by approximately $1.2 to $1.3 million 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, 2017.

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 Brazil from 2000, Italy from 2007, the Netherlands and the United Kingdom from 2011, China from 2012, Spain from 2013, the United States from 2014, and various domestic state tax jurisdictions from 2007.

As previously reported, the Italian tax authorities have assessed additional tax due from the Company's subsidiary, Quaker Italia S.r.l., relating to the tax years 2007 through 2013. The Company has filed for competent authority relief from these assessments under the Mutual Agreement Procedures of the Organization for Economic Co-Operation and Development for all years except 2007. As of September 30, 2017, the Company believes it has adequate reserves, where merited, for uncertain tax positions with respect to all of these audits.

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Notes to Condensed Consolidated Financial Statements - Continued

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(Unaudited)

Note 10 – Earnings Per Share

The following table summarizes earnings per share calculations for the three and nine months ended September 30, 2017 and 2016:

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Basic earnings per common share				
Net income attributable to Quaker Chemical Corporation	$ 11,142	$ 16,008	$ 30,040	$ 43,969
Less: income allocated to participating securities	(76)	(130)	(222)	(373)
Net income available to common shareholders	$ 11,066	$ 15,878	$ 29,818	$ 43,596
Basic weighted average common shares outstanding	13,217,165	13,143,884	13,196,255	13,128,996
Basic earnings per common share	$ 0.84	$ 1.21	$ 2.26	$ 3.32
Diluted earnings per common share				
Net income attributable to Quaker Chemical Corporation	$ 11,142	$ 16,008	$ 30,040	$ 43,969
Less: income allocated to participating securities	(76)	(130)	(222)	(373)
Net income available to common shareholders	$ 11,066	$ 15,878	$ 29,818	$ 43,596
Basic weighted average common shares outstanding	13,217,165	13,143,884	13,196,255	13,128,996
Effect of dilutive securities	34,528	29,960	41,818	18,829
Diluted weighted average common shares outstanding	13,251,693	13,173,844	13,238,073	13,147,825
Diluted earnings per common share	$ 0.83	$ 1.21	$ 2.25	$ 3.32

Certain stock options and restricted stock units are not included in the diluted earnings per share calculation since the effect would have been anti-dilutive. The calculated amount of anti-diluted shares not included were 4,300 and 4,819 for the three and nine months ended September 30, 2017, respectively, and 0 and 3,465 for the three and nine months ended September 30, 2016, respectively.

Note 11 – Goodwill and Other Intangible Assets

The Company has historically completed its annual goodwill impairment test as of the end of the third quarter of each year, or more frequently if triggering events indicate a possible impairment in one or more of its reporting units. The Company continually evaluates financial performance, economic conditions and other relevant developments in assessing if an interim period impairment test for one or more of its reporting units is necessary. The Company completed its annual impairment assessment as of the end of the third quarter of 2017 and no impairment charge was warranted. In addition, the Company has recorded no impairment charges in its past. Changes in the carrying amount of goodwill for the nine months ended September 30, 2017 were as follows:

	North America	EMEA	Asia/Pacific	South America	Total
Balance as of December 31, 2016	$ 45,490	$ 18,189	$ 14,566	$ 2,559	$ 80,804

Goodwill additions	1,832	—	—	—	1,832
Currency translation adjustments	373	2,111	633	63	3,180
Balance as of September 30, 2017	$ 47,695	$ 20,300	$ 15,199	$ 2,622	$ 85,816

Gross carrying amounts and accumulated amortization for definite-lived intangible assets as of September 30, 2017 and December 31, 2016 were as follows:

	Gross Carrying Amount		**Accumulated Amortization**	
	2017	**2016**	**2017**	**2016**
Customer lists and rights to sell	$ 76,671	$ 71,454	$ 24,176	$ 20,043
Trademarks, formulations and product technology	33,022	31,436	13,782	11,748
Other	6,142	6,023	5,463	5,151
Total definite-lived intangible assets	$ 115,835	$ 108,913	$ 43,421	$ 36,942

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The Company recorded $1.9 million and $5.5 million of amortization expense for the three and nine months ended September 30, 2017, respectively. Comparatively, the Company recorded $1.7 million and $5.3 million of amortization expense for the three and nine months ended September 30, 2016, respectively. Estimated annual aggregate amortization expense for the current year and subsequent five years is as follows:

For the year ended December 31, 2017	$	7,342
For the year ended December 31, 2018		7,346
For the year ended December 31, 2019		7,243
For the year ended December 31, 2020		6,957
For the year ended December 31, 2021		6,578
For the year ended December 31, 2022		6,450

The Company has two indefinite-lived intangible assets totaling $1.1 million for trademarks at September 30, 2017 and December 31, 2016.

Note 12 – Debt

The Company's primary credit facility ("the Credit Facility") is a $300.0 million syndicated multicurrency credit agreement with a group of lenders which matures in June 2019. The maximum amount available under the Credit Facility can be increased to $400.0 million at the Company's option if the lenders agree and the Company satisfies certain conditions. Borrowings under the Credit Facility generally bear interest at a base rate or LIBOR rate plus a margin. The Credit Facility has certain financial and other covenants, with the key financial covenant requiring that the Company's consolidated net debt to adjusted EBITDA ratio cannot exceed 3.50 to 1. As of September 30, 2017 and December 31, 2016, the Company's consolidated net debt to adjusted EBITDA ratio was below 1.0 to 1, and the Company was also in compliance with all of its other covenants. As of September 30, 2017 and December 31, 2016, the Company had total credit facility borrowings of $54.7 million and $47.9 million, respectively, primarily under the Credit Facility. The Company's other outstanding debt obligations as of September 30, 2017 and December 31, 2016 were primarily industrial development bonds and municipality-related loans. At September 30, 2017 and December 31, 2016, the amounts at which the Company's debt is recorded are not materiality different from their fair market value.

Note 13 – Equity

In May 2015, the Company's Board of Directors authorized a share repurchase program for the repurchase of up to $100.0 million of Quaker Chemical Corporation common stock (the "2015 Share Repurchase Program"). The 2015 Share Repurchase Program has no expiration date. The 2015 Share Repurchase Program provides a framework of conditions under which management can repurchase shares of the Company's common stock. These purchases may be made in the open market or in private and negotiated transactions and will be in accordance with applicable laws, rules and regulations. In connection with the 2015 Share Repurchase Program, the Company acquired 83,879 shares of common stock for $5.9 million during the nine months ended September 30, 2016. There were no share repurchases under the 2015 Share Repurchase Program during the nine months ended September 30, 2017. The Company has elected not to hold treasury shares, and has retired the shares as they are repurchased. It is the

Company's accounting policy to record the excess paid over par value as a reduction in retained earnings for all shares repurchased.

Prior to September 7, 2017, the Company's Articles of Incorporation included a time-based voting system that granted special ten-for-one-voting rights to shareholders who had beneficially owned their Quaker Chemical Corporation common stock continuously for a period of at least 36 consecutive calendar months (dating from the first day of the first full calendar month on or after the date the holder acquired beneficial ownership of such common stock) before the record date for a shareholder vote. At a meeting of the Company's shareholders on September 7, 2017, the Company's shareholders approved an amendment of the Company's Articles of Incorporation that provides that every holder of Quaker Chemical Corporation common stock will be entitled to one vote for each share of common stock of the Company going forward.

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(Dollars in thousands, except share and per share amounts, unless otherwise stated)

(Unaudited)

The following tables present the changes in equity, net of tax, for the three and nine months ended September 30, 2017 and 2016:

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total
Balance at June 30, 2017	$ 13,310	$ 113,747	$ 374,001	$ (72,938)	$ 11,474	$ 439,594
Net income	—	—	11,142	—	562	11,704
Amounts reported in other comprehensive income (loss)	—	—	—	6,265	(153)	6,112
Dividends ($0.355 per share)	—	—	(4,722)	—	—	(4,722)
Share issuance and equity-based compensation plans	(11)	(618)	—	—	—	(629)
Balance at September 30, 2017	$ 13,299	$ 113,129	$ 380,421	$ (66,673)	$ 11,883	$ 452,059
Balance at June 30, 2016	$ 13,250	$ 109,751	$ 340,127	$ (71,790)	$ 8,895	$ 400,233
Net income	—	—	16,008	—	343	16,351
Amounts reported in other comprehensive (loss) income	—	—	—	(237)	177	(60)
Dividends ($0.345 per share)	—	—	(4,575)	—	—	(4,575)
Acquisition of noncontrolling interest	—	—	—	—	40	40
Share issuance and equity-based compensation plans	7	1,671	—	—	—	1,678
Excess tax benefit from stock option exercises	—	31	—	—	—	31
Balance at September 30, 2016	$ 13,257	$ 111,453	$ 351,560	$ (72,027)	$ 9,455	$ 413,698

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total
Balance at December 31, 2016	$ 13,278	$ 112,475	$ 364,414	$ (87,407)	$ 9,846	$ 412,606
Net income	—	—	30,040	—	1,619	31,659
Amounts reported in other comprehensive income	—	—	—	20,734	418	21,152

Dividends ($1.055 per share)	—	—	(14,033)	—	—	(14,033)
Share issuance and equity-based compensation plans	21	654	—	—	—	675
Balance at September 30, 2017	$ 13,299	$ 113,129	$ 380,421	$ (66,673)	$ 11,883	$ 452,059
Balance at December 31, 2015	$ 13,288	$ 106,333	$ 326,740	$ (73,316)	$ 8,198	$ 381,243
Net income	—	—	43,969	—	1,131	45,100
Amounts reported in other comprehensive income	—	—	—	1,289	86	