QUAKER CHEMICAL CORP
Form 10-Q
May 02, 2019

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 March 31, 2019

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, 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 [ ]		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]

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $1 par value	KWR	New York Stock Exchange

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 March 31, 2019	**13,333,668**

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 March 31,	
	2019	**2018**
Net sales	$ 211,210	$ 212,055
Cost of goods sold	135,443	136,608
Gross profit	75,767	75,447
Selling, general and administrative expenses	51,455	50,007
Combination-related expenses	4,483	5,209
Operating income	19,829	20,231
Other expense, net	(635)	(369)
Interest expense	(1,214)	(1,692)
Interest income	438	489
Income before taxes and equity in net income (loss) of associated companies	18,418	18,659
Taxes on income before equity in net income (loss) of associated companies	4,929	5,556
Income before equity in net income (loss) of associated companies	13,489	13,103
Equity in net income (loss) of associated companies	411	(316)
Net income	13,900	12,787
Less: Net income attributable to noncontrolling interest	56	55
Net income attributable to Quaker Chemical Corporation	$ 13,844	$ 12,732
Per share data:		
Net income attributable to Quaker Chemical Corporation common shareholders – basic	$ 1.04	$ 0.96
Net income attributable to Quaker Chemical Corporation common shareholders – diluted	$ 1.03	$ 0.95
Dividends declared	$ 0.370	$ 0.355

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 March 31,			
		2019		**2018**
Net income	$	13,900	$	12,787
Other comprehensive income, net of tax				
Currency translation adjustments		(432)		6,859
Defined benefit retirement plans		706		84
Unrealized gain (loss) on available-for-sale securities		1,273		(486)
Other comprehensive income		1,547		6,457
Comprehensive income		15,447		19,244
Less: Comprehensive income attributable to noncontrolling interest		(55)		(150)
Comprehensive income attributable to Quaker Chemical Corporation	$	15,392	$	19,094

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 March 31, 2019	December 31, 2018
ASSETS		
Current assets		
Cash and cash equivalents	$ 71,960	$ 104,147
Accounts receivable, net	208,003	202,139
Inventories		
Raw materials and supplies	46,337	48,134
Work-in-process and finished goods	46,610	45,956
Prepaid expenses and other current assets	18,403	18,134
Total current assets	391,313	418,510
Property, plant and equipment, at cost	254,400	254,237
Less accumulated depreciation	(172,084)	(170,314)
Net property, plant and equipment	82,316	83,923
Right of use lease assets	26,069	—
Goodwill	83,204	83,333
Other intangible assets, net	61,421	63,582
Investments in associated companies	22,726	21,316
Non-current deferred tax assets	9,333	6,946
Other assets	32,141	32,055
Total assets	$ 708,523	$ 709,665
LIABILITIES AND EQUITY		
Current liabilities		
Short-term borrowings and current portion of long-term debt	$ 661	$ 670
Accounts and other payables	91,145	92,754
Accrued compensation	15,959	25,727
Other current liabilities	39,743	32,319
Total current liabilities	147,508	151,470
Long-term debt	11,720	35,934
Long-term lease liabilities	20,231	—
Non-current deferred tax liabilities	9,194	10,003
Other non-current liabilities	73,507	75,889
Total liabilities	262,160	273,296
Commitments and contingencies (Note 18)		
Equity		
Common stock, $1 par value; authorized 30,000,000 shares; issued and		

outstanding 2019 – 13,333,668 shares; 2018 – 13,338,026 shares		13,334		13,338
Capital in excess of par value		96,832		97,304
Retained earnings		413,992		405,125
Accumulated other comprehensive loss		(79,167)		(80,715)
Total Quaker shareholders' equity		444,991		435,052
Noncontrolling interest		1,372		1,317
Total equity		446,363		436,369
Total liabilities and equity	$	708,523	$	709,665

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 Three Months Ended March 31, 2019	Unaudited Three Months Ended March 31, 2018
Cash flows from operating activities		
Net income	$ 13,900	$ 12,787
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,047	3,194
Amortization	1,812	1,853
Equity in undistributed earnings of associated companies, net of dividends	(186)	511
Deferred compensation, deferred taxes and other, net	(6,842)	428
Share-based compensation	1,012	1,083
Gain on disposal of property, plant, equipment and other assets	(9)	(52)
Insurance settlement realized	(190)	(85)
Combination-related expenses, net of payments	(1,012)	2,161
Pension and other postretirement benefits	(1,346)	(2,632)
(Decrease) increase in cash from changes in current assets and current liabilities, net of acquisitions:		
Accounts receivable	(5,470)	(5,827)
Inventories	946	(7,758)
Prepaid expenses and other current assets	366	(1,055)
Accounts payable and accrued liabilities	(6,008)	(1,862)
Net cash provided by operating activities	20	2,746
Cash flows from investing activities		
Investments in property, plant and equipment	(2,537)	(3,449)
Payments related to acquisitions, net of cash acquired	(500)	(500)
Proceeds from disposition of assets	8	29
Insurance settlement interest earned	65	19
Net cash used in investing activities	(2,964)	(3,901)
Cash flows from financing activities		
Proceeds from long-term debt	—	8,166
Repayments of long-term debt	(23,948)	(197)
Dividends paid	(4,935)	(4,724)
Stock options exercised, other	(1,489)	(866)
Distributions to noncontrolling affiliate shareholders	—	(834)
Net cash (used in) provided by financing activities	(30,372)	1,545

Effect of foreign exchange rate changes on cash		1,004		2,246
Net (decrease) increase in cash, cash equivalents and restricted cash		(32,312)		2,636
Cash, cash equivalents and restricted cash at the beginning of the period		124,425		111,050
Cash, cash equivalents and restricted cash at the end of the period	$	92,113	$	113,686

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 regulations. In the opinion of management, the financial statements reflect all adjustments 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 months ended March 31, 2019 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, 2018.

Hyper-inflationary economies

Economies that have a cumulative three-year rate of inflation exceeding 100% are considered hyper-inflationary under U.S. GAAP. A legal entity which operates within an economy deemed to be hyper-inflationary is required to remeasure its monetary assets and liabilities to the applicable published exchange rates and record the associated gains or losses resulting from the remeasurement directly to the Condensed Consolidated Statements of Income. The Company has a 50-50 joint venture in a Venezuelan affiliate, Kelko Quaker Chemical, S.A. Venezuela's economy has been considered hyper-inflationary under U.S. GAAP since 2010. During the three months ended March 31, 2018 the Company recorded a $0.2 million remeasurement loss associated with the applicable currency conversions related to Venezuela. These losses were recorded within equity in net income (loss) of associated companies in the Company's Condensed Consolidated Statements of Income. Due to heightened foreign exchange controls and restrictions currently present within Venezuela, during the third quarter of 2018 the Company concluded that it no longer had significant influence over this affiliate. Prior to this determination, the Company historically accounted for this affiliate under the equity method. As of March 31, 2019 and December 31, 2018, the Company has no remaining carrying value for its investment in Kelko Venezuela.

Based on various indices or index compilations currently being used to monitor inflation in Argentina as well as recent economic instability, effective July 1, 2018, Argentina's economy was considered hyper-inflationary under U.S. GAAP. As a result, the Company began applying hyper-inflationary accounting with respect to the Company's wholly owned Argentina subsidiary beginning July 1, 2018. As of, and for the three months ended March 31, 2019, the Company's Argentina subsidiary represented less than 1% of the Company's consolidated total assets and less than 1% of the Company's consolidated net sales. During the three months ended March 31, 2019, the Company recorded a $0.2 million remeasurement loss associated with the applicable currency conversions related to Argentina. These losses were recorded within foreign exchange losses, net, which is a component of other expense, net, in the Company's Condensed Consolidated Statements of Income.

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. During the first quarter of 2019, the Company extended the bank commitment for the New Credit Facility through July 15, 2019. The New Credit Facility is comprised of a $400.0 million multicurrency revolver, a $600.0 million USD term loan and a $150.0 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 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 3.75% to 4.0% 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 less 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 5.0% amortization of the principal balance due in years 1 and 2, 7.5% in year 3, and 10.0% in years 4 and 5, with the remaining principal amounts due at maturity. Until closing, the Company will incur certain interest costs paid to maintain the bank commitment ("ticking fees"), which began to accrue on September 29, 2017 and bear an interest rate of 0.30% per annum.

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 received regulatory approval for the Combination from China and Australia in 2017. In addition, at a shareholder meeting held during 2017, the Company's shareholders overwhelmingly approved the issuance of the new shares of the Company's common stock at closing of the Combination. The European Commission ("EC") conditionally approved the Combination in December 2018, including the remedy proposed by Quaker and Houghton. The Company expects to receive final approval from the EC once certain conditions are met, including their review and approval of the final purchase agreement between Quaker, Houghton, and the buyer of the divested product lines, which was finalized and signed at the end of March 2019. The Company continues to be in productive discussions with the U.S. Federal Trade Commission ("FTC"). Given the time lapse since the Company's initial filing, the FTC requested updated information as part of their approval process late in the fourth quarter of 2018. In addition, the government shutdown in the U.S. late in the fourth quarter of 2018 and early in 2019 extended the timeline to receive the final approval. Given current information, the Company expects that final approval from the FTC and EC and closing of the combination will occur in the next couple of months.

The Company incurred costs of $5.3 million and $6.1 million during the three months ended March 31, 2019 and 2018, respectively, primarily for certain legal, financial, and other advisory and consultant costs related to regulatory approvals, integration planning associated with the Combination and certain one-time labor-related costs and ticking fees. As of March 31, 2019 and December 31, 2018, the Company had current liabilities related to the Combination of $7.2 million and $8.2 million, respectively, primarily recorded within other current liabilities on its Condensed Consolidated Balance Sheets.

Note 3 – Recently Issued Accounting Standards

The Financial Accounting Standards Board ("FASB") issued an accounting standard update in August 2018 that modifies certain disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The amendments in this accounting standard update remove disclosures that are no longer considered cost beneficial, clarify the specific requirements of certain disclosures, and add new disclosure requirements as relevant. The guidance within this accounting standard update is effective for annual periods beginning after December 15, 2020, and should be applied retrospectively to all periods presented. Early adoption is permitted. The Company has not early adopted the guidance and is currently evaluating its implementation.

The FASB issued an accounting standard update in August 2018 that clarifies the accounting for implementation costs incurred in a cloud computing arrangement under a service contract. This guidance generally aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement under a service contract with the requirements for capitalizing implementation costs related to internal-use software. The guidance within this accounting standard update is effective for annual periods beginning after December 15, 2019 and should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. Early adoption is permitted. The Company has not early adopted the guidance and is currently evaluating its implementation.

The FASB issued an accounting standard update in August 2018 that modifies certain disclosure requirements for fair value measurements. The guidance removes certain disclosure requirements regarding transfers between levels of the fair value hierarchy as well as certain disclosures related to the valuation processes for certain fair value measurements. Further, the guidance added certain disclosure requirements including unrealized gains and losses and significant unobservable inputs used to develop certain fair value measurements. The guidance within this accounting standard update is effective for annual and interim periods beginning after December 15, 2019, and should be applied prospectively in the initial year of adoption or prospectively to all periods presented, depending on the amended disclosure requirement. Early adoption is permitted. The Company has not early adopted the guidance and is currently evaluating its implementation.

The FASB issued an accounting standard update in February 2018 that allows a reclassification from accumulated other comprehensive (loss) income ("AOCI") to retained earnings for stranded tax effects resulting from U.S. Tax Reform enacted in December 2017. The guidance within this accounting standard update is effective for annual and interim periods beginning after December 15, 2018, and should be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in U.S. Tax Reform is recognized. Early adoption was permitted. The Company adopted this guidance in the first quarter of 2019, as required, but elected not to reclassify any stranded tax effects resulting from U.S. Tax Reform, therefore adoption of this guidance did not have an impact on its financial statements.

The FASB issued an accounting standard update in June 2016 related to the accounting for and disclosure of credit losses. The guidance introduces a new model for recognizing credit losses on financial instruments, including customer accounts receivable, based on an estimate of current expected credit losses. The guidance within this accounting standard update is effective for annual and interim periods beginning after December 15, 2019, and aspects of the guidance which may be applicable to Quaker should be applied on a modified retrospective basis. Early adoption is permitted. The Company has not early adopted the guidance and is currently evaluating its implementation.

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 February 2016 regarding the accounting and disclosure for leases. During 2018 and 2019, the FASB issued a series of accounting standard updates to clarify and expand on the original 2016 implementation guidance, including providing an accounting policy election for lessors, certain targeted improvements around comparative reporting requirements and accounting for lease and non-lease components by lessors as well as other technical corrections and improvements. The amendments in these 2018 and 2019 updates did not change the core principles of the guidance previously issued in February 2016. The guidance within all of the leasing accounting standard updates are effective for annual and interim periods beginning after December 15, 2018, and should be applied on a modified retrospective basis, applying the transition requirements either (a) at the beginning of the earliest period presented in the financial statements in the year of adoption (January 1, 2017) or (b) in the period of adoption (January 1, 2019). Early adoption was permitted.

As part of the Company's implementation planning and its impact assessment related to the new lease accounting guidance, the Company developed a detailed project plan, identified and established a cross-functional implementation team and developed pre-adoption internal controls. In addition, the Company gathered an inventory of the Company's outstanding leases globally, performed certain review procedures to ensure completeness of its lease population and abstracted required information from its lease population for inclusion within the Company's leasing software. Also, the Company is considering how the new lease accounting guidance may impact Houghton and the pending Combination.

The Company adopted the guidance in the first quarter of 2019, as required, electing to use a modified retrospective transition approach and applied transition requirements as of January 1, 2019, as permitted. Comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. In addition, the Company elected to apply certain of the permitted transition practical expedients within the new lease accounting related to lease identification, lease classification, and initial direct costs. The Company made certain accounting policy elections as a result of adopting the new lease accounting guidance which include not separating lease and non-lease components, applying a portfolio approach in the development of the Company's discount rates, applying the short-term lease exemption and establishing a capitalization threshold policy.

Adoption of the lease accounting guidance did not have a material impact on the Company's reported earnings or cash flows, however, adoption did result in a material impact to the Company's balance sheet to establish the right of use lease assets and associated lease liabilities. Specifically, the Company recorded a cumulative effect of an accounting change that resulted in an increase to its right of use lease assets of $27.3 million, an increase of $5.3 million of short-term lease liabilities and $21.4 million of long-term lease liabilities, a decrease in property, plant and equipment, net of $1.1 million, a decrease in other current liabilities of $0.4 million and a decrease to retained earnings of less than $0.1 million. See Note 5 of Notes to Condensed Consolidated Financial Statements.

Note 4 – Net Sales and Revenue Recognition

Business Description

The Company develops, produces, and markets a broad range of formulated chemical specialty products and offers chemical management services ("CMS") for various heavy industrial and manufacturing applications in a global portfolio throughout its four regions: North America, Europe, Middle East and Africa ("EMEA"), Asia/Pacific and South America. The major product lines in the Company's global portfolio include: (i) rolling lubricants (used by manufacturers of steel in the hot and cold rolling of steel and by manufacturers of aluminum in the hot rolling of aluminum); (ii) machining and grinding compounds (used by metalworking customers in cutting, shaping, and grinding metal parts which require special treatment to enable them to tolerate the manufacturing process, achieve closer tolerance, and improve tool life); (iii) corrosion preventives (used by steel and metalworking customers to protect metal during manufacture, storage, and shipment); (iv) hydraulic fluids (used by steel, metalworking, and other customers to operate hydraulic equipment); (v) specialty greases (used in automotive and aerospace production processes and applications, the manufacturing of steel, and various other applications); and (vi) metal finishing compounds (used to prepare metal surfaces for special treatments such as galvanizing and tin plating and to prepare metal for further processing).

A substantial portion of the Company's sales worldwide are made directly through its own employees and its CMS programs, with the balance being handled through distributors and agents. The Company's employees visit the plants of customers regularly, work on site, and, through training and experience, identify production needs which can be resolved or alleviated either by adapting the Company's existing products or by applying new formulations developed in its laboratories. The chemical specialty industry comprises many companies of similar size as well as companies larger and smaller than Quaker. The offerings of many of the Company's competitors differ from those of Quaker; some offer a broad portfolio of fluids, including general lubricants, while others have a more specialized product range. All competitors provide different levels of technical services to individual customers. Competition in the industry is based primarily on the ability to provide products that meet the needs of the customer, render technical services and laboratory assistance to the customer, and to a lesser extent on price.

As part of the Company's CMS, certain third-party product sales to customers are managed by the Company. Where the Company acts as a principal, revenues are recognized on a gross reporting basis at the selling price negotiated with its customers. Where the Company acts as an agent, revenue is recognized on a net reporting basis at the amount of the administrative fee earned by the Company for ordering the goods. In determining whether the Company is acting as a principal or an agent in each arrangement, the Company considers whether it is primarily responsible for fulfilling the promise to provide the specified good, has inventory risk before the specified good has been transferred to the customer and has discretion in establishing the prices for the specified goods. The Company transferred third-party products under arrangements recognized on a net reporting basis of $10.4 million and $11.6 million for the three months ended March 31, 2019 and 2018, respectively.

A significant portion of the Company's revenues are realized from the sale of process fluids and services to manufacturers of steel, automobiles, aircraft, appliances, and durable goods, and, therefore, the Company is subject to the same business cycles as those experienced by these manufacturers and their customers. The Company's financial performance is generally correlated to the volume of global production within the industries it serves, rather than discretely related to the financial performance of such industries. Furthermore, steel customers typically have limited manufacturing locations compared to metalworking customers and generally use higher volumes of products at a single location. As previously disclosed in its Annual Report filed on Form 10-K for the year ended December 31, 2018, during 2018 the Company's five largest customers (each composed of multiple subsidiaries or divisions with semiautonomous purchasing authority) accounted for approximately 17% of consolidated net sales, with its largest customer accounting for approximately 8% of consolidated net sales.

Revenue Recognition Model

The Company applies the FASB's guidance on revenue recognition which requires the Company to recognize revenue in an amount that reflects the consideration to which the Company expects to be entitled in exchange for goods or services transferred to its customers. To do this, the Company applies the five-step model in the FASB's guidance, which requires the Company to: (i) identify the contract with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when, or as, the Company satisfies a performance obligation.

The Company identifies a contract with a customer when a sales agreement indicates approval and commitment of the parties; identifies the rights of the parties; identifies the payment terms; has commercial substance; and it is probable that the Company will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In most instances, the Company's contract with a customer is the customer's purchase order. For certain customers, the Company may also enter into a sales agreement which outlines a framework of terms and conditions which apply to all future and subsequent purchase orders for that customer. In these situations, the Company's contract with the customer is both the sales agreement as well as the specific customer purchase order. Because the Company's contract with a customer is typically for a single transaction or customer purchase order, the duration of the contract is almost always one year or less. As a result, the Company has elected to apply certain practical expedients and omit certain disclosures of remaining performance obligations for contracts which have an initial term of one year or less as permitted by the FASB.

The Company identifies a performance obligation in a contract for each promised good or service that is separately identifiable from other promises in the contract and for which the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer. The Company determines the transaction price as the amount of consideration it expects to be entitled to in exchange for fulfilling the performance obligations, including the effects of any variable consideration, significant financing elements, amounts payable to the customer or noncash consideration. For any contracts that have more than one performance obligation, the Company allocates the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Company expects to be entitled in exchange for satisfying each performance obligation.

In accordance with the last step of the FASB’s guidance, the Company recognizes revenue when, or as, it satisfies the performance obligation in a contract by transferring control of a promised good or service to the customer. The Company recognizes revenue over time whenever the customer simultaneously receives and consumes the benefits provided by the Company’s performance; the Company’s performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or the Company’s performance does not create an asset with an alternative use to the entity, and the entity has an enforceable right to payment, including a profit margin, for performance completed to date. For performance obligations not satisfied over time, the Company determines the point in time at which a customer obtains control of a promised asset and the Company satisfies a performance obligation by considering when the Company has a right to payment for the asset; the customer has legal title to the asset; the Company has transferred physical possession of the asset; the customer has the significant risks and rewards of ownership of the asset; or the customer has accepted the asset.

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 typically satisfies its performance obligations and recognizes revenue at a point in time for product sales, generally when products are shipped or delivered to the customer, depending on the terms underlying each arrangement. In circumstances where the Company's products are on consignment, revenue is generally recognized upon usage or consumption by the customer. For any CMS or other services provided by the Company to the customer, the Company typically satisfies its performance obligations and recognizes revenue over time, as the promised services are performed. The Company uses input methods to recognize revenue over time related to these services, including labor costs and time incurred. The Company believes that these input methods represent the most indicative measure of the CMS or other service work performed by the Company.

Other Considerations

The Company does not have standard payment terms for all customers globally, however the Company's general payment terms require customers to pay for products or services provided after the performance obligation is satisfied. The Company does not have significant financing arrangements with its customers. The Company does not have significant amounts of variable consideration in its contracts with customers and where applicable, the Company's estimates of variable consideration are not constrained. The Company records certain third-party license fees in other expense, net, in its Condensed Consolidated Statements of Income, which generally include sales-based royalties in exchange for the license of intellectual property. These license fees are recognized in accordance with their agreed-upon terms and when performance obligations are satisfied, which is generally when the third party has a subsequent sale.

Practical Expedients and Accounting Policy Elections

The Company has made certain accounting policy elections and elected to use certain practical expedients as permitted by the FASB in applying the guidance on revenue recognition. It is the Company's policy to not adjust the promised amount of consideration for the effects of a significant financing component as the Company expects, at contract inception, that the period between when the Company transfers a promised good or service to the customer and when the customer pays for that good or service will be one year or less. In addition, it is the Company's policy to expense costs to obtain a contract as incurred when the expected period of benefit, and therefore the amortization period, is one year or less. It is also the Company's accounting policy to exclude from the measurement of the transaction price all taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction and collected by the entity from a customer, including sales, use, value added, excise and various other taxes. Lastly, the Company has elected to account for shipping and handling activities that occur after the customer has obtained control of a good as a fulfilment cost rather than an additional promised service.

Contract Assets and Liabilities

The Company recognizes a contract asset or receivable on its Condensed Consolidated Balance Sheet when the Company performs a service or transfers a good in advance of receiving consideration. A receivable is the Company's right to consideration that is unconditional and only the passage of time is required before payment of that consideration is due. A contract asset is the Company's right to consideration in exchange for goods or services that the Company has transferred to a customer. The Company had no material contract assets recorded on its Condensed Consolidated Balance Sheets as of March 31, 2019 or December 31, 2018.

A contract liability is recognized when the Company receives consideration, or if it has the unconditional right to receive consideration, in advance of performance. A contract liability is the Company’s obligation to transfer goods or services to a customer for which the Company has received consideration, or a specified amount of consideration is due, from the customer. The Company’s contract liabilities primarily represent deferred revenue recorded for customer payments received by the Company prior to the Company satisfying the associated performance obligation. Deferred revenues are presented within other current liabilities in the Company’s Condensed Consolidated Balance Sheets. The Company had approximately $1.3 million and $1.3 million of deferred revenue as of March 31, 2019 and December 31, 2018, respectively. During the three months ended March 31, 2019, the Company satisfied the associated performance obligations and recognized revenue of $1.3 million related to advance customer payments recorded as of December 31, 2018.

Disaggregated Revenue

The Company sells its various industrial process fluids, its chemical specialties and its technical expertise as a global product portfolio. The Company generally manages and evaluates its performance by geography first, and then by customer industry, rather than by individual product lines. The Company has provided annual net sales information for its product lines greater than 10% in its previously filed Form 10-K for the year ended December 31, 2018, and those annual percentages are generally consistent with the current quarter’s net sales by product line. Also, net sales of each of the Company’s major product lines are generally spread throughout all four of the Company’s regions, and in most cases, approximately proportionate to the level of total sales in each region.

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The following tables disaggregate the Company's net sales by region, customer industry, and timing of revenue recognized for the three months ended March 31, 2019 and 2018. The Company has made certain reclassifications of disaggregated customer industry disclosures for the three months ended March 31, 2018 to conform with the Company's current period customer industry segmentation.

	Three Months Ended March 31, 2019				
	North America	**EMEA**	**Asia/Pacific**	**South America**	**Consolidated Total**
Net sales	$ 95,253	$ 56,288	$ 50,527	$ 9,142	$ 211,210
Customer Industries					
Primary metals	$ 39,685	$ 24,883	$ 32,092	$ 5,290	$ 101,950
Metalworking	40,436	28,248	16,468	3,761	88,913
Coatings and other	15,132	3,157	1,967	91	20,347
	$ 95,253	$ 56,288	$ 50,527	$ 9,142	$ 211,210
Timing of Revenue Recognized					
Product sales at a point in time	$ 92,483	$ 56,234	$ 48,651	$ 9,064	$ 206,432
Services transferred over time	2,770	54	1,876	78	4,778
	$ 95,253	$ 56,288	$ 50,527	$ 9,142	$ 211,210

	Three Months Ended March 31, 2018				
	North America	**EMEA**	**Asia/Pacific**	**South America**	**Consolidated Total**
Net sales	$ 91,820	$ 62,055	$ 48,777	$ 9,403	$ 212,055
Customer Industries					
Primary metals	$ 37,558	$ 27,314	$ 30,907	$ 5,299	$ 101,078
Metalworking	40,589	31,170	17,526	3,783	93,068
Coatings and other	13,673	3,571	344	321	17,909
	$ 91,820	$ 62,055	$ 48,777	$ 9,403	$ 212,055
Timing of Revenue Recognized					
Product sales at a point in time	$ 88,986	$ 61,999	$ 46,848	$ 9,319	$ 207,152
	2,834	56	1,929	84	4,903

Services transferred over time	$	91,820	$	62,055	$	48,777	$	9,403	$	212,055

Note 5 - Leases

The Company determines if an arrangement is a lease at its inception. This determination generally depends on whether the arrangement conveys the right to control the use of an identified fixed asset explicitly or implicitly for a period of time in exchange for consideration. Control of an underlying asset is conveyed if the Company obtains the rights to direct the use of, and to obtain substantially all of the economic benefits from the use of, the underlying asset. Lease expense for variable leases and short-term leases is recognized when the obligation is incurred.

The Company has operating leases for certain facilities, vehicles and machinery and equipment with remaining lease terms up to 8 years. In addition, the Company has certain land use leases with remaining lease terms up to 96 years. The lease term for all of the Company's leases includes the non-cancellable period of the lease plus any additional periods covered by an option to extend the lease that the Company is reasonably certain it will exercise. Operating leases are included in right of use lease assets, other current liabilities and long-term lease liabilities on the Condensed Consolidated Balance Sheet. Right of use lease assets and liabilities are recognized at each lease's commencement date based on the present value of its lease payments over its respective lease term. The Company uses the stated borrowing rate for a lease when readily determinable. When a stated borrowing rate is not available in a lease agreement, the Company uses its incremental borrowing rate based on information available at the lease's commencement date to determine the present value of its lease payments. In determining the incremental borrowing rate used to present value each of its

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leases, the Company considers certain information including fully secured borrowing rates readily available to the Company and its subsidiaries. The Company has one immaterial finance lease, which is included in property, plant and equipment, current portion of long-term debt and long-term debt on the Condensed Consolidated Balance Sheet.

Operating lease expense is recognized on a straight-line basis over the lease term. Operating lease expense for the three months ended March 31, 2019 was $1.8 million. Short-term lease expense for the three months ended March 31, 2019 was $0.1 million. The Company has no material variable lease costs or sublease income for the three months ended March 31, 2019. Cash paid for operating leases during the three months ended March 31, 2019 was $1.7 million. Subsequent to the Company's adoption of the new lease accounting guidance and cumulative effect of an accounting change on January 1, 2019, the Company recorded new right of use lease assets and associated lease liabilities of approximately $0.3 million during the three months ended March 31, 2019.

Supplemental balance sheet information related to the Company's leases is as follows:

		March 31, 2019
Right of use lease assets	$	26,069
Other current liabilities		5,258
Long-term lease liabilities		20,231
Total operating lease liabilities	$	25,489
Weighted average remaining lease term (years)		6.1
Weighted average discount rate		4.65%

Maturities of operating lease liabilities as of March 31, 2019 were as follows:

		March 31, 2019
For the remainder of 2019	$	4,844
For the year ended December 31, 2020		5,465
For the year ended December 31, 2021		4,486
For the year ended December 31, 2022		3,534
For the year ended December 31, 2023		2,758
For the year ended December 31, 2024 and beyond		8,419
Total lease payments		29,506
Less: imputed interest		(4,017)
Present value of lease liabilities	$	25,489

Pursuant to the Company's adoption of the new lease accounting guidance using a modified retrospective transition approach, as permitted, comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. As previously disclosed in its Annual Report filed on Form 10-K for the year ended December 31, 2018, the following table presents the Company's future minimum rental commitments under operating leases as of December 31, 2018:

For the year ended 2019	$	7,068
For the year ended 2020		5,635
For the year ended 2021		4,509
For the year ended 2022		3,523
For the year ended 2023		2,659
For the year ended 2024 and beyond		7,779

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Notes to Condensed Consolidated Financial Statements - Continued

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Note 6 – Business Segments

The Company's reportable operating segments are organized by geography as follows: (i) North America, (ii) 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 cost of goods sold ("COGS") and selling, general and administrative expenses ("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 expense, net.

The following table presents information about the performance of the Company's reportable operating segments for the three months ended March 31, 2019 and 2018:

		Three Months Ended March 31,	
		2019	**2018**
Net sales			
	North America	$ 95,253	$ 91,820
	EMEA	56,288	62,055
	Asia/Pacific	50,527	48,777
	South America	9,142	9,403
Total net sales		$ 211,210	$ 212,055
Operating earnings, excluding indirect operating expenses			
	North America	$ 20,872	$ 20,365
	EMEA	8,782	10,293
	Asia/Pacific	13,082	12,142
	South America	1,197	635
Total operating earnings, excluding indirect operating expenses		43,933	43,435
Combination-related expenses		(4,483)	(5,209)
Non-operating charges		(17,733)	(16,039)
Depreciation of corporate assets and amortization		(1,888)	(1,956)
Operating income		19,829	20,231
Other expense, net		(635)	(369)
Interest expense		(1,214)	(1,692)
Interest income		438	489
Income before taxes and equity in net income (loss) of associated companies		$ 18,418	$ 18,659

Inter-segment revenues for the three months ended March 31, 2019 and 2018 were $1.8 million and $3.1 million for North America, $5.3 million and $5.6 million for EMEA, less than $0.1 million and $0.4 million for Asia/Pacific and less than $0.1 million and $0 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.

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Note 7 – Share-Based Compensation

The Company recognized the following share-based compensation expense in SG&A in its Condensed Consolidated Statements of Income for the three months ended March 31, 2019 and 2018:

	Three Months Ended March 31,			
	2019		2018	
Stock options	$	260	$	252
Nonvested restricted stock awards and restricted stock units		698		775
Employee stock purchase plan		23		22
Director stock ownership plan		31		34
Total share-based compensation expense	$	1,012	$	1,083

During the first quarter of 2019, the Company granted 232 nonvested restricted shares under its long-term incentive plan. The Company had no grants of stock options or restricted stock units during the first quarter of 2019. Nonvested restricted shares granted are generally subject only to time vesting, generally over a three-year period. The fair value of the nonvested restricted shares granted in the first quarter of 2019 are 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 March 31, 2019, unrecognized compensation expense related to stock options granted was $1.0 million, to be recognized over a weighted average remaining period of 1.6 years, unrecognized compensation expense related to the nonvested restricted shares was $1.7 million, to be recognized over a weighted average remaining period of 1.6 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 1.7 years.

Note 8 – Pension and Other Postretirement Benefits

The components of net periodic benefit cost for the three months ended March 31, 2019 and 2018 are as follows:

	Three Months Ended March 31,							
	Pension Benefits				Other Postretirement Benefits			
	2019		2018		2019		2018	
Service cost	$	986	$	988	$	2	$	2
Interest cost		1,111		1,049		35		33
Expected return on plan assets		(984)		(1,290)		—		—
Actuarial loss amortization		775		800		—		15
Prior service cost amortization		(42)		(31)		—		—
Total net periodic benefit cost	$	1,846	$	1,516	$	37	$	50

The Company previously disclosed in its Annual Report filed on Form 10-K for the year ended December 31, 2018 that the Company began the process of terminating the Company's primary non-contributory U.S. pension plan (the "U.S. Pension Plan") during the fourth quarter of 2018. As part of this process, and considering the fully funded status of the U.S. Pension Plan, the asset allocation of the U.S. Pension Plan was adjusted modeling a glide path that is more heavily allocated to fixed income securities with lengthened durations to match the projected liabilities. As a result, the expected return on plan assets declined during the three months ended March 31, 2019 compared to the three months ended March 31, 2018. In order to terminate the U.S. Pension Plan in accordance with IRS and Pension Benefit Guaranty Corporation requirements, the Company will be required to fully fund the U.S. Pension Plan on a termination basis and will commit to contribute additional assets if necessary, to do so. The amount necessary to do so is not yet known but is currently estimated to be between $0 and $10 million. In addition, the Company expects to record a pension settlement charge at plan termination. This settlement charge will include the immediate recognition into expense of the related unrecognized losses within AOCI on the balance sheet as of the plan termination date. The Company does not have a current estimate for this future settlement charge, however, the gross AOCI related to the U.S. Pension Plan was approximately $19 million as of March 31, 2019. The Company currently estimates that the U.S. Pension Plan termination will be completed during 2020.

Employer Contributions

The Company previously disclosed in its Annual Report filed on Form 10-K for the year ended December 31, 2018 that it expected to make minimum cash contributions of $5.2 million to its pension plans and approximately $0.4 million to its other postretirement benefit plans in 2019. As of March 31, 2019, $2.9 million and $0.2 million of contributions have been made to the Company's pension plans and its postretirement benefit plans, respectively.

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Note 9 – Other Expense, Net

The components of other expense, net for the three months ended March 31, 2019 and 2018 are as follows:

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Income from third party license fees	$ 220	$ 250
Foreign exchange losses, net	(237)	(229)
Gain on fixed asset disposals, net	9	52
Non-income tax refunds and other related credits	152	36
Pension and postretirement benefit costs, non-service components	(896)	(576)
Other non-operating income	148	157
Other non-operating expense	(31)	(59)
Total other expense, net	$ (635)	$ (369)

Note 10 – Income Taxes and Uncertain Income Tax Positions

The Company's effective tax rate for the three months ended March 31, 2019 was 26.8% compared to 29.8% for the three months ended March 31, 2018. These effective tax rates include the impacts of certain non-deductible costs related to the pending Combination. The Company's lower effective tax rate for the three months ended March 31, 2019 was largely driven by a positive impact from changes in uncertain tax positions and a shift in earnings to entities with lower effective tax rates compared to the three months ended March 31, 2018, which more than offset higher tax expense during the three months ended March 31, 2019 related to the Company recording earnings in one of its subsidiaries at a statutory tax rate of 25% while it awaits recertification of a concessionary 15% tax rate, which was available to the Company during the first three months of 2018.

As previously disclosed in its Annual Report filed on Form 10-K for the year ended December 31, 2018, the Company recognized a deferred tax liability of $7.9 million in the fourth quarter of 2018 related to the Company's estimate of non-U.S. taxes it will incur to repatriate certain foreign earnings. The Company incurred tax payments related to the repatriation of a portion of these foreign earnings during the first quarter of 2019 and reduced this deferred tax liability by approximately $3.2 million.

As of March 31, 2019, the Company's cumulative liability for gross unrecognized tax benefits was $7.7 million. As of December 31, 2018, the Company's cumulative liability for gross unrecognized tax benefits was $7.1 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 (loss) of associated companies in its Condensed Consolidated Statements of Income. The Company recognized an expense of $0.1 million for interest and an expense of less than $0.1 million for penalties in its Condensed Consolidated Statement of Income for the three months ended March 31, 2019, and recognized an expense of $0.1 million for interest and an expense of $0.1 million for penalties in its Condensed Consolidated Statement of Income for the three months ended March 31, 2018. As of March 31, 2019, the Company had accrued $0.7 million for cumulative interest and $0.8 million for cumulative penalties in its Condensed Consolidated Balance Sheets, compared to $0.6 million for cumulative interest and $0.8 million for cumulative penalties accrued at December 31, 2018.

During the three months ended March 31, 2019 and 2018, the Company recognized a decrease of less than $0.1 million and $0.1 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.

The Company estimates that during the year ending December 31, 2019 it will reduce its cumulative liability for gross unrecognized tax benefits by approximately $1.0 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, 2019.

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 2013, Mexico, Spain and China from 2014, India from fiscal year beginning April 1, 2016 and ending March 31, 2017, the U.S. from 2015, and various U.S. state tax jurisdictions from 2009.

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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 ("MAP") of the Organization for Economic Co-Operation and Development for all years except 2007. During 2018, the Italian tax authorities assessed additional tax due from Quaker Italia, S.r.l., relating to the tax years 2014 and 2015. The Company met with the Italian tax authorities in the fourth quarter of 2018 to discuss these assessments and no resolution was agreed upon, so the Company filed an appeal with the first level of tax court in Italy. If the appeal is not successful in materially reducing the assessed tax, then the Company will further evaluate its options including potentially filing for competent authority relief from these assessments under MAP, consistent with the Company's previous filings for 2008 through 2013. As of March 31, 2019, the Company believes it has adequate reserves for uncertain tax positions with respect to these and all other audits.

Note 11 – Earnings Per Share

The following table summarizes earnings per share calculations for the three months ended March 31, 2019 and 2018:

	Three Months Ended March 31,	
	2019	**2018**
Basic earnings per common share		
Net income attributable to Quaker Chemical Corporation	$ 13,844	$ 12,732
Less: income allocated to participating securities	(46)	(62)
Net income available to common shareholders	$ 13,798	$ 12,670
Basic weighted average common shares outstanding	13,291,589	13,245,026
Basic earnings per common share	$ 1.04	$ 0.96
Diluted earnings per common share		
Net income attributable to Quaker Chemical Corporation	$ 13,844	$ 12,732
Less: income allocated to participating securities	(46)	(62)
Net income available to common shareholders	$ 13,798	$ 12,670
Basic weighted average common shares outstanding	13,291,589	13,245,026
Effect of dilutive securities	46,901	33,580
Diluted weighted average common shares outstanding	13,338,490	13,278,606
Diluted earnings per common share	$ 1.03	$ 0.95

Certain stock options and restricted stock units are not included in the diluted earnings per share calculation when the effect would have been anti-dilutive. There were no anti-dilutive shares for the three months ended March 31, 2019. Comparatively, the calculated amount of anti-dilutive shares not included in the diluted earnings per share calculation were 2,862 for the three months ended March 31, 2018.

Note 12 – Restricted Cash

The Company has restricted cash recorded in other assets related to proceeds from an inactive subsidiary of the Company which previously executed separate settlement and release agreements with two of its insurance carriers for an original total value of $35.0 million. The proceeds of both settlements are restricted and can only be used to pay claims and costs of defense associated with the subsidiary's asbestos litigation. The proceeds of the settlement and release agreements have been deposited into interest bearing accounts which earned $0.1 million and less than $0.1 million in the three months ended March 31, 2019 and 2018, respectively, offset by $0.2 million and less than $0.1 million of net payments during the three months ended March 31, 2019 and 2018 respectively. Due to the restricted nature of the proceeds, a corresponding deferred credit was established in other non-current liabilities for an equal and offsetting amount, and will remain until the restrictions lapse or the funds are exhausted via payments of claims and costs of defense. The following table provides a reconciliation of cash, cash equivalents and restricted cash as of March 31, 2019 and 2018 and December 31, 2018 and 2017:

	March 31,		**December 31,**	
	2019	**2018**	**2018**	**2017**
Cash and cash equivalents	$ 71,960	$ 92,581	$ 104,147	$ 89,879
Restricted cash included in other assets	20,153	21,105	20,278	21,171
Cash, cash equivalents and restricted cash	$ 92,113	$ 113,686	$ 124,425	$ 111,050

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Note 13 – Goodwill and Other Intangible Assets

The Company completes its annual impairment test during the fourth 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 has recorded no impairment charges in its past.

Changes in the carrying amount of goodwill for the three months ended March 31, 2019 were as follows:

	North America	EMEA	Asia/Pacific	South America	Total
Balance as of December 31, 2018	$ 47,303	$ 19,335	$ 14,587	$ 2,108	$ 83,333
Currency translation adjustments	82	(414)	232	(29)	(129)
Balance as of March 31, 2019	$ 47,385	$ 18,921	$ 14,819	$ 2,079	$ 83,204

Gross carrying amounts and accumulated amortization for definite-lived intangible assets as of March 31, 2019 and December 31, 2018 were as follows:

	Gross Carrying Amount		Accumulated Amortization	
	2019	2018	2019	2018
Customer lists and rights to sell	$ 74,574	$ 74,989	$ 30,565	$ 29,587
Trademarks, formulations and product technology	33,128	33,275	17,011	16,469
Other	5,826	5,840	5,631	5,566
Total definite-lived intangible assets	$ 113,528	$ 114,104	$ 53,207	$ 51,622

The Company recorded $1.8 million and $1.9 million of amortization expense for the three months ended March 31, 2019 and 2018, respectively. Estimated annual aggregate amortization expense for the current year and subsequent five years is as follows:

For the year ended December 31, 2019	$ 7,148
For the year ended December 31, 2020	6,841
For the year ended December 31, 2021	6,491
For the year ended December 31, 2022	6,337
For the year ended December 31, 2023	6,120
For the year ended December 31, 2024	5,694

The Company has two indefinite-lived intangible assets totaling $1.1 million for trademarks as of March 31, 2019 and December 31, 2018.

Note 14 – Debt

The Company’s primary credit facility (“the Credit Facility”) is a $300.0 million syndicated multicurrency credit agreement with a group of lenders. 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 total debt to adjusted EBITDA ratio cannot exceed 3.50 to 1. As of March 31, 2019 and December 31, 2018, the Company’s total debt to adjusted EBITDA ratio was below 1.0 to 1, and the Company was also in compliance with all of its other covenants. During the first quarter of 2019, the Credit Facility was amended and restated to extend the maturity date to July 15, 2020. As of March 31, 2019 the Company had no Credit Facility borrowings outstanding. As of December 31, 2018, the Company had Credit Facility borrowings of $24.0 million. The Company’s other debt obligations are primarily industrial development bonds and municipality-related loans, which totaled $12.4 million as of March 31, 2019 and $12.6 million as of December 31, 2018.

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

(Unaudited)

Note 15 – Equity

The following tables present the changes in equity, net of tax, for the three months ended March 31, 2019 and 2018:

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total
Balance at December 31, 2018	$ 13,338	$ 97,304	$ 405,125	$ (80,715)	$ 1,317	$ 436,369
Cumulative effect of an accounting change	—	—	(44)	—	—	(44)
Balance at January 1, 2019	13,338	97,304	405,081	(80,715)	1,317	436,325
Net income	—	—	13,844	—	56	13,900
Amounts reported in other comprehensive income (loss)	—	—	—	1,548	(1)	1,547
Dividends ($0.37 per share)	—	—	(4,933)	—	—	(4,933)
Share issuance and equity-based compensation plans	(4)	(472)	—	—	—	(476)
Balance at March 31, 2019	$ 13,334	$ 96,832	$ 413,992	$ (79,167)	$ 1,372	$ 446,363
Balance at December 31, 2017	$ 13,308	$ 93,528	$ 365,936	$ (65,100)	$ 1,946	$ 409,618
Cumulative effect of an accounting change	—	—				