

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549**

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2012

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 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 No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer (Do not check if smaller reporting company)

Accelerated filer

Smaller reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

**Number of Shares of Common Stock
Outstanding on June 30, 2012**

13,010,639

QUAKER CHEMICAL CORPORATION AND CONSOLIDATED SUBSIDIARIES

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**PART I
FINANCIAL INFORMATION**

Item 1. Financial Statements (Unaudited).

**Quaker Chemical Corporation
Condensed Consolidated Balance Sheet**

	Unaudited (Dollars in thousands, except par value and share amounts)	
	June 30, 2012	December 31, 2011*
ASSETS		
Current assets		
Cash and cash equivalents	\$ 25,252	\$ 16,909
Accounts receivable, net	156,424	150,676
Inventories		
Raw materials and supplies	43,565	41,771
Work-in-process and finished goods	34,113	32,987
Prepaid expenses and other current assets	18,009	17,206
Total current assets	277,363	259,549
Property, plant and equipment, at cost	214,027	214,695
Less accumulated depreciation	(131,372)	(131,779)
Net property, plant and equipment	82,655	82,916
Goodwill	57,033	58,152
Other intangible assets, net	30,397	31,783
Investments in associated companies	7,891	7,942
Deferred income taxes	27,644	29,823
Other assets	36,370	35,356
Total assets	\$ 519,353	\$ 505,521
LIABILITIES AND EQUITY		
Current liabilities		
Short-term borrowings and current portion of long-term debt	\$ 563	\$ 636
Accounts and other payables	74,679	68,125
Accrued compensation	10,610	16,987
Other current liabilities	22,334	20,901
Total current liabilities	108,186	106,649
Long-term debt	45,004	46,701
Deferred income taxes	6,622	7,094
Other non-current liabilities	86,116	89,351
Total liabilities	245,928	249,795
Equity		
Common stock \$1 par value; authorized 30,000,000 shares; issued and outstanding		
2012 – 13,010,639 shares; 2011 – 12,911,508 shares	13,011	12,912
Capital in excess of par value	92,199	89,725
Retained earnings	192,116	175,932
Accumulated other comprehensive loss	(32,091)	(29,820)
Total Quaker shareholders' equity	265,235	248,749
Noncontrolling interest	8,190	6,977
Total equity	273,425	255,726
Total liabilities and equity	\$ 519,353	\$ 505,521

* Condensed from audited financial statements

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



Quaker Chemical Corporation
Condensed Consolidated Statement of Income

	Unaudited			
	(Dollars in thousands, except per share amounts)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net sales	\$ 176,797	\$ 167,792	\$ 354,435	\$ 327,657
Cost of goods sold	116,161	114,026	234,004	221,157
Gross profit	60,636	53,766	120,431	106,500
Selling, general and administrative expenses	43,653	38,825	86,746	77,459
Operating income	16,983	14,941	33,685	29,041
Other (expense) income, net	(134)	791	207	1,330
Interest expense	(1,151)	(1,200)	(2,325)	(2,418)
Interest income	137	271	260	543
Income before taxes and equity in net income of associated companies	15,835	14,803	31,827	28,496
Taxes on income before equity in net income of associated companies	4,874	4,499	8,319	7,321
Income before equity in net income of associated companies	10,961	10,304	23,508	21,175
Equity in net income of associated companies	209	251	355	610
Net income	11,170	10,555	23,863	21,785
Less: Net income attributable to noncontrolling interest	630	714	1,377	1,344
Net income attributable to Quaker Chemical Corporation	<u>\$ 10,540</u>	<u>\$ 9,841</u>	<u>\$ 22,486</u>	<u>\$ 20,441</u>
Per share data:				
Net income attributable to Quaker Chemical Corporation Common				
Shareholders – basic	\$ 0.81	\$ 0.80	\$ 1.74	\$ 1.72
Net income attributable to Quaker Chemical Corporation Common				
Shareholders – diluted	\$ 0.81	\$ 0.79	\$ 1.72	\$ 1.69
Dividends declared	\$ 0.245	\$ 0.24	\$ 0.485	\$ 0.475

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

Quaker Chemical Corporation
Condensed Consolidated Statement of Comprehensive Income

	Unaudited			
	(Dollars in thousands, except per share amounts)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income	\$ 11,170	\$ 10,555	\$ 23,863	\$ 21,785
Other comprehensive (loss) income, net of tax				
Currency translation adjustments	(7,211)	3,656	(3,576)	7,477
Defined benefit retirement plans	499	325	969	649
Current period change in fair value of derivatives	103	78	199	174
Unrealized (loss) gain on available-for-sale securities	(5)	—	3	6
Other comprehensive (loss) income	(6,614)	4,059	(2,405)	8,306
Comprehensive income	4,556	14,614	21,458	30,091
Less: comprehensive income attributable to noncontrolling interest	(205)	(783)	(1,243)	(1,421)
Comprehensive income attributable to Quaker Chemical Corporation	<u>\$ 4,351</u>	<u>\$ 13,831</u>	<u>\$ 20,215</u>	<u>\$ 28,670</u>

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

Quaker Chemical Corporation
Condensed Consolidated Statement of Cash Flows

	Unaudited (Dollars in thousands) For the Six Months Ended June 30,	
	2012	2011
Cash flows from operating activities		
Net income	\$ 23,863	\$ 21,785
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	5,969	5,405
Amortization	1,465	973
Equity in undistributed earnings of associated companies, net of dividends	(171)	(32)
Deferred compensation and other, net	1,332	4,162
Stock-based compensation	2,078	1,854
Gain on disposal of property, plant and equipment	(13)	(78)
Insurance settlement realized	(808)	(864)
Pension and other postretirement benefits	(1,951)	(4,168)
(Decrease) increase in cash from changes in current assets and current liabilities, net of acquisitions:		
Accounts receivable	(7,031)	(17,392)
Inventories	(3,871)	(13,986)
Prepaid expenses and other current assets	(1,946)	(4,029)
Accounts payable and accrued liabilities	3,025	6,537
Net cash provided by operating activities	<u>21,941</u>	<u>167</u>
Cash flows from investing activities		
Investments in property, plant and equipment	(6,423)	(6,641)
Proceeds from disposition of assets	84	221
Payments related to acquisitions, net of cash acquired	—	(717)
Insurance settlement received and interest earned	35	42
Change in restricted cash, net	773	822
Net cash used in investing activities	<u>(5,531)</u>	<u>(6,273)</u>
Cash flows from financing activities		
Repayment of long-term debt	(1,754)	(40,402)
Dividends paid	(6,213)	(5,413)
Stock options exercised, other	(925)	146
Excess tax benefit related to stock option exercises	1,420	162
Proceeds from sale of common stock, net of related expenses	—	48,143
Distributions to noncontrolling shareholders	(30)	—
Net cash (used in) provided by financing activities	<u>(7,502)</u>	<u>2,636</u>
Effect of exchange rate changes on cash	(565)	1,245
Net increase (decrease) in cash and cash equivalents	8,343	(2,225)
Cash and cash equivalents at beginning of period	16,909	25,766
Cash and cash equivalents at end of period	<u>\$ 25,252</u>	<u>\$ 23,541</u>

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 per share amounts)
(Unaudited)

Note 1 – Condensed Financial Information

The condensed consolidated financial statements included herein are unaudited and have been prepared in accordance with generally accepted accounting principles in the United States for interim financial reporting and the United States Securities and Exchange Commission regulations. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the financial statements reflect all adjustments (consisting only of normal recurring adjustments, except as discussed below) which are necessary for a fair statement of the financial position, results of operations and cash flows for the interim periods. The results for the three and six months ended June 30, 2012 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, 2011.

During the first quarter of 2012, the Company adopted the Financial Accounting Standards Board's ("FASB's") guidance regarding presentation of comprehensive income. The guidance requires that comprehensive income be presented with the Condensed Consolidated Statement of Income or as a separate statement immediately following the Condensed Consolidated Statement of Income, and can no longer be presented as part of the Consolidated Statement of Changes in Equity. The Company adopted the guidance using the two statement approach, and the adoption of this guidance did not have a material impact on the Company's results or financial condition.

During the second quarter of 2012, the Company recorded charges of \$1,156 to its allowance for doubtful accounts and selling, general and administrative expenses due to the bankruptcies of two U.S. customers.

As part of the Company's chemical management services, certain third-party product sales to customers are managed by the Company. Where the Company acts as the principal, revenue is recognized on a gross reporting basis at the selling price negotiated with customers. Where the Company acts as an agent, such revenue is recorded using net reporting as service revenues, at the amount of the administrative fee earned by the Company for ordering the goods. Third-party products transferred under arrangements resulting in net reporting totaled \$20,944 and \$24,276 for the six months ended June 30, 2012 and June 30, 2011, respectively.

Note 2 – Recently Issued Accounting Standards

The FASB updated its guidance in December 2011 regarding disclosures pertaining to the netting and offsetting of derivatives and financial instruments on an entity's Consolidated Balance Sheet. Disclosures required under the updated guidance include presenting gross amounts of assets and liabilities related to financial instruments that may have been historically offset on the Consolidated Balance Sheet. The guidance is effective for annual and interim fiscal periods beginning on or after January 1, 2013. The Company is currently evaluating the effect of this guidance.

Note 3 – Income Taxes and Uncertain Income Tax Positions

The Company's year-to-date 2012 effective tax rate of 26.1% was higher than the year-to-date 2011 effective tax rate of 25.7%. Both year-to-date effective tax rates reflect decreases in reserves for uncertain tax positions due to the expiration of applicable statutes of limitations for certain tax years of approximately \$0.12 and \$0.11 per diluted share for the six months ended June 30, 2012 and June 30, 2011, respectively. The most significant other items affecting the comparison of the 2012 and 2011 year-to-date effective tax rates were a higher utilization of foreign tax credits in 2011, which were previously not benefited, and lower withholding taxes on dividends in 2012.

The FASB's guidance regarding accounting for uncertainty in income taxes prescribes the recognition threshold and measurement attributes for financial statement recognition and measurement of tax positions taken or expected to be taken on a tax return. The guidance further requires the determination of whether the benefits of tax positions will be more likely than not sustained upon audit based upon the technical merits of the tax position. For tax positions that are determined to be more likely than not sustained upon audit, a company recognizes the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement in the financial statements. For tax positions that are not determined to be more likely than not sustained upon audit, a company does not recognize any portion of the benefit in the financial statements. Additionally, the guidance provides for derecognition, classification, penalties and interest, accounting in interim periods, disclosure and transition.

Quaker Chemical Corporation
Notes to Condensed Consolidated Financial Statements - Continued
(Dollars in thousands, except per share amounts)
(Unaudited)

As of June 30, 2012, the Company's cumulative liability for gross unrecognized tax benefits was \$12,426. At December 31, 2011, the Company's cumulative liability for gross unrecognized tax benefits was \$12,719.

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 Statement of Income. The Company recognized \$164 and \$(51) for interest and \$99 and \$194 for penalties on its Condensed Consolidated Statement of Income for the three and six months ended June 30, 2012, respectively, and recognized \$184 and \$59 for interest and \$145 and \$424 for penalties on its Condensed Consolidated Statement of Income for the three and six months ended June 30, 2011, respectively. As of June 30, 2012, the Company had accrued \$2,175 for cumulative interest and \$1,463 for cumulative penalties, and \$2,268 for cumulative interest and \$1,298 for cumulative penalties at December 31, 2011.

During the three months ended June 30, 2012, there were no expirations of statutes of limitations for uncertain tax positions. During the three months ended June 30, 2011, the Company recognized a decrease in its cumulative liability for gross unrecognized tax benefits due to the liquidation of the Company's subsidiary in Wuxi China for certain tax years of approximately \$36.

During the six months ended June 30, 2012, the Company recognized a \$1,072 decrease 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 six months ended June 30, 2011, the Company recognized a \$958 decrease 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, 2012 it will reduce its cumulative liability for gross unrecognized tax benefits by approximately \$1,700 to \$1,800 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, 2012.

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 the Netherlands and the United Kingdom from 2006, Brazil and Spain from 2007, the United States from 2008, China from 2009, Italy from 2010, and various domestic state tax jurisdictions from 1993.

In the second quarter of 2012, the Internal Revenue Service initiated a limited scope audit of the Company's 2009 federal income tax return. The Company has responded to all information requests and has not received any further communications. Also, during the second quarter of 2012, the Italian tax authorities initiated a transfer pricing audit of the Company's Italian subsidiary. On July 7, 2012, the Company received the preliminary tax report, which proposed several adjustments to the taxable income of the subsidiary. In conjunction with outside counsel, the Company reviewed the report and believes it should prevail on the merits of the case. As a result, the Company does not believe it has any exposures warranting an uncertain tax position reserve.

Note 4 – Fair Value Measurements

The FASB's guidance regarding fair value measurements establishes a common definition for fair value to be applied to guidance requiring use of fair value, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements. The guidance does not require any new fair value measurements, but rather applies to all other accounting guidance that requires or permits fair value measurements.

The guidance utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

- Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices that observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that not active.
- Level 3: Unobservable inputs that reflect the reporting entity's own assumptions.

Quaker Chemical Corporation
Notes to Condensed Consolidated Financial Statements - Continued
(Dollars in thousands, except per share amounts)
(Unaudited)

The Company values its interest rate swaps, company-owned life insurance policies and various deferred compensation assets and liabilities, acquisition-related consideration and an obligation related to a non-competition agreement at fair value. The Company's assets and liabilities subject to fair value measurement are as follows:

<u>Assets</u>	Fair Value as of June 30, 2012	Fair Value Measurements at June 30, 2012 Using Fair Value Hierarchy		
		Level 1	Level 2	Level 3
Company-owned life insurance	\$ 1,585	\$ —	\$ 1,585	\$ —
Company-owned life insurance - Deferred compensation assets	441	—	441	—
Other deferred compensation assets				
Large capitalization registered investment companies	59	59	—	—
Mid capitalization registered investment companies	5	5	—	—
Small capitalization registered investment companies	8	8	—	—
International developed and emerging markets registered investment companies	32	32	—	—
Fixed income registered investment companies	9	9	—	—
Total	\$ 2,139	\$ 113	\$ 2,026	\$ —

<u>Liabilities</u>	Fair Value as of June 30, 2012	Fair Value Measurements at June 30, 2012 Using Fair Value Hierarchy		
		Level 1	Level 2	Level 3
Deferred compensation liabilities				
Large capitalization registered investment companies	\$ 314	\$ 314	\$ —	\$ —
Mid capitalization registered investment companies	83	83	—	—
Small capitalization registered investment companies	68	68	—	—
International developed and emerging markets registered investment companies	163	163	—	—
Fixed income registered investment companies	48	48	—	—
Fixed general account	169	—	169	—
Interest rate derivatives	112	—	112	—
Acquisition-related consideration	9,506	—	—	9,506
Total	\$ 10,463	\$ 676	\$ 281	\$ 9,506

<u>Assets</u>	Fair Value as of December 31, 2011	Fair Value Measurements at December 31, 2011 Using Fair Value Hierarchy		
		Level 1	Level 2	Level 3
Company-owned life insurance	\$ 1,508	\$ —	\$ 1,508	\$ —
Company-owned life insurance - Deferred compensation assets	487	—	487	—
Other deferred compensation assets				
Large capitalization registered investment companies	64	64	—	—
Mid capitalization registered investment companies	4	4	—	—
Small capitalization registered investment companies	7	7	—	—
International developed and emerging markets registered investment companies	32	32	—	—
Fixed income registered investment companies	8	8	—	—
Total	\$ 2,110	\$ 115	\$ 1,995	\$ —

Quaker Chemical Corporation
Notes to Condensed Consolidated Financial Statements - Continued
(Dollars in thousands, except per share amounts)
(Unaudited)

	Fair Value as of December 31, 2011	Fair Value Measurements at December 31, 2011 Using Fair Value Hierarchy		
		Level 1	Level 2	Level 3
Liabilities				
Deferred compensation liabilities				
Large capitalization registered investment companies	\$ 318	\$ 318	\$ —	\$ —
Mid capitalization registered investment companies	83	83	—	—
Small capitalization registered investment companies	68	68	—	—
International developed and emerging markets registered investment companies	168	168	—	—
Fixed income registered investment companies	50	50	—	—
Fixed general account	177	—	177	—
Interest rate derivatives	418	—	418	—
Acquisition related consideration	8,898	—	—	8,898
Total	\$ 10,180	\$ 687	\$ 595	\$ 8,898

The fair values of Company-owned life insurance (“COLI”) and COLI deferred compensation assets are based on quotes for like instruments with similar credit ratings and terms. The fair values of other deferred compensation assets and liabilities are based on quoted prices in active markets. The fair values of interest rate derivatives are based on quoted market prices from various banks for similar instruments. The fair value of the earnout is based on unobservable inputs and is classified as Level 3. Significant inputs and assumptions are management’s estimate of the probability of the earnout ultimately being met/paid and the discount rate used to present value the liability. The fair value of the holdbacks and the obligation related to a non-competition agreement are also based on unobservable inputs and are classified as Level 3. Significant inputs and assumptions for both the obligation related to the non-competition agreement and the holdbacks is management’s estimate of the discount rate used to present value the liabilities. Significant changes in any Level 3 input or assumption in isolation would result in increases or decreases to the fair value measurements for the holdbacks, the earnout and the non-competition agreement.

Changes in the fair value of the Level 3 liabilities during the six months ended June 30, 2012 were as follows:

	Non-competition				Total
	Earnout Summit	Hold-back Tecniquimia	Agreement Obligation	Hold-back GW Smith	
Balance at December 31, 2011	\$ 5,444	\$ 1,877	\$ 675	\$ 902	\$ 8,898
Interest accretion	395	123	25	65	608
Balance at June 30, 2012	<u>\$ 5,839</u>	<u>\$ 2,000</u>	<u>\$ 700</u>	<u>\$ 967</u>	<u>\$ 9,506</u>

Quantitative information about the Company’s Level 3 fair value measurements at June 30, 2012 were as follows:

	Fair value at June 30, 2012	Valuation technique	Unobservable input	Input value
Summit earnout	5,839	Discounted cash flow	Discount rate	14.5%
Tecniquimia hold-back	2,000	Discounted cash flow	Discount rate	14.0%
Non-competition agreement obligation	700	Discounted cash flow	Discount rate	14.0%
G.W. Smith hold-back	967	Discounted cash flow	Discount rate	15.0%

The fair value of the Summit earnout is based on the weighted average probability of the outcome of different payout scenarios. As of June 30, 2012, the probabilities applied to the payout scenarios ranged from 15% to 50%, depending on the Company’s estimate of the likelihood of each payout scenario.

Note 5 – Hedging Activities

The Company is exposed to the impact of changes in interest rates, foreign currency fluctuations, changes in commodity prices and credit risk. The Company does not use derivative instruments to mitigate the risks associated with foreign currency fluctuations, changes in commodity prices or credit risk. Quaker uses interest rate swaps to mitigate the impact of changes in interest rates. The swaps convert a portion of the Company’s variable interest rate debt to fixed interest rate debt and are designated as cash flow hedges and reported on the balance sheet at fair value. The effective portions of the hedges are

reported in Other Comprehensive Income (“OCI”) until reclassified to earnings during the same period the hedged item affects earnings. The Company has no derivatives designated as fair value hedges and only has derivatives designated as hedging instruments under the FASB’s guidance. The notional amount of the Company’s interest rate swaps was \$15,000 as of June 30, 2012 and December 31, 2011.

Quaker Chemical Corporation
Notes to Condensed Consolidated Financial Statements - Continued
(Dollars in thousands, except per share amounts)
(Unaudited)

Information about the Company's interest rate derivatives is as follows:

		<u>Fair Value</u>			
		<u>June 30,</u>	<u>December 31,</u>		
Balance Sheet					
<u>Location</u>	<u>2012</u>	<u>2011</u>			
Derivatives designated as cash flow hedges:					
	Other current liabilities	\$ 112	\$ 418		
Interest rate swaps		<u>\$ 112</u>	<u>\$ 418</u>		
Cash Flow Hedges					
Interest Rate Swaps					
		<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
		<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Amount of Gain Recognized in Accumulated OCI on Derivative (Effective Portion)		<u>\$ 103</u>	<u>\$ 78</u>	<u>\$ 199</u>	<u>\$ 174</u>
Amount and Location of Gain Reclassified from Accumulated OCI into					
	Interest Expense	\$ (160)	\$ (165)	\$ (318)	\$ (328)
Income (Effective Portion)		<u>\$ (160)</u>	<u>\$ (165)</u>	<u>\$ (318)</u>	<u>\$ (328)</u>
Amount and Location of Gain Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)					
	Other Income	\$ —	\$ —	\$ —	\$ —
Testing)		<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

Note 6 – Stock-Based Compensation

The Company recognized share-based compensation expense in selling, general and administrative expenses in its Condensed Consolidated Statement of Income as follows:

	For the Six Months Ended June 30,	
	2012	2011
Stock options	\$ 263	\$ 228
Nonvested stock awards and restricted stock units	732	671
Employee stock purchase plan	23	23
Non-elective and elective 401(k) matching contribution in stock	1,030	902
Director stock ownership plan	30	30
Total share-based compensation expense	<u>\$ 2,078</u>	<u>\$ 1,854</u>

Based on historical experience, the Company has assumed a forfeiture rate of 13% on the nonvested stock. The Company will record additional expense if the actual forfeiture rate is lower than estimated, and will record a recovery of prior expense if the actual forfeiture is higher than estimated.

The Company has a long-term incentive program ("LTIP") for key employees which provides for the granting of options to purchase stock at prices not less

than market value on the date of the grant. Most options become exercisable between one and three years after the date of the grant for a period of time determined by the Company not to exceed seven years from the date of grant. Common stock awards issued under the LTIP program are subject only to time vesting over a three to five-year period. In addition, as part of the Company's Global Annual Incentive Plan ("GAIP"), nonvested shares may be issued to key employees, which generally vest over a two to five-year period.

Quaker Chemical Corporation
Notes to Condensed Consolidated Financial Statements - Continued
(Dollars in thousands, except per share amounts)
(Unaudited)

As of June 30, 2012 and June 30, 2011, the Company recorded \$1,420 and \$162, respectively, of excess tax benefits in capital in excess of par value on its Condensed Consolidated Balance Sheets, related to stock option exercises. The Company's estimated taxes payable was sufficient to fully recognize these benefits as cash inflows from financing activities in its Condensed Consolidated Statement of Cash Flows, which represented the Company's estimate of cash savings through June 30, 2012 and June 30, 2011, respectively.

Stock option activity under all plans is as follows:

	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (years)
Balance at December 31, 2011	253,342	\$ 16.43	
Options granted	40,157	38.57	
Options exercised	(77,176)	9.62	
Options forfeited	(8,470)	29.32	
Balance at June 30, 2012	<u>207,853</u>	<u>\$ 22.72</u>	4.5
Exercisable at June 30, 2012	<u>117,758</u>	<u>\$ 15.85</u>	3.5

As of June 30, 2012, the total intrinsic value of options outstanding was approximately \$4,761, and the total intrinsic value of exercisable options was \$3,505. Intrinsic value is calculated as the difference between the current market price of the underlying security and the strike price of a related option.

A summary of the Company's outstanding stock options at June 30, 2012 is as follows:

Range of Exercise Prices	Number Outstanding at 6/30/2012	Weighted Average Contractual Life	Weighted Average Exercise Price	Number Exercisable at 6/30/2012	Weighted Average Exercise Price
\$4.62 - \$9.24	47,325	2.6	\$ 6.93	47,325	\$ 6.93
\$9.25 - \$18.48	—	—	—	—	—
\$18.49 - \$23.11	89,216	4.1	18.86	59,150	18.88
\$23.12 - \$36.97	—	—	—	—	—
\$36.98 - \$41.59	69,120	6.1	37.76	11,283	37.37
\$41.60 - \$46.21	2,192	7.0	46.21	—	—
	<u>207,853</u>	4.5	<u>22.72</u>	<u>117,758</u>	<u>15.85</u>

As of June 30, 2012, unrecognized compensation expense related to options granted during 2010 was \$112, for options granted during 2011 was \$263 and for options granted in 2012 was \$568.

During the first quarter of 2012, the Company granted 37,965 stock options under the Company's LTIP plan that are subject only to time vesting over a three-year period. For the purposes of determining the fair value of stock option awards, the Company uses the Black-Scholes option pricing model and the assumptions set forth in the table below:

	<u>March, 31, 2012</u>
Dividend Yield	3.09%
Expected Volatility	69.90%
Risk-free interest rate	0.61%
Expected term (years)	4.0

Approximately \$62 of expense was recorded on these options during the first six months of 2012. The fair value of these awards is amortized on a straight-line basis over the vesting period of the awards.

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In connection with a transition of key employees in the Company during the second quarter of 2012, 2,192 stock options were granted under the Company's LTIP plan and will be subject only to time vesting over a three-year period. The following assumptions were made as set forth in the table below:

	June 30, 2012
Dividend Yield	2.69%
Expected Volatility	69.09%
Risk-free interest rate	0.58%
Expected term (years)	4.0

During the six months ended June 30, 2012, the Company did not record any expense on these options due to the timing of the issuance coinciding with the date of the financial statements. The fair value of these awards will be amortized on a straight-line basis over the vesting period of the awards.

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

	Number of Shares	Weighted Average Grant Date Fair Value (per share)
Nonvested awards, December 31, 2011	169,863	\$ 20.66
Granted	42,754	\$ 39.43
Vested	(79,519)	\$ 12.33
Forfeited	(5,104)	\$ 28.32
Nonvested awards, June 30, 2012	<u>127,994</u>	<u>\$ 31.79</u>

The fair value of the nonvested stock is based on the trading price of the Company's common stock on the date of grant. The Company adjusts the grant date fair value for expected forfeitures based on historical experience for similar awards. As of June 30, 2012, unrecognized compensation expense related to these awards was \$2,469 to be recognized over a weighted average remaining period of 2.08 years.

In 2012, the Company granted restricted stock units under the Company's LTIP plan. Activity of restricted stock units granted is shown below:

	Number of units	Weighted Average Grant Date Fair Value (per unit)
Nonvested awards, December 31, 2011	—	\$ —
Granted	2,100	\$ 38.13
Vested	—	\$ —
Forfeited	—	\$ —
Nonvested awards, June 30, 2012	<u>2,100</u>	<u>\$ 38.13</u>

The fair value of the nonvested restricted stock units is based on the trading price of the Company's common stock on the date of grant. The Company adjusts the fair value for expected forfeitures based on historical experience for similar awards. As of June 30, 2012, unrecognized compensation expense related to these awards was \$62 to be recognized over a weighted average remaining period of 2.75 years.

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

	Number of Shares	Weighted Average Grant Date Fair Value (per share)
Nonvested awards, December 31, 2011	62,250	\$ 7.72
Granted	—	\$ —
Vested	(59,850)	\$ 7.72
Forfeited	(2,400)	\$ 7.72
Nonvested awards, June 30, 2012	<u>—</u>	<u>\$ —</u>

As of June 30, 2012, these shares were fully vested and all related compensation expense was recognized.

Employee Stock Purchase Plan

In 2000, the Board adopted an Employee Stock Purchase Plan ("ESPP") whereby employees may purchase Company stock through a payroll deduction plan. Purchases are made from the plan and credited to each participant's account at the end of each month, the "Investment Date." The purchase price of the stock is 85% of the fair market value on the Investment Date. The plan is compensatory and the 15% discount is expensed on the Investment Date. All employees, including officers, are eligible to participate in this plan. A participant may withdraw all uninvested payment balances credited to a participant's account at any time. An employee whose stock ownership of the Company exceeds five percent of the outstanding common stock is not eligible to participate in this plan.

2003 Director Stock Ownership Plan

In March 2003, the Company's Board of Directors approved a stock ownership plan for each member of the Company's Board to encourage the Directors to increase their investment in the Company. The Plan was effective on the date it was approved and remains in effect for a term of ten years or until it is earlier terminated by the Board. The maximum number of shares of Common Stock which may be issued under the Plan is 75,000, subject to certain conditions that the Compensation/Management Development Committee (the "Committee") may elect to adjust the number of shares. As of June 30, 2012, the Committee has not made any elections to adjust the shares under this plan. Each Director is eligible to receive an annual retainer for services rendered as a member of the Board of Directors. Currently, each Director who owns less than 7,500 shares of Company Common Stock is required to receive 75% of the annual retainer in Common Stock and 25% of the annual retainer in cash. Each Director who owns 7,500 or more shares of Company Common Stock may elect to receive payment of a percentage (up to 100%) of the annual retainer in shares of common stock. Currently, the annual retainer is \$40. The number of shares issued in payment of the fees is calculated based on an amount equal to the average of the closing prices per share of Common Stock as reported on the composite tape of the New York Stock Exchange for the two trading days immediately preceding the retainer payment date. The retainer payment date is June 1.

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Note 7 – Earnings Per Share

The Company follows FASB’s guidance regarding the calculation of earnings per share (“EPS”) for nonvested stock awards with rights to non-forfeitable dividends. The guidance requires nonvested stock awards with rights to non-forfeitable dividends to be included as part of the basic weighted average share calculation under the two-class method.

The following table summarizes EPS calculations:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Basic earnings per common share				
Net income attributable to Quaker Chemical Corporation	\$ 10,540	\$ 9,841	\$ 22,486	\$ 20,441
Less: income allocated to participating securities	(101)	(182)	(289)	(384)
Net income available to common shareholders	\$ 10,439	\$ 9,659	\$ 22,197	\$ 20,057
Basic weighted average common shares outstanding	12,850,917	12,043,858	12,790,799	11,668,657
Basic earnings per common share	\$ 0.81	\$ 0.80	\$ 1.74	\$ 1.72
Diluted earnings per common share				
Net income attributable to Quaker Chemical Corporation	\$ 10,540	\$ 9,841	\$ 22,486	\$ 20,441
Less: income allocated to participating securities	(100)	(180)	(288)	(380)
Net income available to common shareholders	\$ 10,440	\$ 9,661	\$ 22,198	\$ 20,061
Basic weighted average common shares outstanding	12,850,917	12,043,858	12,790,799	11,668,657
Effect of dilutive securities, employee stock options	80,913	174,919	88,838	175,905
Diluted weighted average common shares outstanding	12,931,830	12,218,777	12,879,637	11,844,562
Diluted earnings per common share	\$ 0.81	\$ 0.79	\$ 1.72	\$ 1.69

The following number of stock options are not included in diluted earnings per share since the effect would have been anti-dilutive: 9,917 and 8,209 for the three months ended June 30, 2012 and June 30, 2011, and 7,859 and 10,208 for the six months ended June 30, 2012 and June 30, 2011, respectively.

Note 8 – Business Segments

The Company organizes its segments by type of product sold. The Company’s reportable segments are as follows:

- Metalworking process chemicals—industrial process fluids for various heavy industrial and manufacturing applications.
- Coatings—temporary and permanent coatings for metal and concrete products and chemical milling maskants.
- Other chemical products—other various chemical products.

Segment data includes direct segment costs as well as general operating costs. Any inter-segment transactions are immaterial for each period presented.

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The table below presents information about the Company's reported segments:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Metalworking Process Chemicals				
Net sales	\$ 165,011	\$ 156,772	\$ 330,986	\$ 307,505
Operating income for reportable segments	30,649	26,149	61,624	53,084
Coatings				
Net sales	10,950	10,487	21,473	18,969
Operating income for reportable segments	2,799	2,446	5,312	4,409
Other Chemical Products				
Net sales	836	533	1,976	1,183
Operating income for reportable segments	53	4	195	39
Total				
Net sales	176,797	167,792	354,435	327,657
Operating income for reportable segments	33,501	28,599	67,131	57,532
Non-operating expenses	(15,799)	(13,171)	(31,981)	(27,518)
Amortization	(719)	(487)	(1,465)	(973)
Consolidated operating income	16,983	14,941	33,685	29,041
Interest expense	(1,151)	(1,200)	(2,325)	(2,418)
Interest income	137	271	260	543
Other (expense) income, net	(134)	791	207	1,330
Consolidated income before taxes and equity in net income of associated companies	<u>\$ 15,835</u>	<u>\$ 14,803</u>	<u>\$ 31,827</u>	<u>\$ 28,496</u>

Operating income comprises revenue less related costs and expenses. Non-operating items primarily consist of general corporate expenses identified as not being a cost of operation, interest expense, interest income, and license fees from non-consolidated affiliates.

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Note 9 – Equity and Noncontrolling Interest

The following table presents the changes in equity and noncontrolling interest for the three and six months ended June 30, 2012 and June 30, 2011:

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total
Balance at March 31, 2012	\$ 12,951	\$ 90,836	\$ 184,764	\$ (25,902)	\$ 8,015	\$ 270,664
Net income	—	—	10,540	—	630	11,170
Currency translation adjustments	—	—	—	(6,786)	(425)	(7,211)
Defined benefit retirement plans	—	—	—	499	—	499
Current period changes in fair value of derivatives	—	—	—	103	—	103
Unrealized gain on available-for-sale securities	—	—	—	(5)	—	(5)
Dividends (\$0.245 per share)	—	—	(3,188)	—	—	(3,188)
Dividends paid to noncontrolling shareholders	—	—	—	—	(30)	(30)
Share issuance and equity-based compensation plans	60	1,195	—	—	—	1,255
Excess tax benefit from stock option exercises	—	168	—	—	—	168
Balance at June 30, 2012	<u>\$ 13,011</u>	<u>\$ 92,199</u>	<u>\$ 192,116</u>	<u>\$ (32,091)</u>	<u>\$ 8,190</u>	<u>\$ 273,425</u>
Balance at March 31, 2011	\$ 11,531	\$ 39,132	\$ 152,237	\$ (9,497)	\$ 7,359	\$ 200,762
Net income	—	—	9,841	—	714	10,555
Currency translation adjustments	—	—	—	3,587	69	3,656
Defined benefit retirement plans	—	—	—	325	—	325
Current period changes in fair value of derivatives	—	—	—	78	—	78
Dividends (\$0.24 per share)	—	—	(3,080)	—	—	(3,080)
Stock offering, net of related expenses	1,265	46,878	—	—	—	48,143
Share issuance and equity-based compensation plans	27	1,155	—	—	—	1,182
Excess tax benefit from stock option exercises	—	84	—	—	—	84
Balance at June 30, 2011	<u>\$ 12,823</u>	<u>\$ 87,249</u>	<u>\$ 158,998</u>	<u>\$ (5,507)</u>	<u>\$ 8,142</u>	<u>\$ 261,705</u>

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	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total
Balance at December 31, 2011	\$ 12,912	\$ 89,725	\$ 175,932	\$ (29,820)	\$ 6,977	\$ 255,726
Net income	—	—	22,486	—	1,377	23,863
Currency translation adjustments	—	—	—	(3,442)	(134)	(3,576)
Defined benefit retirement plans	—	—	—	969	—	969
Current period changes in fair value of derivatives	—	—	—	199	—	199
Unrealized gain on available-for-sale securities	—	—	—	3	—	3
Dividends (\$0.485 per share)	—	—	(6,302)	—	—	(6,302)
Dividends paid to noncontrolling interests	—	—	—	—	(30)	(30)
Share issuance and equity-based compensation plans	99	1,054	—	—	—	1,153
Excess tax benefit from stock option exercises	—	1,420	—	—	—	1,420
Balance at June 30, 2012	<u>\$ 13,011</u>	<u>\$ 92,199</u>	<u>\$ 192,116</u>	<u>\$ (32,091)</u>	<u>\$ 8,190</u>	<u>\$ 273,425</u>
Balance at December 31, 2010	\$ 11,492	\$ 38,275	\$ 144,347	\$ (13,736)	\$ 6,721	\$ 187,099
Net income	—	—	20,441	—	1,344	21,785
Currency translation adjustments	—	—	—	7,400	77	7,477
Defined benefit retirement plans	—	—	—	649	—	649
Current period changes in fair value of derivatives	—	—	—	174	—	174
Unrealized loss on available-for-sale securities	—	—	—	6	—	6
Dividends (\$0.475 per share)	—	—	(5,790)	—	—	(5,790)
Stock offering, net of related expenses	1,265	46,878	—	—	—	48,143
Share issuance and equity-based compensation plans	66	1,934	—	—	—	2,000
Excess tax benefit from stock option exercises	—	162	—	—	—	162
Balance at June 30, 2011	<u>\$ 12,823</u>	<u>\$ 87,249</u>	<u>\$ 158,998</u>	<u>\$ (5,507)</u>	<u>\$ 8,142</u>	<u>\$ 261,705</u>

The items in Accumulated Other Comprehensive Loss are net of tax benefits of \$247 and \$168 for defined benefit retirement plans and \$55 and \$42 for current period changes in fair value for derivatives for the three months ended June 30, 2012 and June 30, 2011, respectively. The items in Accumulated Other Comprehensive Loss are net of tax benefits of \$527 and \$335 for defined benefit retirement plans and \$107 and \$93 for current period changes in fair value for derivatives for the six months ended June 30, 2012 and June 30, 2011, respectively.

The Company sold 1,265,000 shares of its common stock during the second quarter of 2011. The Company received proceeds of \$48,143, net of related offering expenses, commissions and underwriting fees. The Company used the proceeds to repay a portion of its revolving credit line during the second quarter of 2011.

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Note 10 – Business Acquisitions

In October 2011, the Company acquired G.W. Smith & Sons, Inc. for approximately \$14,518. G.W. Smith manufactures and distributes high quality die casting lubricants, and also distributes metalworking fluids. The Company allocated \$6,260 of intangible assets, comprising trade names and formulations, to be amortized over 15 years; a trademark to be amortized over 5 years; a non-competition agreement to be amortized over 5 years; and customer lists to be amortized over 16 years. In addition, the Company recorded \$1,120 of goodwill, all of which will be tax deductible and was assigned to the metalworking process chemical segment. Liabilities assumed include a hold-back of consideration to be paid to the former shareholder at one year from the acquisition date, absent the occurrence of unforeseen obligations.

In July 2011, the Company acquired the remaining 60% ownership interest in Tecniquimia Mexicana, S.A. de C.V., the Company's Mexican equity affiliate, for approximately \$10,500. The acquisition strengthened the Company's position in the growing Mexican market. The Company allocated \$3,556 of intangible assets, comprising trade names and trademarks, to be amortized over 5 years; and customer lists, to be amortized over 20 years. In addition, the Company recorded \$6,773 of goodwill, none of which will be tax deductible, and was assigned to the metalworking process chemicals segment. Liabilities assumed include a hold-back of consideration to be paid to the former shareholders at one year from the purchase date, absent the occurrence of unforeseen obligations. Subsequent to June 30, 2012, the Company paid the \$2,000 hold-back consideration to the former shareholders.

In December 2010, the Company completed the acquisition of Summit Lubricants, Inc., which manufactures and distributes specialty greases and lubricants, for approximately \$29,116, which was subject to certain post closing adjustments. During 2011, the Company paid an additional \$717 to finalize the post closing adjustments and recorded non-cash adjustments to fixed assets and goodwill to finalize its valuation of the assets acquired and liabilities assumed at the acquisition date. The Company allocated \$17,100 to intangible assets, comprising formulations, to be amortized over 15 years; customer lists, to be amortized over 20 years; a non-competition agreement, to be amortized over 5 years; and a trademark, which was assigned an indefinite life. In addition, the Company recorded \$3,423 of goodwill, all of which will be tax deductible, and was assigned to the metalworking process chemicals segment. Liabilities assumed include an earnout to be paid to the former shareholders if certain earnings targets are met by the end of 2013.

The following table shows the allocation of the purchase price of the assets and liabilities acquired during 2011. The pro forma results of operations have not been provided because the effects were not material:

	Quaker	GW Smith & Sons, Inc.
2011 Acquisitions	Tecniquimia	Inc.
Current assets	\$ 8,946	\$ 6,138
Fixed assets	4,308	2,869
Intangibles	3,556	6,260
Goodwill	6,773	1,120
Other long-term assets	1,355	1
Total assets purchased	24,938	16,388
Current liabilities	(2,224)	(1,001)
Long-term liabilities	(6,869)	—
Present value of hold-back	(1,754)	(869)
Total liabilities assumed	(10,847)	(1,870)
Additional minimum pension liability	987	—
Total equity assumed	987	—
Fair value of previously held equity interest	(4,578)	—
Cash paid for acquisitions	<u>\$ 10,500</u>	<u>\$ 14,518</u>

Included in the 2011 acquisitions of Quaker Tecniquimia and G.W. Smith & Sons, Inc. was approximately \$258 of cash acquired.

Subsequent to June 30, 2012, the Company acquired NP Coil Dexter Industries, S.r.l., a European manufacturer and supplier of metal surface treatment products. The acquired business has annual net sales of approximately \$11.0 million. Certain pro forma and other disclosures have not been provided as of June 30, 2012, because the effects were not material.

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Note 11 – Goodwill and Other Intangible Assets

The changes in carrying amount of goodwill for the six months ended June 30, 2012 are as follows. The Company has recorded no impairment charges in the past:

	Metalworking Process		
	Chemicals	Coatings	Total
Balance as of December 31, 2011	\$ 50,071	\$ 8,081	\$58,152
Currency translation adjustments	(1,119)	—	(1,119)
Balance as of June 30, 2012	<u>\$ 48,952</u>	<u>\$ 8,081</u>	<u>\$ 57,033</u>

Gross carrying amounts and accumulated amortization for definite-lived intangible assets as of June 30, 2012 and December 31, 2011 are as follows:

	Gross Carrying Amount		Accumulated Amortization	
	2012	2011	2012	2011
Amortized intangible assets				
Customer lists and rights to sell	\$ 30,413	\$ 30,435	\$ 7,192	\$ 6,386
Trademarks and patents	4,741	4,685	2,217	1,991
Formulations and product technology	5,278	5,278	3,269	3,090
Other	5,309	5,309	3,766	3,557
Total	<u>\$45,741</u>	<u>\$45,707</u>	<u>\$16,444</u>	<u>\$15,024</u>

The Company recorded \$1,465 and \$973 of amortization expense in the six months ended June 30, 2012 and June 30, 2011, respectively. Estimated annual aggregate amortization expense for the current year and subsequent five years is as follows:

For the year ended December 31, 2012	\$2,878
For the year ended December 31, 2013	\$2,702
For the year ended December 31, 2014	\$2,472
For the year ended December 31, 2015	\$2,472
For the year ended December 31, 2016	\$2,015
For the year ended December 31, 2017	\$1,600

The Company has two indefinite-lived intangible assets totaling \$1,100 for trademarks at June 30, 2012.

Note 12 – Pension and Other Postretirement Benefits

The components of net periodic benefit cost for the three and six months ended June 30, 2012 and June 30, 2011 are as follows:

	Three Months Ended June 30,				Six Months Ended June 30,			
	Pension Benefits		Other Postretirement Benefits		Pension Benefits		Other Postretirement Benefits	
	2012	2011	2012	2011	2012	2011	2012	2011
Service cost	\$ 614	\$ 593	\$ 5	\$ 5	\$ 1,238	\$ 1,164	\$ 9	\$ 10
Interest cost and other	1,457	1,555	71	89	2,927	3,077	142	178
Expected return on plan assets	(1,368)	(1,449)	—	—	(2,743)	(2,873)	—	—
Other amortization, net	717	461	30	31	1,436	921	61	62
Net periodic benefit cost	<u>\$ 1,420</u>	<u>\$ 1,160</u>	<u>\$ 106</u>	<u>\$ 125</u>	<u>\$ 2,858</u>	<u>\$ 2,289</u>	<u>\$ 212</u>	<u>\$ 250</u>

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Employer Contributions:

The Company previously disclosed in its financial statements for the year ended December 31, 2011, that it expected to make minimum cash contributions of \$6,826 to its pension plans and \$747 to its other postretirement benefit plan in 2012. As of June 30, 2012, \$4,652 and \$467 of contributions have been made to the Company's pension plans and its other postretirement benefit plans, respectively.

Note 13 – Commitments and Contingencies

In April of 1992, the Company identified certain soil and groundwater contamination at AC Products, Inc. ("ACP"), a wholly owned subsidiary. In voluntary coordination with the Santa Ana California Regional Water Quality Board, ACP has been remediating the contamination, the principal contaminant of which is perchloroethylene ("PERC"). On or about December 18, 2004, the Orange County Water District ("OCWD") filed a civil complaint in Superior Court in Orange County, California against ACP and other parties potentially responsible for groundwater contamination. OCWD was seeking to recover compensatory and other damages related to the investigation and remediation of the contamination in the groundwater. Effective October 17, 2007, ACP and OCWD settled all claims related to this litigation. Pursuant to the settlement agreement with OCWD, ACP agreed to pay \$2,000. In addition to the \$2,000 payment, ACP agreed to operate the two existing groundwater treatment systems associated with its extraction wells P-2 and P-3 so as to hydraulically contain groundwater contamination emanating from ACP's site until such time as the concentrations of PERC are below the current Federal maximum contaminant level for four consecutive quarterly sampling events. As of June 30, 2012, the Company believes that the range of potential-known liabilities associated with ACP contamination, including the water and soil remediation program, is approximately \$1,100 to \$2,100, for which the Company has sufficient reserves.

The low and high ends of the range are based on the length of operation of the two extraction wells as determined by groundwater modeling with planned higher maintenance costs in later years if a longer treatment period is required. Costs of operation include the operation and maintenance of the extraction wells, groundwater monitoring and program management. The duration of the well operation was estimated based on historical trends in concentrations in the monitoring wells within the proximity of the applicable extraction wells. Also factored into the model was the impact of water injected into the underground aquifer from a planned water treatment system to be installed by OCWD adjacent to P-2. Based on the modeling, it is estimated that P-2 will operate for another one and one-half to four and one-half years and P-3 will operate for another one and one-half to four and one-half years. Operation and maintenance costs were based on historical expenditures and estimated inflation. As mentioned above, a significantly higher maintenance expense was factored into the range if the system operates for the longer period.

The Company believes, although there can be no assurance regarding the outcome of other unrelated environmental matters, that it has made adequate accruals for costs associated with other environmental problems of which it is aware. Approximately \$255 and \$493 was accrued at June 30, 2012 and December 31, 2011, respectively, to provide for such anticipated future environmental assessments and remediation costs.

An inactive subsidiary of the Company that was acquired in 1978 sold certain products containing asbestos, primarily on an installed basis, and is among the defendants in numerous lawsuits alleging injury due to exposure to asbestos. The subsidiary discontinued operations in 1991 and has no remaining assets other than the proceeds from insurance settlements received. To date, the overwhelming majority of these claims have been disposed of without payment and there have been no adverse judgments against the subsidiary. Based on a continued analysis of the existing and anticipated future claims against this subsidiary, it is currently projected that the subsidiary's total liability over the next 50 years for these claims is approximately \$4,900 (excluding costs of defense). Although the Company has also been named as a defendant in certain of these cases, no claims have been actively pursued against the Company, and the Company has not contributed to the defense or settlement of any of these cases pursued against the subsidiary. These cases were handled by the subsidiary's primary and excess insurers who had agreed in 1997 to pay all defense costs and be responsible for all damages assessed against the subsidiary arising out of existing and future asbestos claims up to the aggregate limits of the policies. A significant portion of this primary insurance coverage was provided by an insurer that is now insolvent, and the other primary insurers have asserted that the aggregate limits of their policies have been exhausted. The subsidiary challenged the applicability of these limits to the claims being brought against the subsidiary. In response, two of the three carriers entered into separate settlement and release agreements with the subsidiary in late 2005 and in the first quarter of 2007 for \$15,000 and \$20,000, respectively. The payments under the latest settlement and release agreement were structured to be received over a four-year period with annual installments of \$5,000, the final installment of which was received in the first quarter of 2010. 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. During the third quarter of 2007, the subsidiary and the remaining primary insurance carrier entered into a Claim Handling and Funding Agreement, under which the carrier will pay 27% of defense and indemnity costs incurred by or on behalf of the subsidiary in connection with asbestos bodily injury claims for a minimum of five years beginning July 1, 2007. The agreement continues until terminated and can only be terminated by either party by providing the other party with a minimum of two years prior written notice.

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

At the end of the term of the agreement, the subsidiary may choose to again pursue its claim against this insurer regarding the application of the policy limits. The Company also believes that, if the coverage issues under the primary policies with the remaining carrier are resolved adversely to the subsidiary and all settlement proceeds were used, the subsidiary may have limited additional coverage from a state guarantee fund established following the insolvency of one of the subsidiary's primary insurers. Nevertheless, liabilities in respect of claims may exceed the assets and coverage available to the subsidiary.

If the subsidiary's assets and insurance coverage were to be exhausted, claimants of the subsidiary may actively pursue claims against the Company because of the parent-subsidary relationship. Although asbestos litigation is particularly difficult to predict, especially with respect to claims that are currently not being actively pursued against the Company, the Company does not believe that such claims would have merit or that the Company would be held to have liability for any unsatisfied obligations of the subsidiary as a result of such claims. After evaluating the nature of the claims filed against the subsidiary and the small number of such claims that have resulted in any payment, the potential availability of additional insurance coverage at the subsidiary level, the additional availability of the Company's own insurance and the Company's strong defenses to claims that it should be held responsible for the subsidiary's obligations because of the parent-subsidary relationship, the Company believes it is not probable that the Company will incur any material losses. All of the asbestos cases pursued against the Company challenging the parent-subsidary relationship are in the early stages of litigation. The Company has been successful to date having claims naming it dismissed during initial proceedings. Since the Company may be in this early stage of litigation for some time, it is not possible to estimate additional losses or range of loss, if any.

As initially disclosed in the Company's second quarter 2010 Form 10-Q, one of the Company's subsidiaries may have paid certain value-added-taxes ("VAT") incorrectly and, in certain cases, may not have collected sufficient VAT from certain customers. The VAT rules and regulations at issue are complex, vary among the jurisdictions and can be contradictory, in particular as to how they relate to the subsidiary's products and to sales between jurisdictions.

Since its inception, the subsidiary had been consistent in its VAT collection and remittance practices and had never been contacted by any tax authority relative to VAT. Now the subsidiary has determined that for certain products, a portion of the VAT was incorrectly paid and that the total VAT due exceeds the amount originally collected and remitted by the subsidiary. In 2010, three jurisdictions contacted the subsidiary and since then, the subsidiary has either participated in an amnesty program or entered into a settlement whereby it paid a reduced portion of the amounts owed in resolution of those jurisdictions' claims. The subsidiary has modified its VAT invoicing and payment procedures to eliminate or mitigate future exposure.

In analyzing the subsidiary's exposure, it is difficult to estimate both the probability and the amount of any potential liabilities due to a number of factors, including: the decrease in exposure over time due to applicable statutes of limitations and actions taken by the subsidiary, the joint liability of customers and suppliers for a portion of the VAT, the availability of a VAT refund for VAT incorrectly paid through an administrative process, any amounts which may have been or will be paid by customers, as well as the timing and structure of any tax amnesties or settlements. In addition, interest and penalties on any VAT due can be a multiple of the base tax. The subsidiary may contest any tax assessment administratively and/or judicially for an extended period of time, but may ultimately resolve its disputes through participation in tax amnesty programs, which are a common practice for settling tax disputes in the jurisdictions in question and which have historically occurred on a regular basis, resulting in significant reductions of interest and penalties. Also, the timing of payments and refunds of VAT may not be contemporaneous, and, if additional VAT is owed, it may not be fully recoverable from customers. As a result, this matter has the potential to have a material adverse impact on the Company's financial position, liquidity and capital resources and the results of operations.

In 2010, the Company recorded a net charge of \$4,132, which consisted of a net \$3,901 charge related to two tax dispute settlements entered into by the subsidiary, as well as a net \$231 charge representing management's best estimate based on the information available to it, including the factors noted above, of the amount that ultimately may be paid related to the other jurisdiction that has made inquiries. At June 30, 2012 and December 31, 2011, the Company had no accrual for remaining payments to be made under tax dispute settlements entered into by the subsidiary.

The charges taken by the Company in 2010 assume a successful recovery of the VAT incorrectly paid, as well as reductions in interest and penalties from anticipated future amnesty programs or settlements. On a similar basis, if all other potentially impacted jurisdictions were to initiate audits and issue assessments, the remaining exposure, net of refunds, could be from \$0 to \$16,500 with one jurisdiction representing approximately 82 percent of this additional exposure, assuming the continued availability of future amnesty programs or settlements to reduce the interest and penalties. If there are future assessments but no such future amnesty programs or settlements, the potential exposure could be higher.

The Company is party to other litigation which management currently believes will not have a material adverse effect on the Company's results of operations, cash flows or financial condition.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Executive Summary

Quaker Chemical Corporation is a leading global provider of process chemicals, chemical specialties, services, and technical expertise to a wide range of industries—including steel, aluminum, automotive, mining, aerospace, tube and pipe, coatings and construction materials. Our products, technical solutions, and chemical management services (“CMS”) enhance our customers’ processes, improve their product quality, and lower their costs.

The Company’s 5% revenue growth in the second quarter of 2012 compared to the second quarter of 2011 was due to a 6% increase in volume, including acquisitions, and a 5% increase in selling price and mix, which was partially offset by a 6% decrease related to foreign exchange rate translation. Gross profit increased approximately \$6.9 million, or 13%, as compared to the second quarter of 2011, with gross margin increasing to 34.3% from 32.0% for the second quarter of 2011 and 33.7% for the first quarter of 2012. The increase in gross margin reflects the Company’s ongoing initiative of restoring margins to more acceptable levels through price increases, as well as mix effects experienced in the quarter.

Selling, general and administrative expenses (“SG&A”) increased approximately \$4.8 million from the second quarter of 2011 primarily related to acquisitions and higher selling, inflationary and other costs on increased business activity, which were partially offset by decreases due to foreign exchange rate translation. SG&A for the second quarter of 2012 also includes charges of approximately \$0.06 per diluted share for certain bankruptcies in the U.S. and \$0.03 per diluted share related to CFO transition costs. As a result, the second quarter of 2012 SG&A, as a percentage of sales, increased to 24.7% compared to 23.1% for the second quarter of 2011 and 24.3% for the first quarter of 2012.

Earnings per diluted share of \$0.81 for the second quarter of 2012 includes dilution of approximately \$0.03 per diluted share related to the Company’s equity offering in May of 2011, as compared to earnings per diluted share of \$0.79 for the second quarter of 2011. The Company’s results are being negatively impacted by a stronger dollar and weaker demand in several geographical areas such as Europe, China, Brazil and India. However, these negatives have been offset by additional new business, recent acquisitions, as well as the continuing manufacturing recovery of North America. Looking forward to the second half of 2012, the Company expects the global economic environment to remain challenging, with continued weakness in most regions. However, the Company remains confident that 2012 will be another good year. In addition, the Company’s strong balance sheet and cash flow generation continue to provide financial flexibility to invest in strategic growth initiatives, pay dividends to shareholders and grow through acquisitions.

CMS Discussion

The Company currently has numerous CMS contracts around the world. Under its traditional CMS approach, the Company effectively acts as an agent, and the revenues and costs from these sales are reported on a net sales or “pass-through” basis. Under an alternative structure for certain contracts, the contracts are structured differently in that the Company’s revenue received from the customer is a fee for products and services provided to the customer, which are indirectly related to the actual costs incurred. Profit is dependent on how well the Company controls product costs and achieves product conversions from other third-party suppliers’ products to its own products. As a result, under the alternative structure, the Company recognizes in reported revenue the gross revenue received from the CMS site customer and in cost of goods sold the third-party product purchases, which substantially offset each other until the Company achieves significant product conversions. This may result in a decrease in reported gross margin as a percentage of sales.

The Company has maintained a mix of CMS contracts with both the traditional product pass-through structure and the alternative structure including fixed price contracts that cover all services and products. Since the global economic downturn and its impact on the automotive sector, the Company has experienced shifts in customer requirements and business circumstances, but the Company’s offerings will continue to include both approaches to CMS.

Liquidity and Capital Resources

Quaker’s cash and cash equivalents increased to \$25.3 million at June 30, 2012 from \$16.9 million at December 31, 2011. The \$8.4 million increase was the net result of \$21.9 million of cash provided by operating activities, \$5.5 million of cash used in investing activities, \$7.5 million of cash used in financing activities and a \$0.5 million decrease from the effect of exchange rates on cash.

Net cash flows provided by operating activities were \$21.9 million in the first half of 2012 compared to \$0.2 million provided by operating activities in the first half of 2011. The Company’s improved working capital performance, lower pension plan contributions and increased net income were the primary drivers of the higher operating cash flow.

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Net cash flows used in investing activities were \$5.5 million in the first half of 2012 compared to \$6.3 million used in investing activities in the first half of 2011. Investments in property, plant and equipment were the primary uses of cash in each period. During 2012, the Company continues to invest in its Asia/Pacific facilities and information technology infrastructure, whereas, in the first half of 2011, the Company had additional investments in its Middletown, Ohio and Batavia, New York plants. The Company's investing cash flow for the first six months of 2011 was also impacted by post acquisition consideration paid to finalize its Summit Lubricants acquisition.

Net cash flows used by financing activities were \$7.5 million in the first half of 2012 compared to \$2.6 million provided by financing activities in the first half of 2011. The Company's second quarter 2011 offering of approximately 1.3 million shares of its common stock resulted in net cash proceeds of approximately \$48.1 million, which was used to pay down the Company's revolving credit line in 2011. For the first half of 2012, the Company was able to fund its working capital requirements as a result of strong net operating cash flow and, also, was able to repay a portion of its revolving credit line. For the first half of 2012, the Company recorded \$1.4 million of excess tax benefits in capital in excess of par on its Condensed Consolidated Balance Sheet and as a cash flow provided by financing activities in its Condensed Consolidated Statement of Cash Flows, compared to \$0.2 million of these benefits recorded during the first half of 2011. Higher dividend payments as a result of the Company's equity offering also affected the financing cash flow comparisons.

The Company's primary credit line is a \$175.0 million syndicated multicurrency credit agreement with Bank of America, N.A. (administrative agent) and certain other major financial institutions, which expires in 2014. At the Company's option, the principal amount available can be increased to \$225.0 million if the lenders agree to increase their commitments and the Company satisfies certain conditions. At June 30, 2012 and December 31, 2011, the Company had approximately \$27.1 million and \$28.5 million, respectively, outstanding under this facility. The Company's access to this credit is largely dependent on its consolidated leverage ratio covenant, which cannot exceed 3.50 to 1. At June 30, 2012 and December 31, 2011, the consolidated leverage ratio was below 1.0 to 1. The Company has entered into interest rate swaps with a combined notional value of \$15.0 million as of June 30, 2012, in order to fix the interest rate on that amount of its variable rate debt. Outstanding financial derivative instruments may expose the Company to credit loss in the event of nonperformance by the counterparties to the agreements. To manage credit risk, the Company limits its exposure to any single counterparty. However, the Company does not expect any of the counterparties to fail to meet their obligations.

At June 30, 2012, the Company's gross liability for uncertain tax positions, including interest and penalties, was \$16.1 million. The Company cannot determine a reliable estimate of the timing of cash flows by period related to its uncertain tax position liability. However, should the entire liability be paid, the amount of the payment may be reduced by up to \$10.4 million as a result of offsetting benefits in other tax jurisdictions.

The Company believes it is capable of supporting its operating requirements, including pension plan contributions, payments of dividends to shareholders, possible acquisitions and business opportunities, capital expenditures and possible resolution of contingencies, through internally generated funds supplemented with debt or equity as needed.

Operations

Comparison of the Second Quarter of 2012 with the Second Quarter of 2011

Net sales for the second quarter of 2012 were \$176.8 million, an increase of 5% from \$167.8 million in the second quarter of 2011. Product volumes, including acquisitions, were higher by 6%, selling price and mix increased revenues by 5%, while foreign exchange rates decreased revenues by 6%.

Gross profit increased by \$6.9 million, or 13%, from the second quarter of 2011. The second quarter of 2012 gross margin increased to 34.3% from 32.0% for the second quarter of 2011 and 33.7% for the first quarter of 2012. The increase in gross margin reflects the Company's ongoing initiative of restoring margins to more acceptable levels through price increases, as well as mix effects experienced in the quarter.

SG&A increased approximately \$4.8 million compared to the second quarter of 2011, primarily related to acquisitions and higher selling, inflationary and other costs on increased business activity, which were partially offset by decreases due to foreign exchange rate translation. SG&A in the second quarter of 2012 also includes charges of approximately \$0.06 per diluted share for certain bankruptcies in the U.S. and \$0.03 per diluted share related to CFO transition costs. As a result, the second quarter of 2012 SG&A, as a percentage of sales, increased to 24.7% compared to 23.1% for the second quarter of 2011 and 24.3% for the first quarter of 2012.

Other income decreased in the second quarter of 2012 primarily due to foreign exchange losses compared to foreign exchange gains in the second quarter of 2011. Interest expense in the second quarter of 2012 was comparable to the second quarter of 2011, however, decreases in interest expense due to lower average borrowings were partially offset by increases related to the accretion of certain acquisition-related liabilities.

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The Company's effective tax rate for the second quarter of 2012 was approximately 30.8%, compared to an effective tax rate of approximately 30.4% for the second quarter of 2011. Many external and internal factors impact this rate and the Company will continue to refine this rate, if necessary, as the year progresses. Please refer to the Comparison of the First Six Months of 2012 with the First Six Months of 2011 for further discussion.

Segment Reviews—Comparison of the Second Quarter of 2012 with the Second Quarter of 2011

Metalworking Process Chemicals

Metalworking Process Chemicals consists of industrial process fluids for various heavy industrial and manufacturing applications and represented approximately 93% of the Company's net sales in the second quarter of 2012. Net sales were up \$8.2 million, or 5%, compared to the second quarter of 2011. Foreign currency translation negatively impacted net sales by approximately 7%, primarily driven by the E.U. Euro to U.S. Dollar and Brazilian Real to U.S. Dollar exchange rates. The average E.U. Euro to U.S. Dollar exchange rate was 1.28 in the second quarter of 2012 compared to 1.44 in the second quarter of 2011. The average Brazilian Real to U.S. Dollar exchange rate was 0.51 in the second quarter of 2012 compared to 0.63 in the second quarter of 2011. Net sales were positively impacted by increases of 6% in North America (excluding acquisitions), 8% in Europe and 3% in Asia/Pacific, partially offset by a 1% decrease in South America, all on a constant currency basis. The Company's 2011 acquisition activity accounted for approximately 58% of this segment's sales increase in the second quarter of 2012, as compared to the second quarter of 2011, with the remaining increase in this segment's net sales due to selling and price mix changes. This segment's operating income increased approximately \$4.5 million in the second quarter of 2012, as compared to the second quarter of 2011, reflecting the Company's acquisition activity and the sales price increases noted above.

Coatings

The Company's coatings segment, which represented approximately 6% of the Company's net sales in the second quarter of 2012, contains products that provide temporary and permanent coatings for metal and concrete products and chemical milling maskants. Net sales for this segment were up approximately \$0.5 million, or 4%, in the second quarter of 2012, as compared to the second quarter of 2011, which was primarily due to increased sales in chemical milling maskants sold to the aerospace industry. This segment's operating income increased by \$0.4 million over the second quarter of 2011.

Other Chemical Products

Other Chemical Products, which represented approximately 1% of the Company's net sales in the second quarter of 2012, consists of sulfur removal products for industrial gas streams sold by the Company's Q2 Technologies joint venture. Net sales increased approximately \$0.3 million and operating income increased approximately \$0.1 million in the second quarter of 2012, as compared to the second quarter of 2011, due to increased activity in the oil and gas market.

Comparison of the First Six Months of 2012 with the First Six Months of 2011

Net sales for the first half of 2012 were \$354.4 million, an increase of 8% from \$327.7 million in the first half of 2011. Product volumes, including acquisitions, were higher by 5%, selling price and mix increased revenues by 7%, while foreign exchange rates decreased revenues by 4%.

Gross profit increased by \$13.9 million, or 13%, from the first half of 2011 with gross margin increasing to 34.0% from 32.5% for the first half of 2011, reflecting the Company's ongoing initiative of restoring margins and mix effects noted above.

SG&A increased approximately \$9.3 million compared to the first half of 2011, primarily related to acquisitions and higher selling, inflationary and other costs on increased business activity, which were partially offset by decreases due to foreign exchange rate translation. The first half of 2012 SG&A also reflects the bankruptcy charges and CFO transition costs, as discussed above. SG&A, as a percentage of sales, increased to 24.5% from 23.6% for the first half of 2011.

Other income decreased in the first half of 2012 primarily due to higher foreign exchange losses and lower third party license fees as compared to the first half of 2011. Interest expense was relatively flat compared to the first half of 2011, however, decreases in interest expense due to lower average borrowings were offset by increases related to the accretion of certain acquisition-related liabilities.

The Company's effective tax rate for the first half of 2012 was approximately 26.1%, compared to approximately 25.7% for the first half of 2011. The Company's low effective tax rates for the first halves of 2012 and 2011 include the expiration of applicable statutes of limitations for uncertain tax positions of approximately \$0.12 per diluted share and \$0.11 per diluted share, respectively. The most significant other items affecting the comparison of the 2012 and 2011 year-to-date effective tax rates were a higher utilization of foreign tax credits in 2011, which were previously not benefited, and lower withholding taxes on dividends in 2012. The Company has experienced and expects to further experience volatility in its effective tax rates due to the varying timing of tax audits and the expiration of applicable statutes of limitations as they relate to uncertain tax positions. However, the Company expects a higher effective tax rate for the full year of 2012 as compared to the rate for the first half of 2012. At the end of 2011, the Company had net U.S. deferred tax assets totaling \$17.7 million, excluding deferred tax assets related to additional minimum pension liabilities. The Company records valuation allowances when necessary to reduce its deferred tax assets to the amount that is more likely than not to be realized. The Company considers future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for a valuation allowance. However, in the event the Company were to determine that it would not be able to realize all or part of its net deferred tax assets in the future, an adjustment to the deferred tax assets would be a non-cash charge to income in the period such determination was made, which could have a material adverse impact on the Company's financial statements. The Company continues to closely monitor the factors affecting its net deferred tax assets and the assessment of valuation allowances.

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Equity in net income of associated companies decreased in the first half of 2012 as compared to the first half of 2011, primarily due to the Company's July 2011 purchase of the remaining ownership interest in its Mexican affiliate.

Segment Reviews—Comparison of the First Six Months of 2012 with the First Six Months of 2011

Metalworking Process Chemicals

Metalworking Process Chemicals consists of industrial process fluids for various heavy industrial and manufacturing applications and represented approximately 93% of the Company's net sales in the first half of 2012. Net sales were up \$23.5 million, or 8%, compared to the first half of 2011. Foreign currency translation negatively impacted net sales by approximately 4%, primarily driven by the E.U. Euro to U.S. Dollar and Brazilian Real to U.S. Dollar exchange rates. The average E.U. Euro to U.S. Dollar exchange rate was 1.30 in the first half of 2012 compared to 1.40 in the first half of 2011. The average Brazilian Real to U.S. Dollar exchange rate was 0.54 in the first half of 2012 compared to 0.61 in the first half of 2011. Net sales were positively impacted by increases of 12% in North America (excluding acquisitions), 4% in Europe and 3% in Asia/Pacific, partially offset by a 5% decrease in South America, all on a constant currency basis. The Company's 2011 acquisition activity accounted for approximately 55% of this segment's sales increase in the first half of 2012, as compared to the first half of 2011, with the remaining increase in this segment's net sales due to selling and price mix changes. This segment's operating income increased approximately \$8.5 million in the first half of 2012, as compared to the first half of 2011, reflecting the Company's acquisition activity and the sales price increases noted above.

Coatings

The Company's coatings segment, which represented approximately 6% of the Company's net sales in the first half of 2012, contains products that provide temporary and permanent coatings for metal and concrete products and chemical milling maskants. Net sales for this segment were up approximately \$2.5 million, or 13%, in the first half of 2012, as compared to the first half of 2011, which was primarily due to increased sales in chemical milling maskants sold to the aerospace industry. This segment's operating income increased by \$0.9 million over the first half of 2011, consistent with the sales increase noted above.

Other Chemical Products

Other Chemical Products, which represented approximately 1% of the Company's net sales in the first half of 2012, consists of sulfur removal products for industrial gas streams sold by the Company's Q2 Technologies joint venture. Net sales increased approximately \$0.8 million and operating income increased approximately \$0.2 million in the first half of 2012, as compared to the first half of 2011, due to increased activity in the oil and gas market.

Factors That May Affect Our Future Results

(Cautionary Statements Under the Private Securities Litigation Reform Act of 1995)

Certain information included in this report and other materials filed or to be filed by Quaker with the SEC (as well as information included in oral statements or other written statements made or to be made by us) contain or may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements can be identified by the fact that they do not relate strictly to historical or current facts. We have based these forward-looking statements on our current expectations about future events. These forward-looking statements include statements with respect to our beliefs, plans, objectives, goals, expectations, anticipations, intentions, financial condition, results of operations, future performance and business, including:

- statements relating to our business strategy;
- our current and future results and plans; and
- statements that include the words "may," "could," "should," "would," "believe," "expect," "anticipate," "estimate," "intend," "plan" or similar expressions.

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Such statements include information relating to current and future business activities, operational matters, capital spending, and financing sources. From time to time, forward-looking statements are also included in Quaker's other periodic reports on Forms 10-K, 10-Q and 8-K, as well as in press releases and other materials released to, or statements made to, the public.

Any or all of the forward-looking statements in this report and in any other public statements we make may turn out to be wrong. This can occur as a result of inaccurate assumptions or as a consequence of known or unknown risks and uncertainties. Many factors discussed in this report will be important in determining our future performance. Consequently, actual results may differ materially from those that might be anticipated from our forward-looking statements.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. However, any further disclosures made on related subjects in Quaker's subsequent reports on Forms 10-K, 10-Q and 8-K should be consulted. Our forward-looking statements are subject to risks, uncertainties and assumptions about us and our operations that are subject to change based on various important factors, some of which are beyond our control. A major risk is that the demand for the Company's products and services is largely derived from the demand for its customers' products, which subjects the Company to uncertainties related to downturns in a customer's business and unanticipated customer production shutdowns. Other major risks and uncertainties include, but are not limited to, significant increases in raw material costs, worldwide economic and political conditions, foreign currency fluctuations, and terrorist attacks such as those that occurred on September 11, 2001. Furthermore, the Company is subject to the same business cycles as those experienced by steel, automobile, aircraft, appliance, and durable goods manufacturers. These risks, uncertainties, and possible inaccurate assumptions relevant to our business could cause our actual results to differ materially from expected and historical results. Other factors beyond those discussed could also adversely affect us. Therefore, we caution you not to place undue reliance on our forward-looking statements. This discussion is provided as permitted by the Private Securities Litigation Reform Act of 1995.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We have evaluated the information required under this item that was disclosed in Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2011, and we believe there has been no material change to that information.

Item 4. Controls and Procedures.

Evaluation of disclosure controls and procedures. As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), our management, including our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period cover by this report. Based on that evaluation, our principal executive officer and our principal financial officer have concluded that as of the end of the period covered by this report our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) were effective.

Changes in internal control over financial reporting. As required by Rule 13a-15(d) under the Exchange Act, our management, including our principal executive officer and principal financial officer, has evaluated our internal control over financial reporting to determine whether any changes to our internal control over financial reporting occurred during the quarter ended June 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, no such changes to our internal control over financial reporting occurred during the quarter ended June 30, 2012.

**PART II
OTHER INFORMATION**

Items 1A, 3, 4 and 5 of Part II are inapplicable and have been omitted.

Item 1. Legal Proceedings

Incorporated by reference is the information in Note 13 of the Notes to the Condensed Consolidated Financial Statements in Part I, Item 1 of this Report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The following table sets forth information concerning shares of the Company's common stock acquired by the Company during the period covered by this report, all of which were acquired from employees in payment of the exercise price of employee stock options exercised, or for the payment of taxes upon exercise of employee stock options or upon the vesting of restricted stock, during the period.

<u>Period</u>	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (3)	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (3)
	(1)	(2)	(3)	(3)
April 1 - April 30	312	\$ 38.76	—	252,600
May 1 - May 31	3,380	\$ 45.13	—	252,600
June 1 - June 30	2,512	\$ 44.73	—	252,600
Total	<u>6,204</u>	<u>\$ 44.65</u>	<u>—</u>	<u>252,600</u>

- (1) All of the 6,204 shares acquired by the Company during the period covered by this report were acquired from employees upon their surrender of previously owned shares in payment of the exercise price of employee stock options exercised, or for the payment of taxes upon exercise of employee stock options or vesting of restricted stock.
- (2) The price per share represented the closing price of the Company's common stock on the date of vesting or stock option exercise, as specified by the plan pursuant to which the restricted stock or the employee stock option was granted.
- (3) On February 15, 1995, the Board of Directors of the Company authorized a share repurchase program authorizing the repurchase of up to 500,000 shares of Quaker common stock, and, on January 26, 2005, the Board authorized the repurchase of up to an additional 225,000 shares. Under the 1995 action of the Board, 27,600 shares may yet be purchased. Under the 2005 action of the Board, none of the shares authorized have been purchased and, accordingly, all of those shares may yet be purchased. Neither of the share repurchase authorizations has an expiration date.

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Item 6. Exhibits

(a) Exhibits

- 10.1 – [Memorandum of Employment by and between Registrant and Margaret M. Loebel, dated May 22, 2012, effective June 29, 2012.](#) *
- 10.2 – [Change in Control Agreement by and between Registrant and Margaret M. Loebel, dated May 22, 2012, effective June 29, 2012.](#)*
- 31.1 – [Certification of Chief Executive Officer of the Company pursuant to Rule 13a-14\(a\) of the Securities Exchange Act of 1934](#)
- 31.2 – [Certification of Chief Financial Officer of the Company pursuant to Rule 13a-14\(a\) of the Securities Exchange Act of 1934](#)
- 32.1 – [Certification of Michael F. Barry Pursuant to 18 U.S. C. Section 1350](#)
- 32.2 – [Certification of Margaret M. Loebel Pursuant to 18 U.S. C. Section 1350](#)
- 101.INS ** – XBRL Instance Document
- 101.SCH ** – XBRL Extension Schema Document
- 101.CAL ** – XBRL Calculation Linkbase Document
- 101.DEF ** – XBRL Definition Linkbase Document
- 101.LAB ** – XBRL Label Linkbase Document
- 101.PRE ** – XBRL Presentation Linkbase Document

* This exhibit is a management contract or compensation plan or arrangement required to be filed as an exhibit.

** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 and are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under these Sections.

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

QUAKER CHEMICAL CORPORATION
(Registrant)

/s/ Margaret M. Loebel

Margaret M. Loebel, officer duly authorized to sign this report, Vice President, Chief Financial Officer and Treasurer

Date: July 30, 2012



MEMORANDUM OF EMPLOYMENT

May 22, 2012

NAME: Margaret Loebel
ADDRESS: 2538 Lakeshore Drive
Fennville, MI 49408

The parties to this Memorandum of Employment (“Agreement”) are **MARGARET LOEBL** and Quaker Chemical Corporation, a Pennsylvania corporation (“Quaker”).

WHEREAS, Quaker desires to employ you and you desire to be employed by Quaker;

WHEREAS, both parties wish to define and clarify all terms and conditions of the employment relationship; and

WHEREAS, both parties want to avoid any disputes over any terms and conditions of the employment relationship;

NOW THEREFORE in consideration of the mutual promises and covenants herein contained and intending to be legally bound hereby the parties hereto agree as follows:

1. Duties

Effective as of your start date, Quaker agrees to employ you and you agree to serve as Quaker’s Vice President, Chief Financial Officer & Treasurer which includes the responsibilities in line with that of a public company Chief Financial Officer, reporting to Michael F. Barry or his replacement as Chief Executive Officer. You shall perform all duties consistent with such position as well as any other duties that are assigned to you from time to time by Quaker’s Chief Executive Officer. You agree that during the term of your employment with Quaker to devote your knowledge, skill, and working time solely and exclusively to the business and interests of Quaker and its subsidiaries; provided, however, after one year of employment you are eligible to accept a position as a director on a board of a for-profit public company.

Quaker Chemical Corporation

One Quaker Park, 901 Hector Street, Conshohocken, PA 19428-0809 U.S.A. www.quakerchem.com

T 610.832.4000 F 610.832.8652

2. Compensation

Your base salary will be determined from time to time by the Compensation / Management Development Committee of the Board of Directors, in consultation with the Chairman, Chief Executive Officer & President. In addition, you will be entitled to participate, to the extent eligible, in any of Quaker's annual and long term incentive plans, retirement savings plan (401k plan), stock purchase plan, and will be entitled to vacations, paid holidays, and medical, dental, and other benefits as are made generally available by Quaker to its full-time employees. Your salary at any time during your employment with Quaker will not be reduced by Quaker without your prior written consent. Neither your annual incentive plan percentage of 70% (38.5% at target) nor your long term incentive value of \$133,000.00 will be reduced by Quaker at any time during your employment with Quaker without your prior written consent.

3. Term of Employment

Your employment with Quaker may be terminated on thirty (30) days' written notice by either party, with or without cause or reason whatsoever. Within thirty (30) days after termination of your employment, you will be given an accounting of all monies due you.

4. Covenant Not to Disclose

You acknowledge that the identity of Quaker's (and any of Quaker's affiliates') customers, the requirements of such customers, pricing and payment terms quoted and charged to such customers, the identity of Quaker's suppliers and terms of supply (and the suppliers and related terms of supply of any of Quaker's customers for which management services are being provided), information concerning the method and conduct of Quaker's (and any affiliate's) business such as formulae, formulation information, application technology, manufacturing information, marketing information, strategic and marketing plans, financial information, financial statements (audited and unaudited), budgets, corporate practices and procedures, research and development efforts, and laboratory test methods and all of Quaker's (and its affiliates') manuals, documents, notes, letters, records, and computer programs are Quaker's trade secrets ("Trade Secrets") and are Quaker's (and/or any of its affiliates', as the case may be) sole and exclusive property. You agree that at no time during or following your employment with Quaker will you appropriate for your own use, divulge or pass on, directly or through any other individual or entity or to any third party, any Quaker Trade Secrets. Upon termination of your employment with Quaker and prior to final payment of all monies due to you under Paragraph 2 or at any other time upon Quaker's request, you agree to surrender immediately to Quaker any and all materials in your possession or control which include or contain any Quaker Trade Secrets.

5. Covenant Not to Compete

In consideration of your employment with Quaker and the training you are to receive from Quaker, you agree that during your employment with Quaker and for a period of one (1) year thereafter, regardless of the reason for your termination, you will not:

a. directly or indirectly, together or separately or with any third party, whether as an employee, individual proprietor, partner, stockholder, officer, director, or investor, or in a joint venture or any other capacity whatsoever, actively engage in business or assist anyone or any firm in business as a manufacturer, seller, or distributor of chemical specialty products which are the same, like, similar to, or which compete with Quaker (or any of its affiliates') products or services; and

b. at the Chemical Management Services sites to which you are, have, or will specifically ever be assigned in the future, directly or indirectly, together or separately or with any third party, whether as an employee, individual proprietor, partner, stockholder, officer, director, or investor, or in a joint venture or any other capacity whatsoever, actively engage in business or assist anyone or any firm in business as a provider of chemical management services which are the same, like, similar to, or which compete with Quaker (or any of its affiliates') services; and

c. recruit or solicit any Quaker employee or otherwise induce such employee to leave Quaker's employ, or to become an employee or otherwise be associated with you or any firm, corporation, business, or other entity with which you are or may become associated; and

d. solicit or induce any of Quaker's suppliers of products and/or services (or a supplier of products and/or services of a customer who is being provided or solicited for the provision of chemical management services by Quaker) to terminate or alter its contractual relationship with Quaker (and/or any such customer).

The parties consider these restrictions reasonable, including the period of time during which the restrictions are effective. However, if any restriction or the period of time specified should be found to be unreasonable in any court proceeding, then such restriction shall be modified or the period of time shall be shortened as is found to be reasonable so that the foregoing covenant not to compete may be enforced. You agree that in the event of a breach or threatened breach by you of the provisions of the restrictive covenants contained in Paragraph 4 or in this Paragraph 5, Quaker will suffer irreparable harm, and monetary damages may not be an adequate remedy. Therefore, if any breach occurs, or is threatened, in addition to all other remedies available to Quaker, at law or in equity, Quaker shall be entitled as a matter of right to specific performance of the covenants contained herein by way of temporary or permanent injunctive relief. In the event of any breach of the restrictive covenant contained in this Paragraph 5, the term of the restrictive covenant shall be extended by a period of time equal to that period beginning on the date such violation commenced and ending when the activities constituting such violation cease.

6. Contractual Restrictions

You represent and warrant to Quaker that: (a) there are no restrictions, agreements, or understandings to which you are a party that would prevent or make unlawful your employment with Quaker and (b) your employment by Quaker shall not constitute a breach of any contract, agreement, or understanding, oral or written, to which you are a party or by which you are bound.

7. Inventions

All improvements, modifications, formulations, processes, discoveries or inventions ("Inventions"), whether or not patentable, which were originated, conceived or developed by you solely or jointly with others (a) during your working hours or at Quaker's expense or at Quaker's premises or at a customer's premises or (b) during your employment with Quaker and additionally for a period of one year thereafter, and which relate to (i) Quaker's business or (ii) any research, products, processes, devices, or machines under actual or anticipated development or investigation by Quaker at the earlier of (i) that time or (ii) as the date of termination of employment, shall be Quaker's sole property. You shall promptly disclose to Quaker all Inventions that you conceive or become aware of at any time during your employment with Quaker and shall keep complete, accurate, and authentic notes, data and records of all Inventions and of all work done by you solely or jointly with others, in the manner directed by Quaker. You hereby transfer and assign to Quaker all of your right, title, and interest in and to any and all Inventions which may be conceived or developed by you solely or jointly with others during your employment with Quaker. You shall assist Quaker in applying, obtaining, and enforcing any United States Letters Patent and Foreign Letters Patent on any such Inventions and to take such other actions as may be necessary or desirable to protect Quaker's interests therein. Upon request, you shall execute any and all applications, assignments, or other documents that Quaker deems necessary and desirable for such purposes. You have attached hereto a list of unpatented inventions that you have made or conceived prior to your employment with Quaker, and it is agreed that those inventions shall be excluded from the terms of this Agreement.

8. Termination

Quaker, in its sole discretion, may terminate your employment at any time and without notice for any reason, including Cause. If you incur a Separation from Service by action of Quaker for any reason other than Cause, death, disability or normal retirement age, Quaker agrees to:

a. Provide you with reasonable outplacement assistance, either by providing the services in-kind, or by reimbursing reasonable expenses actually incurred by you in connection with your Separation from Service. The outplacement services must be provided during the one-year period following your Separation from Service. If any expenses are to be reimbursed, you must request the reimbursement within eighteen months of your Separation from Service and reimbursement will be made within 30 days of your request.

b. Pay you one year's severance in twenty-four semi-monthly installments commencing on the Payment Date and continuing on Quaker's normal semi-monthly payroll dates each month thereafter, each of which is equal to your semi-monthly base salary at the time of your Separation from Service, provided you sign (and thereafter do not timely revoke) a Release within 45 days of the later of the date you receive the Release or your Separation from Service. Quaker will provide continuation of medical and dental coverage's at Quaker's cost for one year.

"Separation from Service" means your separation from service with Quaker and its affiliates within the meaning of Treas. Reg. §1.409A-1(h) or any successor thereto.

"Cause" means your employment with Quaker has been terminated by reason of (i) your willful and material breach of this Memorandum of Employment, (ii) dishonesty, fraud, willful malfeasance, gross negligence, or other gross misconduct, in each case relating to the performance of your duties hereunder which is materially injurious to Quaker, or (iii) conviction of or plea of guilty or nolo contendere to a felony.

"Payment Date" means (x) the 60th day after your Separation from Service or (y) if you are a specified employee (as defined in Treas. Reg. §1.409A-1(i)) as of the date of your Separation from Service, and the severance described in subsection (b) is deferred compensation subject to section 409A of the Code, the first business day of the seventh month following the month in which your Separation from Service occurs. If the Payment Date is described in clause (y), the amount paid on the Payment Date shall include all monthly installments that would have been paid earlier had clause (y) not been applicable, plus interest at the Wall Street Journal Prime Rate published in the Wall Street Journal on the date of your Separation from Service (or the previous business day if such day is not a business day), for the period from the date payment would have been made had clause (y) not been applicable through the date payment is made.

"Release" means a release (in a form satisfactory to Quaker) of any and all claims against Quaker and all related parties with respect to all matters arising out of your employment with Quaker, or the termination thereof (other than for claims for any entitlements under the terms of this Memorandum of Employment or any plans or programs of Quaker under which you have accrued a benefit) that Quaker provides to you no later than ten days after your Separation from Service. Such Release will not modify any of your rights to indemnification or director's and officer's insurance coverage as such are available to you based on your position.

9. Non-Disparagement

The parties agree not to make any statements, written or verbal, or cause or encourage others to make any statements, written or verbal, that defame, disparage or in any way criticize the personal or business reputation, practices, or conduct of the other party or any of its employees, directors, and officers. The Parties acknowledge and agree that this prohibition extends to statements, written or verbal, made to anyone, including but not limited to, the news media, investors, potential investors, any board of directors or advisory board or directors, industry analysts, competitors, strategic partners, vendors, employees (past and present), and clients.

10. Miscellaneous

This Agreement constitutes the entire integrated agreement concerning the subjects covered herein. In case any provision of this Agreement shall be invalid, illegal, or otherwise unenforceable, the validity, legality, and enforceability of the remaining provisions shall not thereby be affected or impaired. You may not assign any of your rights or obligations under this Agreement without Quaker's prior written consent. This Agreement shall be governed by, and construed in accordance with, the laws of the Commonwealth of Pennsylvania without regard to any conflict of laws. This Agreement shall be binding upon you, your heirs, executors, and administrators and shall inure to the benefit of Quaker as well as its successors and assigns.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement the day and year first above written.

ATTEST:

QUAKER CHEMICAL CORPORATION

/s/ Irene M. Kisleiko

/s/ Michael F. Barry

WITNESS:

/s/ Mary Amanda Laman

/s/ Margaret M. Loebel
Margaret Loebel

ADDENDUM 1

Base Salary: Your salary will be payable on a semi-monthly basis at the rate of \$13,750.00, which is annualized at \$330,000.00. You will be eligible for your next salary increase in 2013.

Annual and Long-Term Bonuses: For your position, you are eligible to participate in the Global Annual Incentive Plan (“GAIP”). Your annual cash bonus is up to a maximum of 70% (target of 38.5%) of your base salary. This bonus is adjusted for annual company performance. For 2012, you will receive a minimum guaranteed GAIP payment of \$127,050.00.

You will be eligible to participate in the Long Term Incentive Plan (“LTIP”) as a Level I participant. For the 2012-2014 LTIP cycle, you will be granted an even mix of time-based restricted stock, stock options, and a cash award. The total value, at a target level, is approximately \$133,000. The exact number of restricted stock, options, and target cash amount will be determined based on the Quaker stock close price on your first day of employment. The exact awards will be determined by performance over the three-year period based on relative total shareholder returns against a pre-determined peer group.

On or about your start date, you will be awarded 5,000 restricted shares of Quaker common stock. These will vest in increments of 1,000 shares over a five-year period. The first 1,000 shares will vest one year from the award date, and the others will vest in equal increments on each annual anniversary thereafter. You must be actively employed by Quaker on each vesting date to receive any of the respective vested shares.

All incentive compensation awards are made at the Company’s discretion, are subject to change, and require the approval of the Compensation Committee.

Relocation: You will receive, as soon as administratively possible after your start date, a lump sum payment of \$75,000.00 to cover relocation expenses. This payment is subject to all normal withholdings. In addition, you will be reimbursed for temporary housing, up to \$5,000.00 per month, for a period of two months. You will also be reimbursed for up to three (3) house hunting trips (from the greater Fennville, Michigan area to the greater Philadelphia area), covering reasonable coach airfare, hotel, and other miscellaneous expenses. If you should voluntarily leave Quaker within one year of receipt, all financial relocation assistance must be reimbursed to Quaker.

In the alternative,

You will receive, as soon as administratively possible after your start date, a lump sum payment of \$100,000.00 to cover all relocation expenses. This payment is subject to all normal withholdings. If you should voluntarily leave Quaker within one year of receipt, all financial relocation assistance must be reimbursed to Quaker.

Other Items: You will be allowed 12 months severance if you are asked to leave Quaker for other than Cause as defined in the Memorandum of Employment.

Financial Planning: You will be eligible to be reimbursed for up to \$3,500.00 per calendar year for expenses incurred for financial planning and/or tax preparation.

Benefits: Quaker offers a Flexible Benefits Program. You have the opportunity to choose from a variety of options creating a customized benefits package. The following benefits are part of the program. In each of these areas, you are offered a range of options so you may choose the ones that make the most sense for your personal situation.

- Medical
- Dental
- Life & AD&D Insurance
- Long-term Disability
- Health Care and Dependent Care Flexible Spending Accounts (FSAs)

In addition to these flexible benefits, Quaker also offers the following benefit plans:

- Retirement Savings Plan (401K)

Vacation Holidays: In 2012, you will be eligible for 10 days vacation. Beginning in 2013, you will begin to accrue 2 days per month up to 20 days per year.

You will start to accrue, on a monthly basis, up to an additional 5 days of vacation per calendar year when you meet the next service level as defined in the plan, and will remain at the level of 25 days per year until reaching the next service level. For example, in 2019 you will start to accrue up to an additional 5 days of vacation per calendar year.

In addition you are eligible for 11½ paid holidays.

CHANGE IN CONTROL AGREEMENT

THIS AGREEMENT, dated May 22, 2012, between QUAKER CHEMICAL CORPORATION, a Pennsylvania corporation (the "Company"), and Margaret Loeb1 (the "Manager"),

WITNESSETH THAT

WHEREAS, the Board of Directors of the Company has determined that it is in the best interests of the Company and its shareholders that the Company and its subsidiaries be able to attract, retain, and motivate highly qualified management personnel and, in particular, that they be assured of continuity of management in the event of any actual or threatened change in control of the Company; and

WHEREAS, the Board of Directors of the Company believes that the execution by the Company of change in control agreements with certain management personnel, including the Manager, is an important factor in achieving this desired end;

NOW, THEREFORE, IN CONSIDERATION of the mutual obligations and agreements contained herein and intending to be legally bound hereby, the Manager and the Company agree that the Change in Control Agreement is amended and restated, as follows:

1. Term of Agreement.

This Agreement shall become effective on your start date with the Company (the "Effective Date"), and shall continue in effect through December 31, 2013, provided, however, that the term of this Agreement shall automatically be extended for one additional year beyond December 31, 2013, and successive one-year periods thereafter, unless, not later than eighteen (18) months preceding the calendar year for which the term would otherwise automatically extend, the Company shall have given written notice to the Manager of intention not to extend this Agreement for an additional year, in which event this Agreement shall continue in effect until December 31 of the calendar year immediately preceding the calendar year for which the term would have otherwise automatically extended. Notwithstanding any such notice not to extend, if a Change in Control (as defined in Section 2) occurs during the original or extended term of this Agreement, this Agreement shall remain in effect after a Change in Control until all obligations of the parties hereto under this Agreement shall have been satisfied.

2. Change in Control.

As used in this Agreement, a "Change in Control" of the Company shall be deemed to have occurred if:

(a) Any person (a "Person"), as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") (other than (i) the Company and/or its wholly owned subsidiaries; (ii) any ESOP or other employee benefit plan of the Company and any trustee or other fiduciary in such capacity holding securities under such plan; (iii) any corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company; or (iv) any other Person who, within the one year prior to the event which would otherwise be a Change in Control, is an executive officer of the Company or any group of Persons of which he voluntarily is a part), is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 30% or more of the combined voting power of the Company's then outstanding securities or such lesser percentage of voting power, but not less than 15%, as determined by the members of the Board of Directors of the Company who are independent directors (as defined in the New York Stock Exchange, Inc. Listed Company Manual); provided, however, that a Change in Control shall not be deemed to have occurred under the provisions of this subsection (a) by reason of the beneficial ownership of voting securities by members of the Benoliel family (as defined below) unless and until the beneficial ownership of all members of the Benoliel family (including any other individuals or entities who or which, together with any member or members of the Benoliel family, are deemed under Sections 13(d) or 14(d) of the Exchange Act to constitute a single Person) exceeds 50% of the combined voting power of the Company's then outstanding securities;

(b) During any two-year period after the Effective Date, Directors of the Company in office at the beginning of such period plus any new Director (other than a Director designated by a Person who has entered into an agreement with the Company to effect a transaction within the purview of subsections (a) or (c)) whose election by the Board of Directors of the Company or whose nomination for election by the Company's shareholders was approved by a vote of at least two-thirds of the Directors then still in office who either were Directors at the beginning of the period or whose election or nomination for election was previously so approved shall cease for any reason to constitute at least a majority of the Board;

(c) The consummation of (i) any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which the Company's voting common shares (the "Common Shares") would be converted into cash, securities, and/or other property, other than a merger of the Company in which holders of Common Shares immediately prior to the merger have the same proportionate ownership of voting shares of the surviving corporation immediately after the merger as they had in the Common Shares immediately before; or (ii) any sale, lease, exchange, or other transfer (in one transaction or a series of related transactions) of all or substantially all the assets or earning power of the Company; or

(d) The Company's shareholders or the Company's Board of Directors shall approve the liquidation or dissolution of the Company.

As used in this Agreement, "members of the Benoliel family" shall mean Peter A. Benoliel, his wife and children and their respective spouses and children, and all trusts created by or for the benefit of any of them.

3. Entitlement to Change in Control Benefits; Certain Definitions.

The Manager shall be entitled to the benefits provided in this Agreement in the event the Manager has a Separation from Service under the circumstances described in (a) below (a "Covered Termination"), provided the Manager executes and does not revoke a Release (as defined below), if any, provided by the Company.

(a) A Covered Termination shall have occurred in the event the Manager's employment with the Company or its affiliates is terminated within two (2) years following a Change in Control by:

- (i) The Company or its affiliates without Cause (as defined below); or
- (ii) Resignation of the Manager for Good Reason (as defined below).

The Manager shall have no rights to any payments or benefits under this Agreement in the event the Manager's employment with the Company and its affiliates is terminated (i) as a result of death or Disability (as defined below), or (ii) by the Company or its affiliates for Cause. In the event the Manager's employment is terminated for any reason prior to a Change in Control, the Manager shall have no rights to any payments or benefits under this Agreement and, after any such termination, this Agreement shall be of no further force or effect.

"Cause" shall mean (i) the Manager's willful and material breach of the employment agreement, if any, between the Manager and the Company (after having received notice thereof and a reasonable opportunity to cure or correct), (ii) dishonesty, fraud, willful malfeasance, gross negligence, or other gross misconduct, in each case relating to the performance of the Manager's employment with the Company or its affiliates which is materially injurious to the Company, or (iii) conviction of or plea of guilty to a felony, such Cause to be determined, in each case, by a resolution approved by at least two-thirds of the Directors of the Company after having afforded the Manager a reasonable opportunity to appear before the Board of Directors of the Company and present his position.

"Code" shall mean the Internal Revenue Code of 1986, as amended, together with any applicable regulations thereunder.

"Disability" shall mean covered total and permanent disability as defined in the long-term disability plan maintained by the Company for employees generally or, if the Company does not maintain such a plan, the long-term disability plan most recently maintained by the Company for employees generally.

"Good Reason" shall mean any of the following actions without the Manager's consent, other than due to the Manager's death or Disability: (i) any reduction in the Manager's base salary from that provided immediately before the Covered Termination or, if higher, immediately before the Change in Control; (ii) any reduction in the Manager's bonus opportunity (including cash and noncash incentives) or increase in the goals or standards required to accrue that opportunity, as compared to the opportunity and goals or standards in effect immediately before the Change in Control; (iii) a material adverse change in the nature or scope of the Manager's authorities, powers, functions, or duties from those in effect immediately before the Change in Control; (iv) a reduction in the Manager's benefits from those provided immediately before the Change in Control, disregarding any reduction under a plan or program covering employees generally that applies to all employees covered by the plan or program; or (v) the Manager being required to accept a primary employment location which is more than twenty-five (25) miles from the location at which he primarily was employed during the ninety (90) day period prior to a Change in Control.

“Payment Date” shall mean the 60th day after the Manager’s Separation from Service, subject to Section 9.

“Release” shall mean a release (in a form satisfactory to the Company) of any and all claims against the Company and all related parties with respect to all matters arising out of the Manager’s employment by the Company and its affiliates, or the termination thereof (other than claims for any entitlements under the terms of this Agreement, under any employment agreement between the Manager and the Company, or under any plans or programs of the Company under which the Manager has accrued a benefit) that the Company provides to the Manager no later than three days after the date of the Manager’s Covered Termination. Notwithstanding any provision of this Agreement to the contrary, if the Company provides a Release to the Manager, the Manager shall not be entitled to any payments or benefits under this Agreement unless the Manager executes the Release within 45 days of the later of the date he receives the Release or the date of his Covered Termination, and the Manager does not revoke the Release. Such Release will not modify any of your rights to indemnification or director’s and officer’s insurance coverage as such are available to you based on your position.

“Separation from Service” shall mean the Manager’s separation from service with the Company and its affiliates within the meaning of Treas. Reg. §1.409A-1(h) or any successor thereto.

“Specified Employee” shall mean the Manager if he is a specified employee as defined in Section 409A of the Code as of the date of his Separation from Service.

4. Severance Allowance.

(a) Amount of Severance Allowance. In the event of a Covered Termination, the Company shall pay or cause to be paid to the Manager in cash a severance allowance (the “Severance Allowance”) equal to 1.5 (one and one-half) times the sum of the amounts determined in accordance with the following paragraphs (i) and (ii):

- (i) An amount equivalent to the highest annualized base salary which the Manager was entitled to receive from the Company and its subsidiaries at any time during his employment prior to the Covered Termination; and
- (ii) An amount equal to the average of the aggregate annual amounts paid to the Manager in the Applicable Three-Year Period under all applicable annual incentive compensation plans maintained by the Company and its affiliates (other than compensation relating to relocation expense; the grant, exercise, or settlement of stock options, restricted stock or performance incentive units or the sale or other disposition of shares received upon exercise or settlement of such awards); provided, however, that (x) in determining the average amount paid under the annual incentive plan during the Applicable Three-Year Period there shall be excluded any year in which no amounts were paid to the Manager under that plan; and (y) there shall be excluded from such calculation any amounts paid to the Manager under any such incentive compensation plan as a result of the acceleration of such payments under such plan due to termination of the plan, a Change in Control, or a similar occurrence. The Applicable Three-Year Period shall be (A) if the Manager has received an annual incentive compensation plan payment in the calendar year of his Covered Termination, the calendar year in which such Covered Termination occurs and the two preceding calendar years, or (B) in any other case, the three calendar years preceding the calendar year in which the Manager’s Covered Termination occurs; provided, however, that the Applicable Three-Year Period shall be determined by substituting “Change In Control” for “Covered Termination” if such substitution results in a higher amount under this subsection (ii).

In no event shall any retention bonus or change in control or success fee be taken into account when determining the amount of the Severance Allowance hereunder.

(b) Payment of Severance Allowance. The Severance Allowance shall be paid to the Manager in a lump sum on the Payment Date if the applicable Change in Control is also a change in control event as defined in Treas. Reg. §1.409A-3(i)(5) (or any successor thereto). In any other case, the Severance Allowance shall be paid in eighteen monthly installments commencing on the Payment Date, each of which is equal to one eighteenth (1/18th) of the amount of the Severance Allowance determined under Section 4(a), which are treated as a right to a series of separate payments for purposes of Section 409A of the Code.

5. Outplacement and Welfare Benefits.

(a) Outplacement. Subject to Section 6, for a period of one year following a Covered Termination of the Manager, the Company shall make or cause to be made available to the Manager, at its expense, outplacement counseling and other outplacement services comparable to those available for the Company's senior managers prior to the Change in Control.

(b) Welfare Benefits. Subject to Section 6, for a period eighteen months following a Covered Termination of the Manager, the Manager and the Manager's dependents shall be entitled to participate in the Company's life, medical, and dental insurance plans at the Company's expense, in accordance with the terms of such plans at the time of such Covered Termination as if the Manager were still employed by the Company or its affiliates under this Agreement. If, however, life, medical, or dental insurance benefits are not paid or provided under any such plan to the Manager or his dependents because the Manager is no longer an employee of the Company or its subsidiaries, the Company itself shall, to the extent necessary, pay or otherwise provide for such benefits to the Manager and his dependents.

6. Effect of Other Employment.

In the event the Manager becomes employed (as defined below) during the period with respect to which benefits are continuing pursuant to Section 5: (a) the Manager shall notify the Company not later than the day such employment commences; and (b) the benefits provided for in Section 5 shall terminate as of the date of such employment. For the purposes of this Section 6, the Manager shall be deemed to have become “employed” by another entity or person only if the Manager becomes essentially a full-time employee of a person or an entity (not more than 30% of which is owned by the Manager and/or members of his family); and the Manager’s “family” shall mean his parents, his siblings and their spouses, his children and their spouses, and the Manager’s spouse and her parents and siblings. Nothing herein shall relieve the Company of its obligations for compensation or benefits accrued up to the time of termination provided for herein.

7. Other Payments and Benefits.

On the Payment Date, the Company shall pay or cause to be paid to the Manager the aggregate of: (a) the Manager’s earned but unpaid base salary through the Covered Termination at the rate in effect on the date of the Covered Termination, or if higher, at the rate in effect at any time during the 90-day period preceding the Change in Control; (b) any unpaid bonus or annual incentive payable to the Manager in respect of the calendar year ending prior to the Covered Termination; (c) the pro rata portion of any and all unpaid bonuses and annual incentive awards for the calendar year in which the Covered Termination occurs, said pro rata portion to be calculated on the fractional portion (the numerator of said fraction being the number of days between January 1 and the date of the Covered Termination, and the denominator of which is 365) of the target bonuses or annual incentive awards for such calendar year; and (d) the pro rata portion of any and all awards under the Company’s long term incentive plan for the performance period(s) in which the Covered Termination occurs, said pro rata portion to be calculated on the fractional portion (the numerator of said fraction being the number of days between the first day of the applicable performance period and the date of the Covered Termination, and the denominator of which is the total number of days in the applicable performance period) of the amount of the award which would have been payable had (i) the Covered Termination not occurred, and (ii) the target level of performance been achieved for the applicable performance period. The Manager shall be entitled to receive any other payments or benefits that the Manager is entitled to pursuant to the express terms of any compensation or benefit plan or arrangement of the Company or any of its affiliates; provided that: (x) the Severance Allowance (i) shall be in lieu of any severance payments to which the Manager might otherwise be entitled under the terms of any severance pay plan, policy, or arrangement maintained by the Company or the employment agreement, if any, between the Manager and the Company, and (ii) shall be credited against any severance payments to which the Manager may be entitled by statute; (y) any annual incentive described in subsection (b) or (c) shall decrease (or shall be decreased by), but not below zero, the amount of the annual incentive payable (or paid) with respect to the same calendar year under the Company’s annual incentive plan (currently the 2001 Global Annual Incentive Plan); and (z) any amount described in subsection (d) shall decrease (or shall be decreased by), but not below zero, the amount of the analogous performance award payable (or paid) with respect to the same performance period(s) under the Company’s long term incentive plan(s) (currently the 2006 Long-Term Performance Incentive Plan).

8. Death After Covered Termination.

In the event the Manager dies after a Covered Termination occurs, (a) any payments due to the Manager under Section 4 and the first sentence of Section 7 and not paid prior to the Manager's death shall be made to the person or persons who may be designated by the Manager in writing or, in the event he fails to so designate, to the Manager's personal representatives, and (b) the Manager's spouse and dependents shall be eligible for the welfare benefits described in Section 5(b). Payments pursuant to subsection (a) shall be made on the later of (i) the date payment would have been made to the Manager without regard to Section 9, or (ii) the date of the Manager's death.

9. Certain Section 409A Rules.

(a) Specified Employee. Notwithstanding any provision of this Agreement to the contrary, if the Manager is a Specified Employee, any payment or benefit under this Agreement that constitutes deferred compensation subject to Section 409A of the Code and for which the payment event is Separation from Service shall not be made or provided before the date that is six months after the date of the Manager's Separation from Service. Any payment or benefit that is delayed pursuant to this Section 9 shall be made or provided on the first business day of the seventh month following the month in which the Manager's Separation from Service occurs. With respect to any cash payment delayed pursuant to this Section 9, the first payment shall include interest, at the Wall Street Journal Prime Rate published in the Wall Street Journal on the date of the Manager's Covered Termination (or the previous business day if such date is not a business day), for the period from the date the payment would have been made but for this Section 9 through the date payment is made. The provisions of this Section 9 shall apply only to the extent required to avoid the Manager's incurrence of any additional tax or interest under Section 409A of the Code.

(b) Reimbursement and In-Kind Benefits. Notwithstanding any provision of this Agreement to the contrary, with respect to in-kind benefits provided or expenses eligible for reimbursement under this Agreement which are subject to Section 409A of the Code, (i) the benefits provided or the amount of expenses eligible for reimbursement during any calendar year shall not affect the benefits provided or expenses eligible for reimbursement in any other calendar year, except as otherwise provided in Treas. Reg. §1.409A-3(i)(1)(iv)(B), and (ii) the reimbursement of an eligible expense shall be made as soon as practicable after the Manager requests such reimbursement (subject to Section 9(a)), but not later than the December 31 following the calendar year in which the expense was incurred.

(c) Interpretation and Construction. This Agreement is intended to comply with Section 409A of the Code and shall be administered, interpreted and construed in accordance therewith to avoid the imposition of additional tax under Section 409A of the Code.

10. Confidentiality and Noncompetition.

(a) Confidential Information. The Manager acknowledges that information concerning the method and conduct of the Company's (and any affiliate's) business, including, without limitation, strategic and marketing plans, budgets, corporate practices and procedures, financial statements, customer and supplier information, formulae, formulation information, application technology, manufacturing information, and laboratory test methods and all of the Company's (and any affiliate's) manuals, documents, notes, letters, records, and computer programs ("Proprietary Business Information"), are the sole and exclusive property of the Company (and/or the Company's affiliates, as the case may be) and are likely to constitute, contain or reveal trade secrets ("Trade Secrets") of the Company (and/or the Company's affiliate's, as the case may be). The term "Trade Secrets" as used herein does not include Proprietary Business Information that is known or becomes known to the public through no act or failure to act on the part of the Manager, or which can be clearly shown by written records to have been known by the Manager prior to the commencement of his employment with the Company.

- (i) The Manager agrees that at no time during or following his employment with the Company will he use, divulge, or pass on, directly or through any other individual or entity, any Trade Secrets.
- (ii) Upon termination of the Manager's employment with the Company regardless of the reason for the termination of the Manager's employment hereunder, or at any other time upon the Company's request, the Manager agrees to forthwith surrender to the Company any and all materials in his possession or control which constitute or contain any Proprietary Business Information.

(b) Noncompetition. The Manager agrees that during his employment and for a period of one (1) year thereafter, regardless of the reason for the termination of the Manager's employment, he will not:

- (i) directly or indirectly, together or separately or with any third party, whether as an individual proprietor, partner, stockholder, officer, director, joint venturer, investor, or in any other capacity whatsoever actively engage in business or assist anyone or any firm in business as a manufacturer, seller, or distributor of specialty chemical products or chemical management services which are the same, like, similar to, or which compete with the products and services offered by the Company (or any of its affiliates);
- (ii) directly or indirectly recruit, solicit or encourage any employee of the Company (or any of its affiliates) or otherwise induce such employee to leave the employ of the Company (or any of its affiliates) or to become an employee or otherwise be associated with his or any firm, corporation, business or other entity with which he is or may become associated; or

(iii) solicit, directly or indirectly, for himself or as agent or employee of any person, partnership, corporation, or other entity (other than for the Company), any then or former customer, supplier, or client of the Company with the intent of actively engaging in business which would cause competitive harm to the Company (or any of its affiliates).

(c) Severability. The Manager acknowledges and agrees that all of the foregoing restrictions are reasonable as to the period of time and scope. However, if any paragraph, sentence, clause, or other provision is held invalid or unenforceable by a court of competent and relevant jurisdiction, such provision shall be deemed to be modified in a manner consistent with the intent of such original provision so as to make it valid and enforceable, and this Agreement and the application of such provision to persons and circumstances other than those with respect to which it would be invalid or unenforceable shall not be affected thereby.

(d) Remedies. The Manager agrees and recognizes that in the event of a breach or threatened breach of the provisions of the restrictive covenants contained in this Section 10, the Company may suffer irreparable harm, and monetary damages may not be an adequate remedy. Therefore, if any breach occurs or is threatened, the Company shall be entitled to seek equitable remedies, including injunctive relief in any court of applicable jurisdiction notwithstanding the provisions of Section 12. In the event of any breach of the restrictive covenant contained in this Section 10, the term of the restrictive covenant specified herein shall be extended by a period of time equal to that period beginning on the date such violation commenced and ending when the activities constituting such violation cease. Furthermore, if a court or arbitration panel determines that the Manager has breached any of the provisions of this Section 10, the Company's obligations to pay amounts and continue the benefits under this Agreement to the Manager (and his dependents) shall immediately terminate.

11. Set-Off Mitigation.

Except as provided in Section 6, the Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense, or other claim, right, or action which the Company may have against the Manager or others. In no event shall the Manager be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Manager under any of the provisions of this Agreement.

12. Arbitration: Costs and Expenses of Enforcement.

(a) Arbitration. Except as otherwise provided in Sections 10(d) and 13, any controversy or claim arising out of or relating to this Agreement or the breach thereof which cannot promptly be resolved by the parties shall be promptly submitted to and settled exclusively by arbitration in the City of Philadelphia, Pennsylvania, in accordance with the laws of the Commonwealth of Pennsylvania by three arbitrators, one of whom shall be appointed by the Company, one by the Manager, and the third of whom shall be appointed by the first two arbitrators. The arbitration shall be conducted in accordance with the rules of the American Arbitration Association, except with respect to the selection of arbitrators which shall be as provided in this Section 12. Judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof.

(b) Costs and Expenses. In the event that it shall be necessary or desirable for the Manager to retain legal counsel and/or incur other costs and expenses in connection with the enforcement of any and all of his rights under this Agreement at any time during his lifetime, the Company shall pay (or the Manager shall be entitled to recover from the Company, as the case may be) his reasonable attorneys' fees and costs and expenses in connection with the enforcement of his said rights (including those incurred in or related to any arbitration proceedings provided for in subsection (a) and the enforcement of any arbitration award in court), regardless of the final outcome.

13. Limitation on Payment Obligation.

(a) Definitions. For purposes of this Section 13, all terms capitalized but not otherwise defined herein shall have the meanings as set forth in Section 280G of the Code. In addition:

- (i) the term "Parachute Payment" shall mean a payment described in Section 280G(b)(2)(A) or Section 280G(b)(2)(B) of the Code (including, but not limited to, any stock option rights, stock grants, and other cash and noncash compensation amounts that are treated as payments under either such section) and not excluded under Section 280G(b)(4)(A) or Section 280G(b)(6) of the Code;
- (ii) the term "Reasonable Compensation" shall mean reasonable compensation for prior personal services as defined in Section 280G(b)(4)(B) of the Code and subject to the requirement that any such reasonable compensation must be established by clear and convincing evidence; and
- (iii) the portion of the "Base Amount" and the amount of "Reasonable Compensation" allocable to any "Parachute Payment" shall be determined in accordance with Section 280G(b)(3) and (4) of the Code.

(b) Limitation. Notwithstanding any other provision of this Agreement, Parachute Payments to be made to or for the benefit of the Manager but for this subsection (b), whether pursuant to this Agreement or otherwise, shall be reduced if and to the extent necessary so that the aggregate Present Value of all such Parachute Payments shall be at least one dollar (\$1.00) less than the greater of (i) three times the Manager's Base Amount and (ii) the aggregate Reasonable Compensation allocable to such Parachute Payments. Any reduction in Parachute Payments caused by reason of this subsection (b) shall be applied in the manner least economically detrimental to the Manager. In the event reduction of two or more types of payments would be economically equivalent, the reduction shall be applied pro-rata to such types of payments.

This subsection (b) shall be interpreted and applied to limit the amounts otherwise payable to the Manager under this Agreement or otherwise only to the extent required to avoid any material risk of the imposition of excise taxes on the Manager under Section 4999 of the Code or the disallowance of a deduction to the Company under Section 280G(a) of the Code. In the making of any such interpretation and application, the Manager shall be presumed to be a disqualified individual for purposes of applying the limitations set forth in this subsection (b) without regard to whether or not the Manager meets the definition of disqualified individual set forth in Section 280G(c) of the Code. In the event that the Manager and the Company are unable to agree as to the application of this subsection (b), the Company's independent auditors shall select independent tax counsel to determine the amount of such limits. Such selection of tax counsel shall be subject to the Manager's consent, provided that the Manager shall not unreasonably withhold his consent. The determination of such tax counsel under this Section 13 shall be final and binding upon the Manager and the Company.

(c) Illegal Payments. Notwithstanding any other provision of this Agreement, no payment shall be made hereunder to or for the benefit of the Manager if and to the extent that such payments are determined to be illegal.

14. Notices.

Any notices, requests, demands, and other communications provided for by this Agreement shall be sufficient if in writing, and if hand delivered or if sent by registered or certified mail, if to the Manager, at the last address he had filed in writing with the Company or if to the Company, at its principal executive offices. Notices, requests, etc. shall be effective when actually received by the addressee or at such address.

15. Withholding.

Notwithstanding any provision of this Agreement to the contrary, the Company may, to the extent required by law, withhold applicable Federal, state and local income and other taxes from any payments due to the Manager hereunder.

16. Assignment and Benefit.

(a) This Agreement is personal to the Manager and shall not be assignable by the Manager, by operation of law, or otherwise without the prior written consent of the Company otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Manager's heirs and legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns, including, without limitation, any subsidiary of the Company to which the Company may assign any of its rights hereunder; provided, however, that no assignment of this Agreement by the Company, by operation of law, or otherwise shall relieve it of its obligations hereunder except an assignment of this Agreement to, and its assumption by, a successor pursuant to subsection (c).

(c) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation, operation of law, or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place, but, irrespective of any such assignment or assumption, this Agreement shall inure to the benefit of and be binding upon such a successor. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid.

17. Governing Law.

The provisions of this Agreement shall be construed in accordance with the laws of the Commonwealth of Pennsylvania without reference to principles of conflicts of laws.

18. Non-Disparagement.

The parties agree not to make any statements, written or verbal, or cause or encourage others to make any statements, written or verbal, that defame, disparage or in any way criticize the personal or business reputation, practices, or conduct of the other party or any of its employees, directors, and officers. The Parties acknowledge and agree that this prohibition extends to statements, written or verbal, made to anyone, including but not limited to, the news media, investors, potential investors, any board of directors or advisory board or directors, industry analysts, competitors, strategic partners, vendors, employees (past and present), and clients.

19. Entire Agreement; Amendment.

(a) Except for the change in control provisions set forth in the Company's annual incentive plan and long term incentive plans, this Agreement represents the entire agreement and understanding of the parties with respect to the subject matter hereof. The Manager understands and acknowledges that the Company's severance plan, annual incentive plan and long term incentive plans are hereby amended with respect to the Manager to avoid duplication of benefits, as provided in Section 7.

(b) The Company reserves the right to unilaterally amend this Agreement without the consent of the Manager to the extent the Compensation/Management Development Committee of the Company's Board of Directors (in its sole discretion) determines is necessary or appropriate to avoid the additional tax under Section 409A(a)(1)(B) of the Code; otherwise, this Agreement may not be altered or amended except by an agreement in writing executed by the Company and the Manager.

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20. No Waiver.

The failure to insist upon strict compliance with any provision of this Agreement by any party shall not be deemed to be a waiver of any future noncompliance with such provision or of noncompliance with any other provision.

21. Severability.

In the event that any provision or portion of this Agreement shall be determined to be invalid or unenforceable for any reason, the remaining provisions of this Agreement shall be unaffected thereby and shall remain in full force and effect.

22. Indemnification.

The Company shall defend and hold the Manager harmless to the fullest extent permitted by applicable law in connection with any claim, action, suit, investigation or proceeding arising out of or relating to performance by the Manager of services for, or action of the Manager as a director, officer or employee of the Company or any parent, subsidiary or affiliate of the Company, or of any other person or enterprise at the Company's request. Expenses incurred by the Manager in defending such a claim, action, suit or investigation or criminal proceeding shall be paid by the Company in advance of the final disposition thereof upon the receipt by the Company of an undertaking by or on behalf of the Manager to repay said amount unless it shall ultimately be determined that the Manager is entitled to be indemnified hereunder; provided, however, that this shall not apply to a nonderivative action commenced by the Company against the Manager.

IN WITNESS WHEREOF, the Manager has hereunto set his hand and, pursuant to the authorization from its Board of Directors, the Company has caused these presents to be executed in its name and on its behalf and attested by its Secretary or Assistant Secretary, all as of the day and year first above written.

MANAGER

/s/ Margaret M. Loebel

QUAKER CHEMICAL CORPORATION

By: /s/ Michael F. Barry

Title: Chairman, CEO & President

ATTEST:

/s/ Irene M. Kisleiko

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER OF THE COMPANY PURSUANT TO RULE 13a-14(a) OF THE SECURITIES
EXCHANGE ACT OF 1934**

I, Michael F. Barry, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Quaker Chemical Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 30, 2012

/s/ Michael F. Barry

Michael F. Barry
Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER OF THE COMPANY PURSUANT TO RULE 13a-14(a) OF THE SECURITIES
EXCHANGE ACT OF 1934**

I, Margaret M. Loebel, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Quaker Chemical Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 30, 2012

/s/ Margaret M. Loebel
Margaret M. Loebel
Chief Financial Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350

The undersigned hereby certifies that the Form 10-Q Quarterly Report of Quaker Chemical Corporation (the "Company") for the quarterly period ended June 30, 2012 filed with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: July 30, 2012

/s/ Michael F. Barry
Michael F. Barry
Chief Executive Officer of
Quaker Chemical Corporation

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350

The undersigned hereby certifies that the Form 10-Q Quarterly Report of Quaker Chemical Corporation (the "Company") for the quarterly period ended June 30, 2012 filed with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: July 30, 2012

/s/ Margaret M. Loebel
Margaret M. Loebel
Chief Financial Officer of
Quaker Chemical Corporation

