

FORM 10-Q

/ X / QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended June 30, 1994

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 0-7154  
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QUAKER CHEMICAL CORPORATION  
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(Exact name of registrant as specified in its charter)

Pennsylvania

23-0993790

-----  
(State or other jurisdiction of  
incorporation or organization)

-----  
(I.R.S. Employer  
Identification No.)

Elm and Lee Streets, Conshohocken, Pennsylvania 19428 - 0809

-----  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code 610-832-4000  
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Not Applicable  
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Former name, former address and former fiscal year, if changed since  
last report.

Indicate by check mark whether the Registrant (1) has filed  
all reports required to be filed by Section 13 or 15 (d) of the  
Securities Exchange Act of 1934 during the preceding 12 months (or  
for such shorter period that the registrant was required to file  
such reports), and (2) has been subject to such filing requirements  
for the past 90 days. Yes X No  
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APPLICABLE ONLY TO CORPORATE ISSUERS: 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 July 29, 1994 9,238,987  
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This report contains a total of 10 pages.

PART I. FINANCIAL INFORMATION

QUAKER CHEMICAL CORPORATION AND CONSOLIDATED SUBSIDIARIES  
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CONDENSED FINANCIAL INFORMATION  
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The following condensed financial statements are filed as part  
of this quarterly report on Form 10-Q:

Consolidated balance sheet at June 30, 1994 and  
December 31, 1993

Consolidated statement of income for the six months

ended June 30, 1994 and 1993

Consolidated statement of income for the three months  
ended June 30, 1994 and 1993

Consolidated statement of cash flows for the six months  
ended June 30, 1994 and 1993

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NOTE TO CONDENSED FINANCIAL INFORMATION

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The attached condensed financial information has been prepared in accordance with instructions for Form 10-Q and, therefore, does not include all financial note information which might be necessary for a fair presentation in accordance with generally accepted accounting principles. Such condensed financial information is unaudited, but in the opinion of management, includes all adjustments, consisting only of normal recurring adjustments and accruals, necessary for a fair presentation of results for the periods indicated. The net income reported for the periods should not necessarily be regarded as indicative of net income on an annualized basis; however, significant variations from the results for the same period of the previous year, if any, have been disclosed in the accompanying management's discussion and analysis.

QUAKER CHEMICAL CORPORATION

CONSOLIDATED BALANCE SHEET

(DOLLARS IN THOUSANDS)

	JUNE 30, 1994 ----- (UNAUDITED)	DEC 31, 1993 ----- *
ASSETS		
-----		
CURRENT ASSETS		
CASH AND CASH EQUIVALENTS	\$ 10,664	\$ 19,293
SHORT-TERM INVESTMENTS		1,000
ACCOUNTS RECEIVABLE	43,460	37,108
INVENTORIES		
WORK IN PROCESS AND FINISHED GOODS	9,626	9,278
RAW MATERIALS AND SUPPLIES	9,642	8,269
DEFERRED TAXES	2,648	2,857
OTHER CURRENT ASSETS	6,716	6,582
	-----	-----
TOTAL CURRENT ASSETS	82,756	84,387
	-----	-----
INVESTMENTS IN ASSOCIATED COMPANIES, AT EQUITY	9,677	6,224
	-----	-----
PROPERTY, PLANT AND EQUIPMENT		
LAND	6,705	6,440
BUILDINGS AND IMPROVEMENTS	37,103	35,590
MACHINERY AND EQUIPMENT	66,180	63,066
CONSTRUCTION IN PROGRESS	4,059	1,980
	-----	-----
	114,047	107,076
LESS ACCUMULATED DEPRECIATION	55,805	50,525
	-----	-----
	58,242	56,551
	-----	-----
EXCESS OF COST OVER NET ASSETS OF ACQUIRED COMPANIES, NET	14,755	14,472
DEFERRED TAXES	4,636	4,788
OTHER NONCURRENT ASSETS	3,831	4,563
	-----	-----
	23,222	23,823
	-----	-----
	\$173,897	\$170,985
	=====	=====

\* CONDENSED FROM AUDITED FINANCIAL STATEMENTS.

QUAKER CHEMICAL CORPORATION

CONSOLIDATED BALANCE SHEET

(DOLLARS IN THOUSANDS)

	JUNE 30, 1994 ----- (UNAUDITED)	DEC 31, 1993 ----- *
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
SHORT-TERM BORROWINGS AND CURRENT PORTION OF LONG-TERM DEBT AND CAPITAL LEASE	\$ 7,192	\$ 4,953
ACCOUNTS PAYABLE	16,217	18,117
DIVIDENDS PAYABLE		1,432
ACCRUED LIABILITIES	16,236	17,727
ESTIMATED TAXES ON INCOME	211	413
	-----	-----
TOTAL CURRENT LIABILITIES	39,856	42,642
	-----	-----
LONG-TERM DEBT AND CAPITAL LEASE	14,205	16,095
DEFERRED TAXES ON INCOME	3,073	3,043
ACCRUED POSTRETIREMENT BENEFITS	9,118	8,968
OTHER NONCURRENT LIABILITIES	6,695	6,840
	-----	-----
TOTAL NONCURRENT LIABILITIES	33,091	34,946
	-----	-----
	72,947	77,588
	-----	-----
MINORITY INTEREST IN EQUITY OF SUBSIDIARIES	2,318	2,014
	-----	-----
<b>SHAREHOLDERS' EQUITY</b>		
<b>COMMON STOCK, \$1 PAR VALUE: AUTHORIZED 30,000,000 SHARES: ISSUED (INCLUDING TREASURY SHARES) 9,664,009 SHARES</b>		
	9,664	9,664
CAPITAL IN EXCESS OF PAR VALUE	594	529
RETAINED EARNINGS	86,502	83,498
EQUITY ADJUSTMENT FROM FOREIGN CURRENCY TRANSLATION	7,801	3,577
	-----	-----
	104,561	97,268
TREASURY STOCK, SHARES HELD AT COST; 1994 - 398,587, 1993 - 446,160	(5,929)	(5,885)
	-----	-----
	98,632	91,383
	-----	-----
	\$173,897	\$170,985
	=====	=====

\* CONDENSED FROM AUDITED FINANCIAL STATEMENTS.

QUAKER CHEMICAL CORPORATION

CONSOLIDATED STATEMENT OF INCOME

FOR SIX MONTHS ENDED JUNE 30,

UNAUDITED  
(DOLLARS IN THOUSANDS  
EXCEPT PER SHARE FIGURES)

	1994	1993
	----	----
INCOME		
NET SALES	\$ 92,440	\$ 99,704
OTHER INCOME, NET	939	551
	-----	-----
	93,379	100,255
	-----	-----
COSTS AND EXPENSES		
COST OF GOODS SOLD	52,132	57,707
SELLING, ADMINISTRATIVE AND GENERAL EXPENSES	33,739	35,822
REPOSITIONING CHARGES		3,500
	-----	-----
	85,871	97,029
	-----	-----
INCOME FROM OPERATIONS	7,508	3,226
INTEREST EXPENSE	(734)	(729)
INTEREST INCOME	296	816
	-----	-----
INCOME BEFORE TAXES	7,070	3,313
TAXES ON INCOME	2,793	1,531
	-----	-----
	4,277	1,782
EQUITY IN NET INCOME OF ASSOCIATED COMPANIES	324	704
MINORITY INTEREST IN NET INCOME OF SUBSIDIARIES	(161)	(211)
	-----	-----
NET INCOME	\$ 4,440	\$ 2,275
	=====	=====
PER SHARE:		
NET INCOME	\$0.48	\$0.25
DIVIDENDS	\$0.16	\$0.15
BASED ON WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	9,256,400	9,204,037

QUAKER CHEMICAL CORPORATION

CONSOLIDATED STATEMENT OF INCOME

THREE MONTHS ENDED JUNE 30,

UNAUDITED  
(DOLLARS IN THOUSANDS  
EXCEPT PER SHARE FIGURES)

	1993	1992
INCOME		
NET SALES	\$ 47,347	\$ 51,343
OTHER INCOME, NET	581	348
	-----	-----
	47,928	51,691
	-----	-----
COSTS AND EXPENSES		
COST OF GOODS SOLD	26,749	29,885
SELLING, ADMINISTRATIVE AND GENERAL EXPENSES	17,385	18,877
REPOSITIONING CHARGES		3,500
	-----	-----
	44,134	52,262
	-----	-----
INCOME FROM OPERATIONS	3,794	(571)
INTEREST EXPENSE	(404)	(349)
INTEREST INCOME	160	347
	-----	-----
INCOME BEFORE TAXES	3,550	(573)
TAXES ON INCOME	1,385	54
	-----	-----
	2,165	(627)
EQUITY IN NET INCOME OF ASSOCIATED COMPANIES	87	289
MINORITY INTEREST IN NET INCOME OF SUBSIDIARIES	(61)	(111)
	-----	-----
NET INCOME	\$ 2,191	\$ (449)
	=====	=====
PER SHARE:		
NET INCOME	\$0.24	(\$0.05)
DIVIDENDS	*	*
BASED ON WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	9,260,808	9,209,478

\* DIVIDENDS APPLICABLE TO THE SECOND QUARTER ARE NORMALLY DECLARED AND PAID IN JULY.

QUAKER CHEMICAL CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR SIX MONTHS ENDED JUNE 30,

UNAUDITED  
(DOLLARS IN THOUSANDS)

	1994	1993
CASH FLOWS FROM OPERATING ACTIVITIES	\$ (341)	\$ 7,255
CASH FLOWS FROM INVESTING ACTIVITIES		
SHORT-TERM INVESTMENTS	1,000	152
DIVIDENDS FROM ASSOCIATED COMPANIES	864	277
INVESTMENT IN ASSOCIATED COMPANY	(3,464)	
PURCHASE OF PROPERTY, PLANT AND EQUIPMENT	(3,832)	(3,563)
COMPANIES ACQUIRED EXCLUDING CASH		(11,099)
OTHER	266	(308)
NET CASH USED IN INVESTING ACTIVITIES	(5,166)	(14,541)
CASH FLOWS FROM FINANCING ACTIVITIES		
SHORT-TERM DEBT INCURRED	5,565	1,752
CAPITAL LEASE INCURRED		879
REPAYMENT OF SHORT-TERM DEBT	(3,500)	(2,434)
REPAYMENT OF LONG-TERM DEBT	(1,761)	
REPAYMENT OF CAPITAL LEASE	(182)	(697)
DIVIDENDS PAID	(2,868)	(2,760)
TREASURY STOCK ISSUED	21	401
OTHER	(3)	145
NET CASH PROVIDED FROM FINANCING ACTIVITIES	(2,728)	(2,714)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(394)	(34)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(8,629)	(10,034)
CASH AND CASH EQUIVALENTS AT:		
BEGINNING OF PERIOD	19,293	24,373
END OF PERIOD	\$ 10,664	\$ 14,339
CASH PAID FOR:		
INCOME TAXES	\$ 2,385	\$ 2,763
INTEREST	700	1,016

\* \* \* \* \*

Management's Discussion and Analysis of

Financial Condition and Results of Operations

Liquidity and Capital Resources

The working capital ratio at June 30, 1994 was 2.1 to 1 as compared to 2.0 to 1 at December 31, 1993, reflecting the continuation of an adequate level of liquidity necessary to support operations. The company's net cash position (cash and cash equivalents plus short-term investments less short-term borrowings and current portion of long-term debt and capital lease) declined \$11.9 million during the first six months of 1994. This was due primarily to a cash investment of approximately \$3.5 million in a joint venture, cash outlays of about \$1.5 million related to the company's 1993 repositioning program and increased short-term borrowings in the U.S. associated with (i) seasonal cash needs, (ii) the replacement of maturing long-term obligations with short-term debt, (iii) increases in non-cash (primarily accounts receivable) working capital. Working capital increased \$1.2 million in the first half of 1994 mainly as a result of the aforementioned increases in non-cash working capital.

On March 24, 1994, the formation of the above-noted joint venture with Fluid Recycling Services was completed. In addition to the initial contribution, additional investments are expected over the next few years based on the growth of the venture.

Comparison of Six Months 1994 with Six Months 1993

Consolidated net sales for the first half of 1994 decreased \$7.3 million (7%) while comparative income from operations improved \$.8 million (12%) versus the first half of 1993. The decrease in sales was due to a 2% reduction associated with currency translation; a decline of 1% from price and product mix; and a 4% decrease associated with the net result of acquisitions and divestitures. The company's major markets continue to be characterized by customers focused on increasing efficiencies in the usage of chemical products and lowering their costs by demanding more value-added services and exerting price pressures on suppliers. In addition, there are signs that raw material prices for many commodity chemicals are starting to rise. Operating conditions in the United States appear to be sustainable at the present pace at least into early 1995. In Europe, some positive trends have been apparent, but the timing of an overall recovery is difficult to predict. Continued improvement in operating results during 1994 is largely dependent on both the timing of the European economic recovery and the acceleration of the effectiveness of the company's service activities in the United States.



Operating margins as a percentage of sales improved in the first half of 1994 when compared to the corresponding period in 1993 as improved sales mix, lower raw material costs, and cost savings associated with the company's 1993 repositioning program offset the negative leverage effect of fixed costs on reduced sales volume. The after-tax financial benefit generated in the first half of 1994 due to the 1993 repositioning program was approximately \$.05 per share in each quarter. Other income rose primarily as a result of increased royalty income. Interest income declined due to lower cash holdings by the company. The effective tax rate in the first half of 1994 decreased 6% when compared to the first half of 1993 due in large part to the negative influence on the prior year rate of non-deductible expenses related to both goodwill and a second quarter repositioning charge. The decrease in equity in net income from associated companies was primarily due to lower earnings from the company's Japanese affiliate which is being hampered by sluggish demand in the Japanese steel industry and business development investments in the joint venture mentioned above. The negative influence of currency translation on first half 1994 net income was \$.02 per share.

Comparison of Second Quarter 1994 with Second Quarter 1993  
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Consolidated net sales for the second quarter of 1994 decreased \$4.0 million (8%) while comparative income from operations improved \$.9 million (30%) versus the second quarter of 1993. The decrease in sales was primarily due to an 8% decrease associated with the net result of acquisitions and divestitures as volume improvements of 2% were offset by a decline of 1% each from price and product mix, and currency translation.

The operating margin improvement in the second quarter of 1994 over 1993 resulted from more favorable sales mix and cost savings associated with the company's 1993 repositioning program. The reasons for the change in Other Income, Interest Income and the effective tax rate in the second quarter 1994 versus 1993 are basically the same as the six-month period.

PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders.

The 1994 Annual Meeting of the Company's shareholders was held on May 4, 1994. At the Meeting, management's nominees, Lennox K. Black, Robert P. Hauptfuhrer, Frederick Heldring, Ronald J. Naples and Alex Satinsky were elected to fill the five available positions as Class II directors. Voting (expressed in numbers of votes) was as follows: Mr. Black -- 35,877,982 for, 47,605 against or withheld and no abstentions or broker non-votes; Mr. Hauptfuhrer -- 35,887,982 for, 37,605 against or withheld and no abstentions or broker non-votes; Mr. Heldring -- 35,886,882 for, 38,705 against or withheld and no abstentions or broker non-votes; Mr. Naples -- 35,870,232 for, 55,355 against or withheld and no abstentions or broker non-votes; and Mr. Satinsky -- 35,861,382 for, 64,205 against or withheld and no abstentions or broker non-votes.

At the Meeting, shareholders ratified the appointment of Price Waterhouse as the Company's independent auditors to examine and report on its financial statements for the year ending December 31, 1994 by a vote of 35,252,668 votes for, 662,614 votes against and 10,305 abstentions or broker non-votes.

Item 6. Exhibits and Reports on Form 8-K.

- (a) Exhibits.  
None.
- (b) Reports on Form 8-K.  
No report on Form 8-K was filed during the quarter for which this report is filed.

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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)

JOSEPH F. SPANIER  
-----  
Joseph F. Spanier, officer duly  
authorized to sign this report,  
Corporate Controller and  
Principal Financial Officer

Date: August 12, 1994  
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