QUAKER CHEMICAL CORP
Form 424B3
May 04, 2011

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The information contained in this preliminary prospectus supplement and the accompanying prospectus is not complete and may be changed. A registration statement relating to the securities has been declared effective by the Securities and Exchange Commission. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED MAY 4, 2011

Filed Pursuant to Rule 424(b)(3)
File No. 333-163294

Preliminary Prospectus Supplement

(to Prospectus dated January 29, 2010)

Shares

QUAKER CHEMICAL CORPORATION

Common Stock

We are offering shares of our common stock. Our common stock is listed on the New York Stock Exchange under the symbol KWR . On May 3, 2011, the last reported sale price of our common stock on the New York Stock Exchange was $43.03 per share.

Please read Risk Factors beginning on page S-8 of this prospectus supplement for certain risks that you should consider before investing in our securities.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	PER SHARE	TOTAL
Public Offering Price	$	$
Underwriting Discounts and Commissions	$	$
Proceeds to us (before expenses)	$	$

Delivery of the shares of common stock is expected to be made on or about , 2011. We have granted the underwriters an option for a period of 30 days to purchase an additional shares of our common stock solely to cover over-allotments. If the underwriters exercise the option in full, the total underwriting discounts and commissions payable by us will be $ and the total proceeds to us, before expenses, will be $.

Sole Book-Running Manager

Jefferies

Co-Lead Manager

Janney Montgomery Scott

Co-Manager

KeyBanc Capital Markets

Prospectus Supplement dated , 2011

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About this Prospectus Supplement

This document is in two parts. The first part is the prospectus supplement, which describes the specific terms of this offering. The second part, the accompanying prospectus dated January 29, 2010, provides more general information about securities we may offer from time to time, some of which may not apply to the securities we are offering. This prospectus supplement and the accompanying prospectus are part of a registration statement on Form S-3 (File No. 333-163294) we filed with the Securities and Exchange Commission, or SEC, using a shelf registration process.

We incorporate important information into the accompanying prospectus by reference. You may obtain the information incorporated by reference into the accompanying prospectus without charge by following the instructions under Where You Can Find More Information in this prospectus supplement. Generally, when we refer to this prospectus, we are referring to this prospectus supplement and the accompanying prospectus. We urge you to carefully read this prospectus supplement, the information incorporated by reference and the accompanying prospectus before buying any of the securities being offered under this prospectus supplement. This prospectus supplement may add, update or change information contained in the accompanying prospectus. To the extent that any statement that we make in this prospectus supplement is inconsistent with statements made in the accompanying prospectus or any documents incorporated by reference therein, the statements made in this prospectus supplement will be deemed to modify or supersede those made in the accompanying prospectus and the documents incorporated by reference therein that have an earlier date.

You should rely only on the information contained or incorporated by reference in this prospectus and any other offering material. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to sell these securities in any jurisdiction where the offer and sale is not permitted. You should not assume that the information appearing in this prospectus supplement, the prospectus, any other offering material or the documents incorporated by reference in the accompanying prospectus is accurate as of any date other than their respective dates, regardless of the time of delivery of this prospectus, any prospectus supplement, or any other offering material or of any sale of a security. Our business, financial condition, results of operation and prospects may have changed since those dates.

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Prospectus Summary

The following summary highlights selected information contained in this prospectus supplement and may not contain all the information that may be important to you. You should read this entire prospectus supplement and the accompanying prospectus, including the documents incorporated by reference before making an investment decision. Unless otherwise specified or the context otherwise requires, references to $ or dollars in this prospectus supplement are to United States dollars, and the terms we, us, our, Quaker and the Company, as used in this prospectus supplement, refer to Quaker Chemical Corporation, its subsidiaries and associated companies as a combined entity.

Our Business

We are a global developer and provider of high performance chemical specialty products and services for a range of industrial and manufacturing applications. Our products, which include specialty fluids, lubricants, oils, greases, corrosion preventives and coatings, are used in a wide variety of applications where metals and metal components require treatment and processing, such as in steel, aluminum, metals processing, automotive, tube and pipe, mining and other industries. Our product portfolio includes many custom-tailored productivity solutions that have been developed to optimize the performance of our customers manufacturing processes. These solutions are developed through a combination of our manufacturing process knowledge, product application know-how and extensive research and development experience. We work closely with our customers to ensure that our products meet their constantly evolving requirements. Our process engineers and support teams work on-site with our customers to maximize the value of our chemical specialty products by improving product performance and reducing operating costs. We also offer customized Chemical Management Services, or CMS, where Quaker technical resources are embedded at the customer site to support a scope of contractually agreed upon activities including procurement services, process and product monitoring and environmental compliance.

Over the last decade, we have become a global specialty chemicals company with an extensive manufacturing, sales and distribution footprint that includes over 1,600 employees across 18 countries. In addition to our established presence in North America and Europe, we have expanded our operations significantly in developing, high-growth markets and believe we are well-positioned to capitalize on growth in emerging markets such as Asia-Pacific and South America as we have been steadily investing in these regions over the past two decades. We plan to continue to invest significantly in Brazil, China and India to expand our capacity and refine our capabilities to meet the rapidly growing demand for our products in these regions. We believe that our current scale provides us with a significant competitive advantage because it allows us to serve customers worldwide and follow our existing customers as they enter high growth markets and grow as economic activity increases in all regions following the 2008-2009 global economic crisis. As a result of our global reach and investments we have made, 65% of our total 2010 net sales were generated outside of the U.S., with approximately 37% of our total net sales generated in high growth regions such as Asia-Pacific and South America. Since 2001, our net sales from developing markets have grown substantially. For example between 2001 and 2010, net sales from the Asia-Pacific region grew at a Compounded Annual Growth Rate, or CAGR, of 18.6%.

Our products are marketed under the Quaker brand name and sold in more than 75 countries to a diverse base of customers. We believe our products are highly effective at lowering our customers total cost of ownership because fluids extend the useful life of manufacturing equipment and help to increase overall productivity. As a result, we believe our customers view Quaker as a premium brand for metal processing fluids and protective coatings. Our principal products include:

- **Rolling Lubricants** (21.2% of net sales in 2010)
- **Machining and Grinding Compounds** (20.3% of net sales in 2010)
- **Hydraulic Fluids** (13.7% of net sales in 2010)
- **Corrosion Preventives** (11.5% of net sales in 2010)

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Our business model emphasizes the creation of value through optimization of customer processes. Our employees visit customer facilities regularly and, through training and experience, identify production, quality and safety needs that can be resolved or alleviated either by adapting existing products or by applying new formulations developed in our laboratories. We have engineering and technical professionals who work with our sales representatives to provide a range of important value-added support services. One way in which we help our customers achieve maximum value from our products is through our comprehensive CMS program, which places our technical professionals on-site to ensure that products are used in the most productive and cost effective way possible. Currently, we manage and oversee chemical usage processes at approximately 80 customer plants worldwide which includes (i) process control systems; (ii) inventory control; (iii) lubrication management; (iv) supplier management and continuous improvement; (v) waste management and (vi) training. Our CMS program contributed 3.5%, 8.4% and 11.1% to our net sales during 2010, 2009 and 2008, respectively, and we believe that the program is a vital distribution channel for our products.

Throughout our 93-year history, we have grown by focusing on select industries with high value and/or technically challenging processes that require high performance specialty products by leveraging our technology and reputation, now on a global basis. This has helped us to create a strong foundation for sustained operating leverage and profitability. We have also grown our business through 11 strategic acquisitions over the last nine years. In July 2010, we acquired D.A. Stuart s U.S. aluminum hot rolling oil business (the D.A. Stuart Acquisition) from Houghton International Inc. The D.A. Stuart Acquisition has helped us become one of the leading players in the U.S. aluminum hot rolling market, serving some of the largest aluminum hot rolling mills in the U.S. This acquisition has also helped us expand our overall product portfolio, further our efforts to become a one-stop-shop supplier of fluids for aluminum producers and will enable us to expand globally in the aluminum hot rolling oil market. In December 2010, we acquired Summit Lubricants Inc. (the Summit Acquisition), a specialty grease manufacturer. Since Summit produces specialty greases that are used by many of our existing customers, we believe this acquisition will create significant synergies as it will allow our existing sales force to sell Summit s products. We expect that the Summit Acquisition will allow us to increase our penetration of the specialty grease and lubricant market, expand our existing product portfolio and customer base, and grow our overall share of our customers fluid-related expenditures.

As a result of our broad product offering, global footprint and strategic acquisitions, we believe we are well positioned to achieve meaningful growth and strong financial performance going forward.

Our Industry

We estimate that the global market for industrial lubricants and fluids is approximately $12 billion in size. Our focus is in the specialty industrial lubricants and fluids sector, which accounts for approximately half of the broader industrial lubricants and fluids market. Specialty industrial lubricants and fluids are characterized by intimate knowledge of customer operations, product customization and differentiation and are designed to address specific customer needs. Industrial lubricants and fluids are used in virtually all manufacturing and extraction industries including steel, aluminum, automotive, tube and pipe, metal processing and mining.

Global demand for industrial lubricants and fluids is increasing as core end-markets are recovering in the wake of the 2008-2009 global economic downturn. Demand is driven by growth in key end-markets including the steel, automotive, aluminum and other industries. According to the Steel Business Briefing and the World Steel Institute, the CAGR for global steel production is expected to be 7.0% from 2009 to 2014. Similarly, according to the CSM Worldwide Global Light Vehicle Production Summary, the CAGR for global light vehicle production is expected to be 7.7% from 2009 to 2016 and the CAGR for light vehicle production in developing Asian economies is expected to be 11.3% from 2009 to 2016.

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Similar to other specialty chemicals, industrial lubricants and fluids are not necessarily standardized and require a degree of customization and technical service to meet machining and processing standards, which are different for every customer. Lubricants and fluids operate in a wide range of applications and must be compatible with machinery, fluid flow systems and seals, operating temperatures and the materials being produced. As a result, product customization and quality of technical service to monitor the chemical usage processes are key differentiators for customers. There is an industry trend towards higher quality lubricants and fluids as customers seek longer operating cycles, less maintenance-related downtime, products that conform to increasingly stringent regulatory requirements and products that are environmentally friendly. In this respect, lubricants and fluids are key consumables for which many customers are willing to pay a premium in exchange for lower overall operating costs resulting from the benefits provided by the differentiated products.

Competition in the industry is based primarily on the ability to provide products and render technical services that meet the needs of the customer, and, to a lesser extent, on price. We believe the quality of our product and service is more significant to our customers than the relatively small cost of lubricants and fluids as a percentage of the total cost of the customer s end product or their overall operations.

Our Competitive Strengths

We believe that the following strengths differentiate us from our competitors:

Leading market positions in growing markets.

We are a leading global developer and provider of customized, technology-driven chemical specialty products and services for various industrial and manufacturing applications within the $6 billion global market for specialty industrial lubricants and fluids. We hold the #1 global market position with respect to process fluids used by manufacturers of steel, according to Kline & Company. We estimate that Quaker s global market for process fluids used by steel manufacturers is projected to grow at a CAGR of approximately 6% per year between 2010 and 2015, with China and India leading the way with projected annual growth of approximately 9%. We are also a leading provider of specialty lubricants and fluids to the global automotive industry, for which demand tends to follow overall vehicle production. According to the CSM Worldwide Global Light Vehicle Production Summary, the CAGR for global light vehicle production is expected to be 7.7% from 2009 to 2016 and the CAGR for light vehicle production in developing Asian economies is expected to be 11.3% from 2009 to 2016. We are also gaining share of process fluids and coatings for the tube and pipe market, which mainly supplies the oil and gas industry.

Overall, we believe that we are poised to benefit from significant growth in all of our key end-markets and particularly in steel and automotive that continue to rebound strongly from the recent economic downturn. In the developed economies of North America and Europe, the steel and automotive markets are recovering from the global economic crisis and we expect to continue to see a sustained recovery over the next few years. Our net sales from emerging markets such as South America and Asia-Pacific have increased by more than 275% compared with 2001. We believe that we will continue to see significant growth as a result of ongoing demand for our products in key emerging markets such as Asia-Pacific and South America.

Provider of technically advanced products which result in significant switching costs.

We provide our customers with essential lubricants and fluids for a wide variety of applications where metals and metal components require treatment and processing. Our products are optimized for performance in critical processes by leveraging our manufacturing process and technical knowledge, product application know-how and extensive research and development expertise. Lubricants and fluids are non-discretionary purchases that represent a minimal portion (typically less than 1%) of total production costs; therefore, our customers typically focus on product quality, efficacy and customer service rather than price. Our fluids provide benefits such as extended machine and tool life, greater productivity due to less downtime for equipment changes, repairs and adjustments, reduced usage and waste stream processing costs and reductions in energy costs and carbon output. Furthermore, switching suppliers could result in our customers incurring significant costs given the potential for product failure and other risks related to switching suppliers.

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Diverse geographic sales mix and global operations position us for superior growth.

With operations in 18 countries, we have a strong presence in developed markets that are global hubs for steel and metal processing and in key emerging countries including Brazil, China and India. This global footprint allows us to pursue opportunities around the world and to service our increasingly global customer base on a regional and local basis. In 2010, we generated 65% of our net sales outside the U.S., with 37% from high growth, emerging markets such as Asia-Pacific and South America. Emerging markets continue to provide a significant portion of our profitability, which we expect to continue to increase as these markets continue to experience economic growth and we leverage technologies developed in more mature markets.

Our global reach positions us for growth alongside customers that continue to expand in growth markets. According to the World Steel Association, China now produces 44% of global steel and 21% of light vehicles, and we believe that our established and growing presence in China positions us well for continued growth.

Diverse, blue-chip customer base with long-standing relationships.

We use our on-site chemical management model to sell our products and manage chemical usage at approximately 80 customer plants worldwide. Our customers range from global steel and automobile manufacturers to regional and local metalworking shops, reducing our dependency on any single customer. Our customer base is composed of large, blue-chip companies such as AK Steel, Alcoa, Anshan Steel, ArcelorMittal, Ball, Bao Steel, BMW, Caterpillar, China Steel Corporation, Chrysler, CSN, Cummins, Daimler, General Motors, Honda, Marcegaglia, Nucor, Renault, Severstal, Tata Steel, ThyssenKrupp, Tianjin Pipe, Timken, United Technologies, U.S. Steel, Volkswagen, and Wuhan Steel. In 2010, our top five customers represented approximately 20% of our consolidated net sales, with the largest, ArcelorMittal (the world s largest steelmaker), representing approximately 9% of consolidated net sales.

We enjoy long-standing relationships with many of our largest customers. The technical nature of our products, coupled with our strong understanding of customers needs and the high level of service, has resulted in a high overall customer retention rate. All of our top 10 customers or their predecessors have been Quaker customers for more than 10 years and several have been Quaker customers for 20 years or longer.

Business model that positions us for strong earnings and attractive financial results.

The technical nature of our products and the value we create for our customers have resulted in our achieving improved earnings through often challenging economic conditions. We work closely with our customers to help reduce or manage our exposure to potential volatile costs of raw materials and to preserve margins. In certain cases, we have entered contracts with customers containing pricing provisions that are based on commonly utilized raw material indices. This has helped to manage our exposure to raw material costs and preserve overall profitability. The consistency of our financial performance through economic cycles has enabled us to increase or maintain our dividend level for 39 consecutive years.

Strong management team with a proven track record.

Our senior management team averages approximately 15 years of chemical specialty industry experience and is responsible for growing Quaker throughout business cycles, building our global platform and developing our reputation for quality and reliability. Over the last nine years, we have completed 11 acquisitions, which have allowed us to expand into new and profitable end-markets, growing our share of customers expenditures and our market position.

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Our Growth Strategy

Key elements of our business strategy are to:

Capitalize on superior growth in international markets and the continuing economic recovery in developed markets.

We plan to continue our expansion into rapidly growing international markets such as China, Brazil and India. This will allow us to continue to follow our existing customers as they increasingly migrate towards high growth markets, as well as take advantage of opportunities to provide our products to a range of new customers. Our sales to emerging markets in South America and Asia-Pacific doubled from 2005 to 2010 and represented approximately 37% of our net sales in 2010 compared with 23% of sales in 2005. We believe that our existing global footprint and commitment to invest in our business positions us well to capitalize on global growth opportunities, particularly in emerging markets.

In North America and Europe, the steel and automotive markets have seen improvement since the global economic downturn, but they have yet to return to production levels achieved prior to the downturn. For example, according to the CSM Worldwide Global Light Vehicle Production Summary, total North American auto production is not expected to exceed 2008 levels until 2013 with Europe expected to take even longer to return to 2008 levels. We expect to participate in the continuing recovery of these markets as we benefit from growth in emerging markets.

Expand our market share while also pursuing new end-markets.

We have historically served steel, automotive, metals processing, tube and pipe and other industries where our customers rely on our customized solutions and value our customer service. We plan to continue to maintain our leadership positions using our current business model and focusing on increasing our share in these markets through expanding our product offerings and providing formulations that address the specific needs of our customers. We believe that opportunities also exist to apply our capabilities to new end markets and uses that require specialty lubricants and fluids. For example, we plan to leverage the aluminum technology we recently acquired from the D.A. Stuart Acquisition in order to expand into new applications where there is strong demand. Other areas of focus include further penetrating Japanese automotive engine and transmissions, tube and pipe manufacturers, die casting, mining industries and expanding the markets for our premium fire resistant hydraulic fluids.

Leverage our technological capabilities.

We have gained insight into our customers needs based upon our long-standing relationships. Through our research and development facilities in Pennsylvania, California, China, and The Netherlands, we continue to innovate and provide solutions for our customers. We continuously seek to improve our formulations, investing in the development of new, differentiated technologies to best fit our customers needs. We have increased our focus on our global research capabilities in recent years, and we will continue to invest resources in our research and development activities to allow us to introduce innovative products as customer processes evolve.

Provide the highest levels of customer service.

We build and maintain customer relationships by recognizing customers unique needs and working closely with them to devise solutions that optimize their overall production and system efficiencies. Through ongoing dialogue, we monitor our customers processes, applications and end product results to ensure that we provide them with the best solutions to meet their changing needs. Many of our customers rely on a small group of suppliers for their fluids, and we continually seek to strengthen relationships as part of our strategy to grow our share of customers expenditures.

Selectively pursue investment opportunities.

Acquisitions are a key component of our overall growth strategy. Given the fragmented nature of our industry, we believe that opportunities will develop to pursue acquisitions at attractive valuations in the future. We have identified several potential acquisition opportunities that we believe would enhance our overall product offering.

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Corporate Information

Our principal executive offices are located at One Quaker Park, 901 E. Hector Street, Conshohocken, Pennsylvania 19428-2380 and our telephone number at that address is (610) 832-4000.

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The Offering

Common stock offered by us	shares
Option to purchase additional shares	We have granted the underwriters an overallotment option to purchase up to an additional shares of common stock.
Public offering price	Per share: $
Common stock to be outstanding after this offering	shares, assuming no exercise of the underwriters overallotment option; if the underwriters exercise their overallotment option in full.
New York Stock Exchange Symbol	KWR
Use of Proceeds	All of the net proceeds of this offering will be utilized to repay a portion of the indebtedness outstanding under our primary credit facility.
Risk Factors	See Risk Factors in this prospectus supplement and other information included or incorporated by reference in the accompanying prospectus.

The number of shares of common stock to be outstanding after this offering is based on 11,541,330 shares of common stock outstanding on April 30, 2011 and excludes the following:

- 322,373 shares of common stock issuable upon the exercise of outstanding stock options; and
- 353,609 shares of common stock available for future grant or issuance pursuant to our 2001 Global Annual Incentive Plan, 2006 Long-Term Performance Plan or 2003 Director Stock Ownership Plan.

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Risk Factors

Any investment in our common stock involves a high degree of risk. You should carefully consider the risks described below and all of the information contained in or incorporated by reference into this prospectus supplement and accompanying prospectus before deciding whether to purchase our common stock. The risks and uncertainties described below are not the only risks and uncertainties we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. If any of the following risks actually occur, the trading price of our common stock could decline, and you may lose all or part of your investment in our common stock. The risks discussed below also include forward-looking statements, and our actual results may differ substantially from those discussed in these forward-looking statements. See Special Note Regarding Forward-Looking Statement.

Risks Affecting the Offering and Our Common Stock

The market price of our common stock may be subject to fluctuations and volatility.

Stock markets in general and our common stock, in particular, have experienced price volatility and may continue to do so. The market price of our common stock may continue to be subject to fluctuation due to a change in sentiment in the market regarding our operations or business prospects or in response to commodity price volatility, market shifts, political concerns as well as other factors, the most material of which are discussed under Information Regarding Forward-Looking Statements in this prospectus supplement, in the risk factors set forth below and in the Incorporation of Certain Documents by Reference into the accompanying prospectus supplement. Increased volatility could result in a decline in the market price of our common stock. Moreover, volatile or depressed market prices for our common stock could make it difficult for you to resell your shares of our common stock when desired or at attractive prices.

We may reduce or cease to pay dividends on our common stock.

We can provide no assurance that we will continue to pay dividends on our common stock at the current rate or at all. The amount of future cash dividends, if any, to be declared and paid on our common stock, will depend upon, among other factors, our financial condition, cash flow and future business prospects. See Dividend Policy in this prospectus supplement. While our primary credit facility does not currently limit our ability to pay dividends at the levels at which they have been paid in the past, and we do not believe the facility is likely to materially limit our future payment of dividends, if a default should occur under the facility, the payment of dividends would be prohibited. In addition, it is possible that agreements we enter into in the future, such as new debt arrangements, may impose additional restrictions on our ability to pay dividends.

There may be future dilution of our common stock, which may adversely affect the market price of our common stock.

Except as described under Underwriting in this prospectus supplement, we are not restricted from selling or issuing additional shares of our authorized but unissued common stock or securities convertible into or exchangeable for our common stock. As of March 31, 2011, options for the acquisition of 322,373 shares of our common stock were outstanding and 355,809 shares of our common stock were available for future issuance under our equity compensation plans. As of that date, we had an additional 18,468,852 authorized but unissued shares of common stock, including up to shares that may be issued in this offering if the over-allotment option we have granted the underwriter is exercised in full. Holders of shares of our common stock are not entitled to any preemptive rights and, therefore, any sales or issuances by us of our common stock or securities convertible into or exchangeable for our common stock could result in increased dilution to our shareholders. The market price for our common stock may be adversely affected by sales or issuances of additional shares of our common stock or securities convertible into or exchangeable for our common stock, or by the perception that such a sale or issuance or other dilution may occur.

We are able to issue shares of preferred stock with greater rights than our common stock.

Our Board of Directors is authorized to issue one or more series of preferred stock from time to time without any action on the part of our shareholders. Our Board of Directors also has the power, without shareholder approval, to set the terms of any such series of preferred stock that may be issued, including voting rights, dividend rights, and preferences over our common stock with respect to dividends and other terms. If we issue preferred stock in the future that has a preference over our common stock with respect to the payment of dividends or other terms, or if we issue preferred stock with voting rights that dilute the voting power of our common stock, the rights of holders of our common stock or the market price of our common stock could be adversely affected.

Provisions in our organizational documents and Pennsylvania law could discourage potential acquisition proposals, could delay or prevent a change in control of the Company that our shareholders may consider favorable and could adversely affect the market value of our common stock.

Provisions in our organizational documents and under Pennsylvania law could delay or prevent a change in control, which could adversely affect the market price of our common stock. The provisions in our articles of incorporation and bylaws that could delay or prevent an unsolicited change in control include the authority of our Board of Directors to issue preferred stock discussed above, our classified Board of Directors, the advance notice requirements for nominations to the Board of Directors or for proposals that can be acted on at shareholder meetings, and our two tiered voting rights. See Description of Common Stock and Certain Provisions of Our Articles of Incorporation, Bylaws and Statutes in the accompanying prospectus.

In addition, Subchapter F of Chapter 25 of the Pennsylvania Business Corporation Law of 1988 imposes certain restrictions on mergers and other business combinations between us and any holder of 20% or more of our outstanding common stock. This provision is applicable to us and may have an anti-takeover effect that may delay, defer or prevent a tender offer or takeover attempt that a shareholder might consider in his or her best interest. In general, Subchapter F could delay for five years and impose conditions upon business combinations between an interested shareholder and us, unless prior approval by our Board of Directors is given. The term business combination is defined broadly to include various merger, consolidation, division, exchange or sale transactions, including transactions using our assets for refinancing purposes. An interested shareholder, in general, would be a beneficial owner of shares entitling that person to cast at least 20% of the votes that all shareholders would be entitled to cast in an election of directors, a voting threshold that might be attained by the accumulation of significantly less than 20% of the outstanding shares of our common stock under our two tiered voting rights.

Risks Affecting the Business

Changes to the industries and markets that Quaker serves could have a material adverse effect on the Company s liquidity, financial position and results of operations.

The chemical specialty industry comprises a number of companies of similar size as well as companies larger and smaller than Quaker. It is estimated that Quaker holds a leading and significant global position in the markets for process fluids to produce sheet steel and significant global positions in portions of the automotive and industrial markets. The industry is highly competitive, and a number of companies with significant financial resources and/or customer relationships compete with us to provide similar products and services. Our competitors may be positioned to offer more favorable pricing and service terms, resulting in reduced profitability and loss of market share for us. Historically, competition in the industry has been based primarily on the ability to provide products that meet the needs of the customer and render technical services and laboratory assistance to the customer and, to a lesser extent, on price. Factors critical to the Company s business include successfully differentiating the Company s offering from its competition, operating efficiently and profitably as a globally integrated whole, and increasing market share and customer penetration through internally developed business programs and strategic acquisitions.

The business environment in which the Company operates remains uncertain. The Company is subject to the same business cycles as those experienced by steel, automobile, aircraft, appliance, and durable goods manufacturers. A major risk is that the Company s demand is largely derived from the demand for its customers products, which subjects the Company to uncertainties related to downturns in our customers business and unanticipated customer production shutdowns or curtailments. The Company has limited ability to adjust its cost level contemporaneously with changes in sales and gross margins. Thus, a significant downturn in sales or gross margins due to weak end-user markets, loss of a significant customer, and/or rising raw material costs could have a material adverse effect on the Company s liquidity, financial position, and results of operations.

Our business depends on attracting and retaining qualified management personnel.

The unanticipated departure of any key member of our management team could have an adverse effect on our business. Given the relative size of the Company and the breadth of its global operations, there are a limited number of qualified management personnel to assume the responsibilities of management level employees should there be management turnover. In addition, because of the specialized and technical nature of our business, our future performance is dependent on the continued service of, and our ability to attract and retain, qualified management, commercial and technical personnel. Competition for such personnel is intense, and we may be unable to continue to attract or retain such personnel.

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Inability to obtain sufficient price increases or contract concessions to offset increases in the costs of raw material could have a material adverse effect on the Company s liquidity, financial position and results of operations. Price increases implemented could result in the loss of sales.

Quaker uses over 1,000 raw materials, including mineral oils and derivatives, animal fats and derivatives, vegetable oils and derivatives, ethylene derivatives, solvents, surface active agents, chlorinated paraffinic compounds, and a wide variety of other organic and inorganic compounds. In 2010, three raw material groups (mineral oils and derivatives, animal fats and derivatives, and vegetable oils and derivatives) each accounted for as much as 10% of the total cost of Quaker s raw material purchases. The price of mineral oil can be affected by the price of crude oil and refining capacity. In addition, many of the raw materials used by Quaker are commodity chemicals. Accordingly, Quaker s earnings can be affected by market changes in raw material prices.

Over the past three years, Quaker has experienced significant volatility in its raw material costs, particularly crude oil derivatives. For example, the price of crude oil averaged $79 per barrel in 2010 versus $61 in 2009 and $100 in 2008 and is currently trading in excess of $100 per barrel with market conditions that currently reflect the political instability in the Middle East. In addition, refining capacity has also been constrained by various factors, which has further contributed to volatile raw material costs and negatively impacted margins. Animal fat and vegetable oil prices have been impacted by increased biodiesel consumption. In response, the Company has aggressively pursued price increases to offset the increased raw material costs. Although the Company has been successful in recovering a substantial amount of the raw material cost increases, it has experienced competitive as well as contractual constraints limiting pricing actions. In addition, as a result of the Company s pricing actions, customers may become more likely to consider competitors products, some of which may be available at a lower cost. Significant loss of customers could result in a material adverse effect on the Company s results of operations.

Availability of raw materials, including sourcing from some single suppliers, could have a material adverse effect on the Company s liquidity, financial position and results of operations.

The chemical specialty industry can experience some tightness of supply of certain raw materials. In addition, in some cases, we choose to source from a single supplier. Any significant disruption in supply could affect our ability to obtain raw materials, which could have a material adverse effect on our liquidity, financial position and results of operations.

Loss of a significant manufacturing facility may materially and adversely affect the Company s liquidity, financial position and results of operations.

Quaker has multiple manufacturing facilities throughout the world. In certain countries such as Brazil and China, there is only one such facility. If one of the Company s facilities is damaged to such extent that production is halted for an extended period, the Company may not be able to timely supply affected customers. This could result in a loss of sales over an extended period or permanently. The Company does take steps to mitigate against this risk including contingency planning and procuring property and casualty insurance (including business interruption insurance). Nevertheless, the loss of sales in any one region over any extended period of time could have a significant material adverse effect on Quaker s liquidity, financial position and results of operations.

Bankruptcy of a significant customer could have a material adverse effect on our liquidity, financial position and results of operations.

A significant portion of Quaker s revenues is derived from sales to customers in the U.S. steel and automotive industries, including some of our larger customers, where a number of bankruptcies occurred during recent years and companies have experienced financial difficulties. As part of the bankruptcy process, the Company s pre-petition receivables may not be realized, customer manufacturing sites may be closed or contracts voided. The bankruptcy of a major customer could have a material adverse effect on the Company s liquidity, financial position, and results of operations. Steel customers typically have limited manufacturing locations as compared to metalworking customers and generally use higher volumes of products at a single location. The loss or closure of a steel mill or other major site of a significant customer could have a material adverse effect on Quaker s business.

During 2010, our five largest customers (each composed of multiple subsidiaries or divisions with semi-autonomous purchasing authority) together accounted for approximately 20% of our consolidated net sales with the largest customer (Arcelor-Mittal Group) accounting for approximately 9% of consolidated net sales.

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Failure to comply with any material provision of our primary credit facility or other debt agreements could have a material adverse effect on our liquidity, financial position and results of operations.

The Company maintains a $175.0 million unsecured credit facility, which we refer to in this prospectus supplement as our primary credit facility, with a group of lenders, which can be increased to $225.0 million at the Company s option if lenders agree to increase their commitments and the Company satisfies certain conditions. Our primary credit facility, which matures in 2014, provides the availability of revolving credit borrowings. In general, the borrowings under our primary credit facility bear interest at either a base rate or LIBOR rate plus a margin based on the Company s consolidated leverage ratio.

Our primary credit facility contains limitations on capital expenditures, investments, acquisitions and liens, as well as default provisions customary for facilities of its type. While these covenants and restrictions are not currently considered to be overly restrictive, they could become more difficult to comply with as our business or financial conditions change. In addition, deterioration in the Company s results of operations or financial position could significantly increase borrowing costs.

Quaker is exposed to market rate risk for changes in interest rates, due to the variable interest rate applied to the Company s borrowings under our primary credit facility. Accordingly, if interest rates rise significantly, the cost of debt to Quaker will increase, perhaps significantly, depending on the extent of Quaker s borrowings under our primary credit facility. At March 31, 2011, the Company had $65.0 million outstanding under its primary credit facility. The Company has entered into interest rate swaps in order to fix a portion of its variable rate debt and mitigate the risks associated with higher interest rates. The combined notional value of the swaps was $15.0 million at March 31, 2011.

Failure to generate taxable income could have a material adverse effect on our financial position and results of operations.

At December 31, 2010, the Company had net U.S. deferred tax assets totaling $14.8 million, excluding deferred tax assets relating to additional minimum pension liabilities. In addition, at that date, the Company had $2.1 million in operating loss carryforwards primarily related to certain of its foreign operations. 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 asset would be a non-cash charge to income in the period such determination was made, which could have a material adverse effect on the Company s financial statements. The Company continues to closely monitor this situation as it relates to its net deferred tax assets and the assessment of valuation allowances.

Environmental laws and regulations and pending legal proceedings may materially and adversely affect the Company s liquidity, financial position and results of operations.

The Company is a party to proceedings, cases, and requests for information from, and negotiations with, various claimants and Federal and state agencies relating to various matters, including environmental matters. An adverse result in one or more matters could materially and adversely affect the Company s liquidity, financial position and results of operations. Incorporated herein by reference is the information concerning pending asbestos-related litigation against an inactive subsidiary and amounts accrued associated with certain environmental non-capital remediation costs in Note 12 of Notes to Condensed Consolidated Financial Statements included in this prospectus supplement.

Climate change and greenhouse gas restrictions may materially affect the Company s liquidity, financial position and results of operations.

The Company is subject to various regulations regarding its emission of greenhouse gases in its manufacturing facilities. In addition, a number of countries have adopted, or are considering the adoption of regulatory frameworks to reduce greenhouse gas emissions. These include adoption of cap and trade regimes, carbon taxes, increased efficiency standards and incentives or mandates for renewable energy. These requirements could make our products more expensive and reduce demand for our products. Current and pending greenhouse gas regulations may also increase our compliance costs.

We might not be able to timely develop, manufacture and gain market acceptance of new and enhanced products required to maintain or expand our business.

We believe that our continued success depends on our ability to continuously develop and manufacture new products and product enhancements on a timely and cost-effective basis, in response to customer demands for higher performance process chemicals, coatings and other chemical products. Our competitors may develop new products or enhancements to their products that offer performance, features and lower prices that may render our products less competitive or obsolete and, as a consequence, we may lose business and/or significant market share. The development and commercialization of new products require significant expenditures over an extended period of time, and some products that we seek to develop may never become profitable. In addition, we may not be able to develop and introduce products incorporating new technologies in a timely manner that will satisfy our customers future needs or achieve market acceptance.

The scope of our international operations subjects the Company to risks, including risks from changes in trade regulations, currency fluctuations, and political and economic instability.

Since significant revenues and earnings are generated by non-U.S. operations, Quaker s financial results are affected by currency fluctuations, particularly between the U.S. Dollar, the E.U. Euro, the Brazilian Real, and the Chinese Renminbi, and the impact of those currency fluctuations on the underlying economies. During the past three years, sales by non-U.S. subsidiaries accounted for approximately 59% to 65% of our annual consolidated net sales. All of these operations use the local currency as their functional currency. The Company generally does not use financial instruments that expose it to significant risk involving foreign currency transactions; however, the size of non-U.S. activities has a significant impact on reported operating results and attendant net assets. Therefore, as exchange rates vary, Quaker s results can be materially affected.

The Company often sources inventory among its worldwide operations. This practice can give rise to foreign exchange risk resulting from the varying cost of inventory to the receiving location, as well as from the revaluation of intercompany balances. The Company mitigates this risk through local sourcing efforts.

See Note 17 of Notes to Consolidated Financial Statements included in this prospectus supplement.

Additional risks associated with the Company s international operations include, but are not limited to, the following:

n changes in economic conditions from country to country,

n changes in a country s political condition, such as the current political unrest in the Middle East,

n trade protection measures,

n licensing and other legal requirements,

n longer payment cycles in certain foreign markets,

n restrictions on the repatriation of our assets, including cash,

n significant foreign and United States taxes on repatriated cash,

n the difficulties of staffing and managing dispersed international operations,

- less protective foreign intellectual property laws,
- legal systems that may be less developed and predictable than those in the United States, and
- local tax issues.

The breadth of Quaker s international operations subjects the Company to various local non-income taxes, including value-added-taxes, or VAT. With VAT, the Company essentially operates as an agent for various jurisdictions by collecting VAT from customers and remitting those amounts to the taxing authorities on the goods it sells. The laws and regulations regarding VAT can be complex and vary widely among countries as well as among individual states within a given country for the same products, making full compliance difficult. As VAT is often charged as a percentage of the selling price of the goods sold, the amounts involved can be material. Should there be non-compliance by the Company, it may need to remit funds to the tax authorities prior to collecting the appropriate amounts from customers or jurisdictions which may have been incorrectly paid. In addition, the Company may choose for commercial reasons not to seek repayment from certain customers. This could have a material adverse affect on the Company s liquidity, financial position and results of operations. Refer to Note 12 of Notes to Condensed Consolidated Financial Statements included in this prospectus supplement.

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Terrorist attacks, other acts of violence or armed conflicts may affect the markets in which we operate and our profitability.

Terrorist attacks may negatively affect our operations. There can be no assurance that there will not be further terrorist attacks against the U.S. or U.S. businesses. Terrorist attacks, other acts of violence or armed conflicts may directly impact our physical facilities or those of our suppliers or customers. Additional terrorist attacks may disrupt the global insurance and reinsurance industries with the result that we may not be able to obtain insurance at historical terms and levels for all of our facilities. Furthermore, any of these events may make travel and the transportation of our supplies and products more difficult and more expensive and ultimately affect the sales of our products. The consequences of terrorist attacks, other acts of violence or armed conflicts can be unpredictable and we may not be able to foresee events that could have an adverse effect on our business.

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Use of Proceeds

We estimate that our net proceeds from the sale of shares of common stock in this offering will be approximately $ after deducting estimated offering expenses of $ and underwriting discounts and commissions. Our net proceeds will be approximately $, after deducting estimated offering expenses and underwriting discounts and commissions, if the underwriters exercise the overallotment option in full.

We intend to use all of the net proceeds from this offering to repay a portion of the indebtedness outstanding under our primary credit facility, which amounted to $65.0 million at March 31, 2011. At March 31, 2011, the rate of interest on our indebtedness under our primary credit facility was approximately 2.25% per annum. Our primary credit facility matures in June 2014.

In addition to providing short term borrowings used for working capital, the Company s primary credit facility was utilized during the preceding 12 months to supplement funding from other sources for our general corporate purposes, which included, but was not limited to, operating costs, pension and other postretirement benefits contributions, capital expenditures, payments related to acquisitions and payments of dividends.

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Capitalization

The following table sets forth our cash and cash equivalents and our capitalization as of March 31, 2011:

n on an actual basis; and

n on an as adjusted basis to give effect to the sale by us of shares of our common stock in this offering, after deducting the underwriting discounts and commissions and estimated offering expenses payable by us, and the application of the estimated net proceeds of $ million from this offering. See Use of Proceeds.

This table should be read with Management s Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and notes thereto included in this prospectus supplement.

	As of March 31, 2011	
	Actual	As Adjusted (1)
	(in thousands, except share data)	
Cash and cash equivalents	$ 23,564	$
Total Debt (2)	$ 84,575	$
Equity		
Common stock, $1 par value; authorized 30,000,000 shares; Issued and Outstanding 11,531,148 shares	11,531	
Capital in excess of par value	39,132	
Retained earnings	152,237	
Accumulated other comprehensive loss	(9,497)	
Total Quaker shareholders equity	193,403	
Noncontrolling interest	7,359	
Total equity		