AMERICAN NATIONAL BANKSHARES INC
Form DEF 14A
April 02, 2010

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a)
of the Securities Exchange Act of 1934
(Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement
x Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to §240.14a-12

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American National Bankshares Inc.
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.
¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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¨ Fee paid previously with preliminary materials.

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

American National Bankshares Inc.
628 Main Street, Danville, Virginia, 24541

Notice of Annual Meeting

and

Proxy Statement

Annual Meeting of Shareholders
To Be Held
May 18, 2010

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American National Bankshares Inc.
628 Main Street
Danville, Virginia 24541

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To be held May 18, 2010

Notice is hereby given that the Annual Meeting of Shareholders of American National Bankshares Inc. (the "Company") will be held as follows:

Place: The Wednesday Club
1002 Main Street
Danville, Virginia 24541

Date: May 18, 2010 at 9:00 a.m.

The Annual Meeting is being held for the following purposes:

1. To elect three Class II directors of the Company to serve three-year terms expiring at the 2013 Annual Meeting.

2. To elect one Class III director of the Company to serve a one-year term expiring at the 2011 Annual Meeting.

3. To approve an amendment to the Articles of Incorporation of the Company to increase the number of authorized shares of common stock from 10,000,000 to 20,000,000 and to increase the number of authorized shares of preferred stock from 200,000 to 2,000,000.

4. To transact any other business that may properly come before the meeting or any adjournment thereof.

Only shareholders of record at the close of business on April 2, 2010 are entitled to notice of and to vote at the Annual Meeting.

It is important that your shares are represented at the meeting. Accordingly, please sign, date, and mail the enclosed proxy in the enclosed postage-paid envelope, whether or not you plan to attend. If you do attend the Annual Meeting, you may revoke your proxy and vote your shares in person.

By Order of the Board of Directors,

William W. Traynham
Secretary
April 12, 2010

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AMERICAN National Bankshares Inc.

PROXY STATEMENT

ANNUAL MEETING OF SHAREHOLDERS
MAY 18, 2010

INTRODUCTION

This proxy statement is furnished in conjunction with the solicitation by the Board of Directors of American National Bankshares Inc. (the “Company”) of the accompanying proxy to be used at the Annual Meeting of Shareholders of the Company (the “Annual Meeting”) and at any adjournment thereof. The meeting will be held on Tuesday, May 18, 2010, 9:00 a.m., at The Wednesday Club, 1002 Main Street, Danville, Virginia, 24541, for the purposes set forth below and in the Notice of Annual Meeting of Shareholders. The approximate mailing date of this proxy statement and the enclosed proxy is April 12, 2010.

Voting Rights of Shareholders

Only shareholders of record at the close of business on April 2, 2010, are entitled to notice of and to vote at the Annual Meeting or any adjournment thereof. As of the close of business on April 2, 2010, there were 6,123,275 shares of the Company’s common stock outstanding and entitled to vote at the Annual Meeting. The Company has no other class of stock outstanding. Each share of common stock entitles the record holder thereof to one vote upon each matter to be voted upon at the Annual Meeting.

A majority of the votes entitled to be cast, represented in person or by proxy, will constitute a quorum for the transaction of business. Shares, for which the holder has elected to abstain or to withhold the proxy’s authority to vote on a matter, and broker non-votes, will count toward a quorum but will not be included in determining the number of votes cast with respect to such matter.

Revocation and Voting of Proxies

Execution of a proxy will not affect a shareholder’s right to attend the Annual Meeting and to vote in person. Any shareholder who has executed and returned a proxy may revoke it by attending the Annual Meeting and requesting to vote in person. A shareholder may also revoke his or her proxy at any time before it is exercised by filing a written notice with the Company or by submitting a proxy bearing a later date. Proxies will extend to, and will be voted at, any adjourned session of the Annual Meeting.

Solicitation of Proxies

The cost of solicitation of proxies will be borne by the Company. Solicitation is being made by mail, and if necessary, may be made in person or by telephone, or special letter by officers and employees of the Company or its banking subsidiary, American National Bank and Trust Company (the “Bank”), acting on a part-time basis and for no additional compensation.

PROPOSALS ONE AND TWO – ELECTION OF DIRECTORS

The Company's Board of Directors currently consists of thirteen persons. The Board is divided into three classes (I, II and III), each class as nearly equal in number as possible. The term of office for the Class II directors will expire at the Annual Meeting and the nominees to serve as Class II directors are set forth below. Each of the Class II nominees currently serves as a director of the Company. If elected, the Class II nominees will serve until the 2013 Annual Meeting of Shareholders and until their respective successors are duly elected and qualified. The Board has also nominated E. Budge Kent, Jr., currently a Class II director, to serve as a Class III director for a one-year term expiring at the 2011 Annual Meeting.

Mr. Fred B. Leggett, Jr. will retire from the Board of Directors pursuant to the Company's retirement policy for directors. His retirement will be effective with the 2010 Annual Meeting of Shareholders.

The persons named in the accompanying proxy will vote for the election of the nominees named below unless authority is withheld. If for any reason the persons named as nominees below should become unavailable to serve, an event that management does not anticipate, proxies will be voted for such other persons as the Board of Directors may designate.

The Board of Directors recommends the nominees, as set forth below, for election. The Board of Directors recommends that shareholders vote FOR these nominees. The election of each nominee requires the affirmative vote of a plurality of the shares of the Company's common stock cast in the election of directors.

The names of the nominees for election and the other continuing members of the Board of Directors, their principal occupations and qualifications to serve as directors, their ages as of December 31, 2009, and certain other information with respect to such persons are as follows:

Name	Principal Occupation	Age	Director Since
Nominees for election as Class II directors to continue in office until 2013			
Fred A. Blair	President of Blair Construction, Inc. (general contractor), Gretna, VA. Mr. Blair brings experience as a small business owner, including his knowledge of and experience in commercial construction and development in the Company's market areas.	63	1992
Frank C. Crist, Jr., D.D.S	President of Brady & Crist Dentist, Inc Lynchburg, VA. Dr. Crist brings knowledge about the Lynchburg market area where he has built a successful dental practice, as well as investments in other businesses and real properties in the area. He also brings his prior experience as a director and, ultimately, Chairman of the board of directors of a community bank.	64	2006

Name	Principal Occupation	Age	Director Since
Claude B. Owen, Jr.	Retired Chairman and CEO of DIMON Incorporated (leaf tobacco dealer), Danville, VA. Mr. Owen brings broad experience in the management and oversight of public companies, including past service as Chairman and CEO of a publicly traded leaf tobacco dealer and as Chairman of a publicly traded grocery wholesaler. He also has significant experience in finance, strategic planning and corporate governance, which provides the Board with a substantial resource.	64	1984
Nominee for election as a Class III director to continue in office until 2011			
E. Budge Kent, Jr. (1)	Retired as Senior Adviser to the Bank, serving from January 2006 to April 2008. Prior thereto, Executive Vice President of the Company and Executive Vice President and Chief Trust and Investment Officer of the Bank. Mr. Kent brings experience obtained over a career with the Company and Bank, with broad expertise and experience in investments, trust business development, and risk management, major areas of the Bank's operations.	70	1979
Directors of Class I to continue in office until 2012			
Ben J. Davenport, Jr.	Chairman, First Piedmont Corporation (waste management), Chatham, VA. Chairman, Davenport Energy Inc. (petroleum distribution), Chatham, VA. Mr. Davenport brings his broad experience and perspective as an entrepreneur, owning and operating several highly successful businesses within the Company's market area. Having chaired the board of a major state university and the state chamber of commerce, he also brings strong experience in public policy.	67	1992

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Name	Principal Occupation	Age	Director Since
Michael P. Haley	Adviser to Fenway Partners, Inc. (private equity investments), New York, NY, since April 2006. Executive Chairman, Coach America (surface transportation), Dallas, TX, since September 2007. Retired Chairman, MW Manufacturers, Inc. (window manufacturer), Rocky Mount, VA, since June 2005; prior thereto, Chairman from January 2005 to June 2005, and President and Chief Executive Officer from June 2001 to January 2005. Mr. Haley brings high level financial expertise as a former CEO of a publicly traded manufacturing company and as a current adviser to a private equity firm. He also brings experience in operations and risk management and public company corporate governance. His background helps him fill the role of financial expert on the Company's Audit and Compliance Committee.	59	2002
Charles S. Harris	Executive Vice President, Averett University, Danville, VA, since August 2009; Vice President for Student Services, from June 2007 to July 2009; Director of Athletics from May 2004 to May 2007. Partner, Excel Development Systems, Inc. (consulting firm), Greensboro, NC, since 1987. Mr. Harris brings significant operational and financial management experience, including as the Director of Athletics for several universities of various sizes, both public and private. He brings diversity and a different perspective from his work with college students, the future customers for the Bank.	59	2008

Name	Principal Occupation	Age	Director Since
Franklin W. Maddux, M.D.	Senior Vice President, Chief Medical Information Officer, Fresenius Medical Care North America, Waltham, MA, since November 2009. Founder and Chief Medical Officer, Specialty Care Services Group (healthcare services), Nashville, TN, from July 2006 to November 2009. President and Chairman, Maddux Consulting, Inc. (medical consulting), Danville, VA, since September 2005. Chairman, Gamewood, Inc. (information technology service), Danville, VA, since 1991. President and Chairman, Danville Urologic Clinic from 1995 to 2005. Dr. Maddux has significant and varied experience as a practicing physician, the chief executive of a medical clinic, the founder of an internet service provider and a health information technology company. He brings an entrepreneurial perspective, as well as risk management and strategic planning experience.	52	2002
Directors of Class III to continue in office until 2011			
H. Dan Davis	Retired Executive Vice President of the Company and Senior Vice President of the Bank. Mr. Davis brings considerable experience in the financial services industry including serving as CEO of a savings bank in the Company's market areas. He brings operational risk management and financial accounting knowledge.	72	1996
Lester A. Hudson, Jr., Ph.D.	Professor and Wayland H. Cato Chair of Leadership, McColl School of Business, Queens University of Charlotte, Charlotte, NC. Dr. Hudson brings broad experience as a chief executive of public and private companies, business school professor and	70	1984

lead director of a major public utility. He also brings significant teaching expertise in the areas of management, leadership, and strategic planning.

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Name	Principal Occupation	Age	Director Since
Charles H. Majors (1)	President and Chief Executive Officer of the Company and the Bank. Mr. Majors brings his long tenure and experience as the CEO of the Company. His prior experience as a practicing corporate attorney provides significant expertise in risk management, regulatory, and legal issues.	64	1981
Martha W. Medley	Partner of Daniel, Medley & Kirby, P.C. (attorneys at law), Danville and Martinsville, VA. Mrs. Medley brings her legal expertise to the issues facing the Company, especially in the areas of risk management and trust and estates. She also brings experience in non-profit organizations in the Company's market areas, as well as a woman's perspective to the Board.	53	2008

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(1) Indicates those directors not considered to be independent.

Executive Officers

The information on the Company's executive officers, who are not directors, is disclosed in Part I, Item 1, of the Company's Annual Report on Form 10-K for the year ended December 31, 2009, which was mailed with this proxy statement.

Board Independence

The Company's Board of Directors has determined that, except for Mr. Majors and Mr. Kent, each director is independent within the director independence standard of the NASDAQ Stock Market LLC ("NASDAQ"), as currently in effect, and within the Company's director independence standards, as established and monitored by the Company's Corporate Governance and Nominating Committee.

Board Members Serving on Other Publicly Traded Company Boards of Directors

Certain of the Company's directors are also directors of other publicly traded companies. Mr. Hudson has been a director of American Electric Power Company, Inc. since 1987. Mr. Haley has been a director of Stanley Furniture Company, Inc. since 2003, and LifePoint Hospitals, Inc. since 2005. Mr. Haley has also served as a director of Ply Gem Holdings, Inc. since 2006. Mr. Davenport was a director of Intertape Polymer Group Inc. from 1994 until 2005.

Board of Directors and Committees

Directors are expected to devote sufficient time, energy, and attention to ensure diligent performance of their duties, including attendance at board, committee, and shareholder meetings. The Board of Directors of the Company met five times during 2009. In accordance with the Company's Corporate Governance Guidelines, the independent directors held four executive sessions during 2009. The Chairman of the Corporate Governance and Nominating Committee presides at such sessions. The Board of Directors of the Bank, which consists of all members of the Company's Board, met eleven times during 2009.

All incumbent directors and director nominees attended at least 75% of the aggregate total number of meetings of the boards of directors and committees on which they served in 2009. Twelve directors attended the 2009 Annual Meeting of Shareholders. The Boards of Directors of the Company and the Bank have established various committees, including the Audit and Compliance Committee, the Operational Risk and Security Committee, the Corporate Governance and Nominating Committee, and the Human Resources and Compensation Committee. Membership and other information on these committees are detailed below.

The Audit and Compliance Committee met four times in 2009. This Committee currently consists of Messrs. Blair, Maddux, and Haley. Dr. Maddux serves as the Chairman. The Committee reviews significant audit, accounting and compliance principles, policies and practices; is directly responsible for engaging and monitoring the independent auditors of the Company; and provides oversight of the internal auditing and compliance functions. A more detailed description of the functions of this Committee is contained under the heading "Report of the Audit and Compliance Committee." All of the members of this Committee are considered independent within the meaning of Securities and Exchange Commission ("SEC") regulations, the listing standards of NASDAQ, and the Company's Corporate Governance Guidelines. Mr. Haley, a member of the Committee, is qualified as an audit committee financial expert within the meaning of SEC regulations and the Board has determined that he has accounting and related financial management expertise within the meaning of the listing standards of NASDAQ.

The Operational Risk and Security Committee met one time in 2009. This Committee currently consists of Messrs. Davis, Blair, and Harris. Mr. Davis serves as the Chairman. The Committee reviews significant operational risk and security related matters, previously under the purview of the Audit and Compliance Committee. These risks include, but are not limited to, information security, fraud, physical security, insurance, and vendor management. In effect, this Committee focuses on operational and physical risk and the Audit and Compliance Committee focuses on financial and regulatory risk. This Committee was formed after the 2009 Annual Shareholders Meeting and it is expected the Committee will meet at least twice per year.

The Corporate Governance and Nominating Committee met four times in 2009. Current members of the Committee are Messrs. Crist, Maddux, and Owen. Mr. Owen serves as the Chairman. The Committee is responsible for developing and implementing policies and practices relating to corporate governance, including reviewing and monitoring implementation of the Company's Corporate Governance Guidelines. In addition, the Committee develops and reviews background information on candidates for the Board and makes recommendations to the Board regarding such candidates. The Committee also supervises the Board's annual review of director independence and oversees the Board's performance self-evaluation. The Committee also reviews and approves the travel related expenses of the Chief Executive Officer. All the members of this Committee are considered independent within the meaning of SEC regulations, the listing standards of NASDAQ, and the Company's Corporate Governance Guidelines.

The Human Resources and Compensation Committee met five times in 2009. The Committee currently consists of Messrs. Davenport, Haley, and Hudson. Dr. Hudson serves as the Chairman. This Committee is responsible for establishing and approving the compensation of executive officers of the Company, except for the compensation of the Chief Executive Officer. The compensation of the Chief Executive Officer is reviewed, discussed, and approved by the independent members of the Board of Directors, upon recommendation of the Committee. The Committee also makes recommendations to the Board of Directors regarding promotions, director compensation, and related personnel matters. Reference is made to the “Compensation Discussion and Analysis” section of this proxy statement for further information on the duties and responsibilities of this Committee. No member of the Human Resources and Compensation Committee is a current officer or employee of the Company. All members of this Committee are considered independent within the meaning of SEC regulations, the standards of NASDAQ, and the Company’s Corporate Governance Guidelines.

The charters of the Board Committees are available on the Company’s website, www.amnb.com. For access to the charters, select the “American National Bankshares Investor Relations” icon, then select “Governance Documents.”

Compensation Committee Interlocks and Insider Participation

No member of the Human Resources and Compensation Committee or executive officer of the Company has a relationship that would constitute an interlocking relationship with executive officers or directors of another entity.

Director Nominations Process

The Company’s Board of Directors has adopted, as a component of its Corporate Governance Guidelines, a process related to director nominations (the “Nominations Process”). The purpose of the Nominations Process is to describe the manner by which candidates for possible inclusion in the Company’s recommended slate of director nominees are selected. The Nominations Process is administered by the Corporate Governance and Nominating Committee of the Board.

The Committee considers candidates for Board membership suggested by its members, other Board members, management, and shareholders. A shareholder who wishes to recommend a prospective nominee for the Board may, at any time, notify the Company’s President and Chief Executive Officer or any member of the Committee in writing with supporting material the shareholder considers appropriate. The Committee will decide whether to recommend to the Board the nomination of any person recommended by a shareholder pursuant to the provisions of the Company’s bylaws relating to shareholder proposals, as described in the “Shareholder Communications and Proposals” section of this proxy statement.

Once the Committee has identified a candidate, it makes an initial determination whether to conduct a full evaluation of the candidate based on information accompanying the recommendation and the Committee members’ knowledge of the candidate, which may be supplemented by inquiries to the person making such recommendation or to others. The preliminary determination is based primarily on the need for additional Board members to fill vacancies or expand the size of the Board and the likelihood that the candidate can satisfy the evaluation factors established in the Corporate Governance Guidelines. The Committee may seek additional information about the candidate’s background and experience. The Committee then evaluates the candidate against the criteria in the Company’s Corporate Governance Guidelines, including, but not limited to, independence, availability for time commitment, skills such as an understanding of the financial services industry, general business knowledge and experience, all in the context of an assessment of the perceived needs of the Board at that point in time. The Committee does not have a formal policy with respect to diversity on the Board. However, it considers diversity as a prerequisite for adequately representing the interests of the various stakeholders in the Company – shareholders, customers, and employees. The Committee seeks diversity in overall board composition. In the Committee's nominee considerations, diversity is a much broader concept than just the traditional racial and gender dimensions, as it also includes education, geography, business and

professional experience and expertise, and civic involvement and responsibility, especially within the Company's market area. In connection with this evaluation process, the Committee determines whether to interview the candidate, and if warranted, one or more members of the Committee will conduct such interview. After completing the evaluation, the Committee makes a recommendation to the Board of Directors as to the persons who should be nominated by the Board, and the Board determines the nominees after considering the recommendation of the Committee.

Corporate Governance and Risk Oversight Practices

In a financial institution, the role of the Board is critical to the success or failure of the enterprise. The Board of the Company is led by its Chief Executive Officer ("CEO"), Mr. Majors, who functions as the de facto Chairman of the Board. The Chairman of the Corporate Governance and Nominating Committee, Mr. Owen, functions as the lead independent director. He chairs the Board in the absence of the CEO or when the Board's independent directors meet in executive session without the CEO. Mr. Owen is a retired Chairman and CEO of a publicly traded tobacco company, and a former non-executive board chairman of another public company, and his background and experience prepares him well for this role. Meetings of the independent directors are held numerous times throughout the year.

This structure has evolved over the past 16 years, during the tenure of Mr. Majors as CEO. In the opinion of the Board, it has served the interests of the shareholders, customers, employees and regulators well, as vouched by the Company's consistently higher than peer average asset quality, earnings, and total return to shareholders.

The Board of Directors of a financial institution is the strategic linchpin in the risk oversight process. Financial institutions deal with credit risk, liquidity risk, interest rate risk, reputation risk, and regulatory risk in the day to day conduct of business. In order to better manage the risk oversight process, in 2009 the Board created a new Operational Risk and Security Committee, which assumed some of the oversight duties previously addressed by the Audit and Compliance Committee. In effect, the Board has one committee to address the financial and regulatory related risks, the Audit and Compliance Committee, and a second committee to address the physical and operational risks, the new Operational Risk and Security Committee. Both committees receive information frequently from the CEO, Chief Financial Officer, internal auditor, compliance officer, other key officers, external auditors, and regulators. In the opinion of the Board, this structure provides for an improved approach to risk oversight.

Corporate governance is, or should be, a constantly evolving and improving process. Companies have to be prepared to adjust to changing circumstances and react appropriately. During 2009, Mr. Majors and the Board began planning for his retirement on an orderly schedule. In December 2009, the Board engaged an outside firm to assist in the succession planning process and the selection of a successor. This process is being directed by a Board committee of independent directors, but the final selection of the new Chief Executive Officer will be determined by the Board. This will be a thorough selection process, which the Board anticipates will be concluded sometime in 2010. The new officer will work directly with Mr. Majors for some period of time, as Mr. Majors disengages slowly from the daily aspects of running the Company and the Bank. At the appropriate time, Mr. Majors will transition to the role of Board Chairman, as the new officer assumes more responsibility. This strategy should make for a smooth and effective transition.

Board Tenure Policy

The Board of the Company has a long-standing policy for the Company and the Bank with respect to the tenure of directors. In summary, it provides for the following:

ü No director will allow himself to be nominated for reelection to the Board of the Company after reaching the age of 72;

ü No director will allow himself to be nominated for reelection to the board of the Bank, unless at the time of such reelection he was eligible to serve as a director of the Company;

ü Any director who retires or resigns from or severs his current employment, or relocates outside the market area of the Bank, will tender his resignation. The Board may accept it, delay acceptance, or decline to accept it;

ü No inside director will continue to serve as a director after his retirement, resignation or other severance of employment status. However, the Board may waive this requirement if it is deemed in the best interests of the Company or the Bank;

ü No director will be eligible for reelection if he is absent from all meetings for the 12 month period preceding the Annual Meeting of Shareholders at which such election would be held;

ü Any former director may be elected as a Director Emeritus for a one year term, but may not serve more than three years or after reaching age 75. A Director Emeritus will be entitled to attend and participate in Board meetings, but will not be eligible to vote and his presence will not be considered in the determination of a quorum.

During 2009, Dr. Maddux changed his employment status and tendered his resignation in compliance with the above policy, which was declined by the Board. Also, during that period, the Board approved Mr. Kent’s continued service as an inside director. Mr. Leggett, having reached the age of 72, did not allow his name to be placed in nomination for reelection at the 2010 Annual Meeting. The Company’s Governance and Nominating Committee will be recommending to the full Board that Mr. Leggett be elected a Director Emeritus at the Organizational Meeting subsequent to the next Annual Meeting.

SECURITY OWNERSHIP

The table below includes all shareholders of the Company known to management to beneficially own more than 5 percent of the Company's common stock as of December 31, 2009.

Name and Address of Beneficial Owner	Shares of Common Stock Beneficially Owned (#) (1)	Investment Power			Voting Power			Percent of Class (%)
		Shares	Sole	None	Shares	Sole	None	
BlackRock, Inc.	316,785	-	316,785	-	-	316,785	-	5.18 %
40 East 52nd Street								
New York, New York 10022 (2)								
Ambro and Company	515,448	515,448	-	-	193,286	-	-	8.43 %
P.O. Box 191								
Danville, Virginia 24543 (3)								

(1) For purposes of this table, beneficial ownership has been determined in accordance with the provisions of Rule 13d-3 of the Securities Exchange Act of 1934 under which, in general, a person is deemed to be the beneficial owner of a security if he has or shares the power to vote or direct the voting of the security or the power to dispose of or direct the disposition of the security, or if he has the right to acquire beneficial ownership of the security within 60 days.

(2) This ownership position is related to BlackRock's acquisition of Barclay's Global Investors and certain of its affiliates. This information is based upon information as of December 31, 2009 contained in a Schedule 13G filed with the Securities and Exchange Commission on January 29, 2010.

(3) Ambro and Company is the nominee name that American National Bank and Trust Company uses to register the securities it holds in a fiduciary capacity for customers. The Bank may not vote the remaining shares, but co-fiduciaries may be qualified for the sole purpose of voting all or a portion of these remaining shares at the Annual Meeting.

The following table sets forth, as of March 11, 2010, the beneficial ownership of the Company's common stock by all directors and nominees for director, all executive officers of the Company named in the Summary Compensation Table on page 19 of this proxy statement, and all directors and executive officers of the Company as a group.

Name of Beneficial Owner	Shares of Common Stock Beneficially Owned (1) (#)				
Fred A. Blair	5,976	(2)			*
Frank C. Crist, Jr., D.D.S.	85,684	(2)			1.40
Ben J. Davenport, Jr.	31,653				*
H. Dan Davis	129,514	(2)			2.12
R. Helm Dobbins	19,637		(3)	(4)	*
S. Cabell Dudley, Jr.	4,192		(3)	(4)	*
Dabney T.P. Gilliam, Jr.	4,195		(3)	(4)	*
Jeffrey V. Haley	34,129	(2)	(3)	(4)	*
Michael P. Haley	5,708				*
Charles S. Harris	250				*
Lester A. Hudson, Jr., Ph.D.	9,987				*
E. Budge Kent, Jr.	50,808	(2)	(3)		*
Fred B. Leggett, Jr.	10,241	(2)			*
Franklin W. Maddux, M.D.	1,983				*
Charles H. Majors	108,765	(2)	(3)	(4)	1.76
Martha W. Medley	100				*
Claude B. Owen, Jr.	15,815	(2)			*
William W. Traynham	4,937			(4)	*
All directors and executive officers as a group (18)	523,574				8.40

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* Represents less than 1% ownership.

(1) For purposes of this table, beneficial ownership has been determined in accordance with the provisions of Rule 13d-3 of the Securities Exchange Act of 1934 under which, in general, a person is deemed to be the beneficial owner of a security if he has or shares the power to vote or direct the voting of the security or the power to dispose of or direct the disposition of the security, or if he has the right to acquire beneficial ownership of the security within 60 days.

(2) Includes shares held by affiliated companies, close relatives, minor children, and shares held jointly with spouses or as custodians or trustees, as follows: Mr. Blair, 159 shares; Dr. Crist, 600 shares; Mr. Davis, 40,704 shares; Mr. Jeffrey V. Haley, 724 shares; Mr. Kent, 1,767 shares; Mr. Leggett, 9,268 shares; Mr. Majors, 3,744 shares; and Mr. Owen, 4,200 shares.

(3) Includes shares that may be acquired pursuant to currently exercisable stock options: Mr. Dobbins, 17,000 shares; Mr. Dudley, 3,000 shares; Mr. Gilliam, 3,000 shares; Mr. Jeffrey V. Haley, 20,000 shares; Mr. Kent, 9,000 shares; Mr. Majors, 55,000 shares; all directors and executive officers as a group, 107,000 shares.

(4)

Includes shares of restricted stock awarded in January 2010: Mr. Dobbins, 937 shares; Mr. Dudley, 937 shares; Mr. Gilliam, 937 shares; Mr. Jeffrey V. Haley, 937 shares; Mr. Majors, 2,341 shares, Mr. Traynham, 937 shares; all executive officers as a group, 7,026 shares.

COMPENSATION COMMITTEE REPORT

The Human Resources and Compensation Committee of the Board of Directors has reviewed and discussed with management the Company's Compensation Discussion and Analysis. Based upon this review and discussion, the Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Company's definitive proxy statement on Schedule 14A for its 2010 Annual Meeting, which is incorporated by reference in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009, as filed with the Securities and Exchange Commission.

Respectfully submitted,

Lester A. Hudson, Jr., Ph.D., Chairman
Ben J. Davenport, Jr.
Michael P. Haley

COMPENSATION DISCUSSION AND ANALYSIS

The Company's Executive Compensation Philosophy

The Human Resources and Compensation Committee of the Board of Directors is responsible for establishing and approving the compensation of the executive officers of the Company, except for the compensation of the Chief Executive Officer, which is approved by the independent members of the Board of Directors. The Committee considers a variety of factors and criteria in arriving at its decisions and recommendations for compensation. The Committee's objective is to attract and retain qualified executive officers and to align their interests with those of the Company and its shareholders. Accordingly, a portion of the executive compensation program is designed to motivate and reward achievements that make a positive impact on the Company's profitability and total shareholder return.

Each director who served on the Committee during 2009 qualifies as a "non-employee director" as such term is defined in Rule 16b-3 promulgated under the Securities Exchange Act of 1934 and is an "independent director" as such term is defined in NASDAQ Marketplace Rule 5605(a)(2).

Salary

The base salary of each executive officer named in the Summary Compensation Table (the "named executive officers") is designed to be competitive with that of the Company's peer banks and bank holding companies. In establishing the base salaries for the named executive officers, the Committee relies upon an evaluation of each officer's level of responsibility and performance and on comparative information, including the Virginia Bankers Association's Salary Survey of Virginia Banks and the SNL Bank Compensation Review. In establishing base salaries for named executive officers other than the Chief Executive Officer, the Committee also receives and takes into account the individual compensation recommendations of the Chief Executive Officer. The independent directors collectively evaluate the performance of the Chief Executive Officer in executive session. Subsequently, the Chairman of the Committee meets individually with the Chief Executive Officer to review the results of the evaluation. The salary of the Chief Executive Officer is reviewed, discussed, and approved by the independent members of the Board of Directors in executive session, upon recommendation of the Committee.

Profit Sharing and Incentive Compensation Programs

The Company has a profit sharing program that is designed to recognize and reward the efforts of eligible full-time employees for their contribution toward the attainment of the Company's financial goals. Also, there is an incentive compensation program that is designed to recognize and reward Company officers, including the named executive officers, whose achievements resulted in a positive impact to the Company.

Both the profit sharing program and incentive compensation program were inactive during 2008 due to the economic downturn, which continued into 2009. Due to the continued negative impact of this downturn on the Company's earnings in 2009, the Board of Directors has not fully reactivated the programs. However, in recognition of the aggregate efforts of the Company's employees, the Board approved in late December 2009 an across the board profit sharing distribution to full time employees equal to 1.5% of their earned income for the year ended December 31, 2009. Named executive officers received payments on the same basis as other full time employees.

For 2010 and future years, the Company will establish annually the criteria necessary to determine what awards can be earned under the profit sharing and incentive compensation programs.

In the opinion of the Committee and the Board of Directors, the Company's compensation practices do not encourage excessive or inappropriate risk taking and are not reasonably likely to have a material adverse effect on the Company.

Stock Compensation Plans

The Company maintains the 2008 Stock Incentive Plan ("2008 Plan"), which is designed to attract and retain qualified key personnel, provide employees with a proprietary interest in the Company as an incentive to contribute to the success of the Company, and reward employees for outstanding performance and the attainment of targeted goals. The 2008 Plan was adopted by the Board of Directors of the Company on February 19, 2008 and approved by the shareholders on April 22, 2008 at the Company's 2008 Annual Meeting. The 2008 Plan provides for the granting of restricted stock awards and incentive and non-statutory options to employees and directors on a periodic basis, at the discretion of the Board or a Board designated committee. The 2008 Plan authorized the issuance of up to 500,000 shares of common stock. The 2008 Plan replaced the Company's stock option plan that was approved by the shareholders at the 1997 Annual Meeting, which plan terminated in 2006 (the "1997 Option Plan").

The 2008 Plan is administered by a Committee of the Board of Directors of the Company comprised of independent directors. Under the 2008 Plan, the Committee determines which employees will be granted restricted stock awards and options, whether such options will be incentive or non-statutory options, the number of shares subject to each option, whether such options may be exercised by delivering other shares of common stock, and when such options become exercisable. In general, the per share exercise price of an incentive stock option must be at least equal to the fair market value of a share of common stock on the date the option is granted. Restricted stock is granted under terms and conditions established by the Committee.

Stock options become vested and exercisable in the manner specified by the Committee. Each stock option or portion thereof shall be exercisable at any time on or after it vests and is exercisable until ten years after its date of grant. As of December 31, 2009, 104,353 shares remain exercisable under the 1997 Option Plan and 27,750 shares are exercisable under the 2008 Plan. There were 6,000 stock options awarded in 2009. All options granted in 2009 had multi-year vesting schedules to enhance employee retention.

The summary stock option plan table is included in Part II, Item 5 of the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

Deferred Compensation

The Bank entered into a deferred compensation agreement with Charles H. Majors, Chief Executive Officer, initially as of February 22, 1993, and most recently amended and restated as of December 31, 2008. The agreement requires an annual payment of $50,000 for a period of ten years to Mr. Majors or his designated beneficiary, commencing within three months of his termination of employment or death, whichever occurs first. The amount of this payment is fixed and the funds for this payment are not established in an account that allows for additional contributions or earnings growth. Payments under this agreement are independent of, and in addition to, those under any other plan, program, or agreement between Mr. Majors and the Company or the Bank. There are no deferred compensation arrangements with any of the other named executive officers.

Retirement Plan

Through December 31, 2009, the Company's retirement plan was a non-contributory defined benefit pension plan that covered all full-time employees of the Company who were 21 years of age or older and who had at least one year of service. Advanced funding was accomplished by using the actuarial cost method known as the collective aggregate cost method.

As of December 31, 2009, the normal retirement benefit formula was 1.3% per year of service multiplied by average compensation, plus .65% per year of service multiplied by average compensation in excess of social security covered compensation, with years of service limited to 35. At normal retirement, the monthly benefit is calculated based on any consecutive five-year period that will produce the highest average rate of basic monthly compensation. Basic monthly compensation includes salary but excludes profit sharing and incentive compensation. This benefit is based on a straight life annuity assuming retirement at age 65. Annual compensation for 2009 is limited to $245,000 by Internal Revenue Service regulations. Cash benefits under the plan generally commence on retirement at age 65, death, or termination of employment, although reduced benefits may commence as early as age 55 with the completion of 10 years of service. Partial vesting of the retirement benefits under the plan occurs after three years of service and full vesting occurs after seven years of service. As of December 31, 2009, the named executive officers have completed the following years of credited service under the retirement plan: Mr. Majors, 17; Mr. Jeffrey V. Haley, 13; Mr. Dobbins, 7; Mr. Dudley, 4 and Mr. Gilliam, 9. No credited service has been awarded other than based on actual years of employment.

The plan was closed to new participants at December 31, 2009. On that date, the Company converted the plan to a cash balance plan. Participants will earn each year, with some adjustments, income based on the ten year U. S. Treasury note yield established at December 31 of the prior year. The Company expects this change will reduce the on-going cost of the program.

401(k) Employee Savings Plan

The Company sponsors a 401(k) Employee Savings Plan in which all full-time employees (age 21 and older) are eligible to participate. Prior to 2010, the Company matched 50% of employee contributions on the first 6% of earned compensation. Effective January 1, 2010, the Company matches 100% of employee contributions on the first 3% of earned compensation and 50% of employee contributions of the second 3% of earned compensation. Perquisites received by executive officers are not included as earned compensation under this plan. While employee contributions are immediately vested, the Company's contributions at or prior to December 31, 2009 are subject to a stated vesting schedule. Effective January 1, 2010, the Company's contributions will not be subject to a vesting schedule.

Perquisites

The Company provides the Chief Executive Officer with an automobile and reimburses him for the cost of fuel and maintenance for the vehicle. Additionally, the Company reimburses him for the estimated amount of personal income tax on his personal use of the vehicle. The value of this perquisite is included in the Summary Compensation Table.

Other Benefit Plans

Executive officers participate in the Company's benefit plans on the same terms as other employees. These plans include medical, dental, life, and disability insurance. The Company provides life insurance coverage equal to four times the employee's salary for all eligible employees. Coverage in excess of $50,000 is subject to taxation based on Internal Revenue Service guidelines.

Executive Severance Agreements

The Company recognizes that, as a publicly held company in the financial services industry, there exists the possibility of a change in the control of the Company. In order to minimize such uncertainty among executive management, and to promote continuity in the event of a change in control and protect the interest of the shareholders, the Company has entered into change in control agreements with each of the named executive officers.

In general, "change in control" is defined in the agreements as a change in the majority composition of the Board of Directors over a 24-month period; a change in the ownership of a majority of the Company's voting stock, or a sale of a majority of the Company's assets. The terms of each agreement generally reflect provisions used in current industry practice for executive officers of financial institutions. The terms of the agreements are effective upon a change in control and for three years thereafter. The agreements provide that each executive officer's base salary and profit sharing and incentive compensation cannot be reduced during such three-year period.

Each agreement also provides for the executive officer to receive continued salary and benefits if his employment is terminated "without cause" (as such term is defined in the agreement) during the term of the agreement. If employment is terminated during the first year after a control change, the Chief Executive Officer will receive continued salary and benefits for 24 months after such termination and the other executive officers will receive continued salary and benefits until the second anniversary of the change in control. If the termination of employment occurs more than 12 months after the control change, the Chief Executive Officer will receive continued salary and benefits until the third anniversary of the control change and the other executive officers will receive continued salary and benefits until the earlier of the first anniversary of termination of employment or the third anniversary of the control change.

The agreements also provide for continued salary and benefits if the executive officer resigns under certain circumstances. Beginning in the fourth month after a control change, and through the twelfth month after the transaction, each executive officer may resign for any reason and receive continued salary and benefits for 24 months (in the case of the Chief Executive Officer) or 12 months (in the case of the other executives). After the first anniversary of the control change, an executive officer may resign and receive continued salary and benefits for the same period (but not beyond the third anniversary of the control change) if his resignation is on account of a reduction in the executive's compensation, a required relocation of his office more than thirty miles from Danville, Virginia, or a reduction in the duties or title assigned to him as of the first anniversary of the control change.

In all events, the amounts payable under the agreements are governed by two limitations. First, no amounts will be paid under an agreement for any period after the executive attains age 65. Second, no amounts will be paid under an agreement to the extent that the benefits would exceed Internal Revenue Code limits.

Potential Payments upon Termination or Change in Control

Of the named executive officers, only the Chief Executive Officer would receive payments in the event of retirement or termination unrelated to a change in control. If Mr. Majors' employment had terminated on December 31, 2009, due to a change in control or otherwise, he would receive annual payments of $50,000 for ten years under the terms of the deferred compensation agreement discussed in the "Deferred Compensation" section of this proxy statement.

If a change in control had occurred on December 31, 2009, and the named executive officers were terminated on that same date, the benefits that would be payable to each of the named executive officers under the terms of their executive severance agreements are identified in the following table. This hypothetical scenario would require payment of salary and bonus and coverage under the Company's healthcare, other insurance benefits, and pension plans through December 31, 2011. The benefits payable under any other change in control termination scenario would be less than or equal to the amounts shown.

Name	Salary (24 months) $	Non-Equity Incentive Plan Compensation (24 months) $	Other (24 months) $	Change in Pension Value (Lump sum) $
Charles H. Majors (1)	728,000	-	30,775	537,778

Other Chemical Products, which represented less than 1% of the Company s net sales in 2010, consists of sulfur removal products for industrial gas streams sold by the Company s Q2 Technologies joint venture. Net sales were down $0.1 million and operating income was at a slight loss due to reduced volumes with the downturn in the oil and gas markets.

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Comparison of 2009 with 2008

Net sales for 2009 were $451.5 million, a decline of $130.2 million, or approximately 22%, compared to $581.6 million for 2008. Volumes declined approximately 20%, reflective of the global economic downturn. Changes in foreign exchange rates also decreased revenue by approximately 2%.

Gross profit decreased by $6.2 million, or 4%, compared to 2008, reflective of the above noted volume declines which were tempered by gross margin expansion. The gross margin increased to 34.7% in 2009, compared to 28.0% in 2008, primarily due to cost reduction actions taken, a more favorable raw material cost environment and reduced automotive chemical management services revenue reported on a gross basis.

SG&A decreased $10.7 million, or 8%, compared to 2008. Savings from cost reduction programs, lower travel and entertainment expenses and lower commissions, partially offset by higher incentive compensation accruals, accounted for 64% of the decline. Changes in foreign exchange rates accounted for the remainder.

In response to the global economic downturn, the Company initiated restructuring programs and incurred charges of approximately $2.3 million, or approximately $0.14 per diluted share in 2009, and $2.9 million, or approximately $0.18 per diluted share in 2008. The Company completed both initiatives in 2009.

The Company incurred charges related to the former CEO s supplemental retirement plan of approximately $2.4 million in 2009, or approximately $0.14 per diluted share. The CEO transition costs incurred in 2008 were approximately $3.5 million, or approximately $0.22 per diluted share.

Other income for 2009 included a $1.2 million gain related to the disposition of excess land in Europe, while other income for 2008 included a net arbitration award of approximately $1.0 million related to litigation with one of the former owners of the Company s Italian subsidiary. Lower foreign exchange rate losses in 2009 compared to 2008 also contributed to the change in other income in 2009. The increase in net interest expense was primarily due to lower interest income, as lower average debt balances were offset by higher interest rates. The increase in equity in net income of associated companies and net income attributable to noncontrolling interests was due to stronger financial performances from those affiliates as they began to recover from the global economic downturn.

The Company s effective tax rate for 2009 was 29.8%, compared to 29.9% in 2008. The 2009 effective tax rate reflected no tax expense being provided for the land sale gain due to the utilization of net operating losses, which were previously not benefited, while the 2008 effective tax rate included a tax refund of $0.5 million related to the Company s increased investment in China.

Segment Reviews Comparison of 2009 with 2008

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 2009. Net sales were down $120.9 million, or 22%, compared to 2008. Foreign currency translation negatively impacted net sales by approximately 2%, driven by the E.U. Euro to U.S. Dollar, and Brazilian Real to U.S. Dollar exchange rates. The average Euro to U.S. Dollar exchange rate was 1.39 in 2009 compared to 1.47 in 2008, and the average Brazilian Real exchange rate was 0.51 in 2009 compared to 0.55 in 2008. Net sales were negatively impacted by declines of 32% in North America, 22% in Europe, 3% in Asia/Pacific and 14% in South America, all on a constant currency basis. The decline in this segment s sales was primarily attributable to volume declines of approximately 20% impacting all regions, reflective of the global economic downturn. Part of this segment s volume decline was due to reduced automotive CMS revenue reported on a gross versus pass-through basis.

Despite the significant volume declines, this segment s operating income increased $11.3 million reflective of savings from the Company s restructuring programs and reduced discretionary spending as well as a more favorable raw material environment.

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Coatings:

The Company s coatings segment, which represented approximately 7% of the Company s net sales in 2009, contains products that provide temporary and permanent coatings for metal and concrete products and chemical milling maskants. Net sales for this segment were down $7.0 million, or 19%, for 2009 compared with the prior year, primarily due to reduced volumes of chemical milling maskants sold to the aerospace industry as well as reduced coating sales to the construction industry. This segment s operating income was down $1.9 million, consistent with the volume decline noted above.

Other Chemical Products:

Other Chemical Products, which represented less than 1% of the Company s net sales in 2009, consists of sulfur removal products for industrial gas streams sold by the Company s Q2 Technologies joint venture. Net sales were down $2.3 million as a result of reduced volumes due to the downturn in the oil and gas market. Operating income was a slight loss for 2009, reflective of the above noted volume declines.

Restructuring and Related Activities

In the fourth quarter of 2008, Quaker s management approved restructuring plans (the 2008 4th Quarter Program) to reduce operating costs, primarily in North America and Europe. Included in restructuring plans were provisions for severance for 57 employees. The Company recognized a $2.9 million restructuring charge in the fourth quarter of 2008. Employee separation benefits varied depending on local regulations within certain foreign countries and included severance and other benefits. The Company implemented an additional restructuring program in the first quarter of 2009 (the 2009 1st Quarter Program) which included provisions for severance for 60 employees totaling approximately $2.3 million. The Company completed the initiatives contemplated under these programs during 2009.

Environmental Clean-up Activities

The Company is involved in environmental clean-up activities in connection with an existing plant location and former waste disposal sites. 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 is remediating the contamination. Effective October 17, 2007, ACP agreed to operate the two existing groundwater treatment systems associated with the 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 contaminants are below the current Federal maximum contaminant level for four consecutive quarterly sampling events. At December 31, 2010, the Company believes that the remaining potential-known liabilities associated with the ACP contamination, namely estimated future cost of the soil and water remediation program, is approximately $1.3 million to $2.3 million, for which the Company has sufficient reserves. Notwithstanding the foregoing, the Company cannot be certain that liabilities in the form of remediation expenses and damages will not be incurred in excess of the amount reserved. See Note 22 of Notes to Consolidated Financial Statements which appears in Item 8 of this Report.

General

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 the attendant net assets. During the past three years, sales by non-U.S. subsidiaries accounted for approximately 59% to 65% of our consolidated net annual sales. See Note 17 of Notes to Consolidated Financial Statements which appears in Item 8 of this Report.

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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.

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

Any or all of the forward-looking statements in this Report, in Quaker s Annual Report to Shareholders for 2010 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. These 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 Company s demand 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, each of which is discussed in greater detail in Item 1A of this Report. 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 in this Report 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.

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Item 7A.*Quantitative and Qualitative Disclosures About Market Risk.*
Quaker is exposed to the impact of interest rates, foreign currency fluctuations, changes in commodity prices, and credit risk.

Interest Rate Risk. Quaker s exposure to market rate risk for changes in interest rates relates primarily to its short and long-term debt. Most of Quaker s debt is negotiated at market rates. Accordingly, if interest rates rise significantly, the cost of debt to Quaker will increase. This can have an adverse effect on Quaker, depending on the extent of Quaker s borrowings. As of December 31, 2010, Quaker had approximately $55.0 million in borrowings under its credit facility at a weighted average borrowing rate of approximately 2.02% (LIBOR plus a spread). If interest rates were to change by 10%, the Company s interest expense would correspondingly increase or decrease approximately $0.1 million. The Company uses derivative financial instruments primarily for the purposes of hedging exposures to fluctuations in interest rates. The Company does not enter into derivative contracts for trading or speculative purposes. The Company has entered into interest rate swaps in order to fix a portion of its variable rate debt. The swaps had a combined notional value of $15.0 million and a fair value of $(1.0) million at December 31, 2010, and a combined notional value of $40.0 million and a fair value of $(2.2) million at December 31, 2009. As of December 31, 2010, the Company is currently receiving a LIBOR rate and paying an additional average fixed rate of approximately 5% on its interest rate swaps. The Company s remaining three swaps mature in 2012. The counterparties to the swaps are major financial institutions. Outstanding financial derivative instruments 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. See the information included under the caption Derivatives in Note 1 and the information in Note 5 of Notes to Consolidated Financial Statements which appears in Item 8 of this Report and is incorporated herein by reference.

Foreign Exchange Risk. A significant portion of Quaker s revenues and earnings is generated by its foreign operations. These foreign operations also represent a significant portion of Quaker s assets and liabilities. All such operations use the local currency as their functional currency. Accordingly, Quaker s financial results are affected by risks typical of global business such as currency fluctuations, particularly between the U.S. Dollar, the Brazilian Real, the Chinese Renminbi and the E.U. Euro. As exchange rates vary, Quaker s results can be materially affected. If the Brazilian Real, the E.U. Euro and the Chinese Renminbi were each to change by 10% against the U.S. Dollar, the Company s 2010 revenues and pre-tax earnings would correspondingly have increased or decreased approximately $28.0 million and $4.0 million, respectively.

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 the attendant net assets. During the past three years, sales by non-U.S. subsidiaries accounted for approximately 59% to 65% of consolidated net annual sales.

In addition, 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.

Commodity Price Risk. Many of the raw materials used by Quaker are commodity chemicals, and, therefore, Quaker s earnings can be materially affected by market changes in raw material prices. In certain cases, Quaker has entered into fixed-price purchase contracts having a term of up to two years. These contracts provide for protection to Quaker if the price for the contracted raw materials rises, however, in certain limited circumstances, Quaker will not realize the benefit if such prices decline. If the Company s gross margin were to change by one percentage point, the Company s 2010 pretax earnings would have correspondingly increased or decreased by approximately $5.5 million.

Credit Risk. Quaker establishes allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of Quaker s

customers were to

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deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Downturns in the overall economic climate may also exacerbate specific customer financial issues. 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 difficulty. When a bankruptcy occurs, Quaker must judge the amount of proceeds, if any, that may ultimately be received through the bankruptcy or liquidation process. In addition, as part of its terms of trade, Quaker may custom manufacture products for certain large customers and/or may ship product on a consignment basis. These practices may increase the Company s exposure should a bankruptcy occur, and may require write-down or disposal of certain inventory due to its estimated obsolescence or limited marketability. Customer returns of products or disputes may also result in similar issues related to the realizability of recorded accounts receivable or returned inventory. The Company recorded provisions for doubtful accounts of $0.9 million, $1.4 million and $1.1 million in 2010, 2009 and 2008, respectively. A change of 10% to the recorded provisions would have increased or decreased the Company s pre-tax earnings by approximately $0.1 million in 2010, 2009 and 2008, respectively.

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Item 8. ***Financial Statements and Supplementary Data.***

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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors

of Quaker Chemical Corporation:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Quaker Chemical Corporation and its subsidiaries at December 31, 2010 and December 31, 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed 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. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management s Report on Internal Control over Financial Reporting appearing under Item 9A, management has excluded Summit Lubricants, Inc. from its assessment of internal control over financial reporting as of December 31, 2010 because it was acquired by the Company in a purchase business combination on December 31, 2010. We have also excluded Summit Lubricants, Inc. from our audit of internal control over financial reporting. Summit Lubricants, Inc. is a wholly-owned subsidiary whose total assets and total revenues represent 8% and 0%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2010.

/s/ PricewaterhouseCoopers LLP

Philadelphia, PA

March 2, 2011

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QUAKER CHEMICAL CORPORATION

CONSOLIDATED STATEMENT OF INCOME

	Year Ended December 31,		
	2010	**2009**	**2008**
	(In thousands, except per share amounts)		
Net sales	$ 544,063	$ 451,490	$ 581,641
Costs and expenses:			
Cost of goods sold	351,274	294,652	418,580
Selling, general, and administrative expenses	139,209	126,018	136,697
Non-income tax contingency charge	4,132		
CEO transition costs	1,317	2,443	3,505
Restructuring and related activities		2,289	2,916
	495,932	425,402	561,698
Operating income	48,131	26,088	19,943
Other income, net	2,106	2,409	1,095
Interest expense	(5,225)	(5,533)	(5,509)
Interest income	1,201	728	1,100
Income before taxes and equity in net income of associated companies	46,213	23,692	16,629
Taxes on income before equity in net income of associated companies	12,616	7,065	4,977
Income before equity in net income of associated companies	33,597	16,627	11,652
Equity in net income of associated companies	494	863	388
Net income	34,091	17,490	12,040
Less: Net income attributable to noncontrolling interest	2,284	1,270	908
Net income attributable to Quaker Chemical Corporation	$ 31,807	$ 16,220	$ 11,132
Earnings per common share data:			
Net income attributable to Quaker Chemical Corporation Common shareholders basic	$ 2.82	$ 1.48	$ 1.06
Net income attributable to Quaker Chemical Corporation Common shareholders diluted	$ 2.77	$ 1.47	$ 1.05

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

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QUAKER CHEMICAL CORPORATION

CONSOLIDATED BALANCE SHEET

	December 31,	
	2010	2009
	(In thousands, except par value and share amounts)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 25,766	$ 25,051
Construction fund (restricted cash)		2,358
Accounts receivable, net	116,266	108,793
Inventories	60,841	50,040
Current deferred tax assets	4,624	5,523
Prepaid expenses and other current assets	7,985	7,409
Total current assets	215,482	199,174
Property, plant and equipment, net	76,535	67,426
Goodwill	52,758	46,515
Other intangible assets, net	24,030	5,579
Investments in associated companies	9,218	8,824
Non-current deferred tax assets	28,846	28,237
Other assets	42,561	39,537
Total assets	$ 449,430	$ 395,292
LIABILITIES AND EQUITY		
Current liabilities		
Short-term borrowings and current portion of long-term debt	$ 890	$ 2,431
Accounts payable	61,192	58,389
Dividends payable	2,701	2,550
Accrued compensation	17,140	16,656
Accrued pension and postretirement benefits	1,672	4,717
Current deferred tax liabilities	181	213
Other current liabilities	17,415	15,224
Total current liabilities	101,191	100,180
Long-term debt	73,855	63,685
Non-current deferred tax liabilities	6,108	5,213
Accrued pension and postretirement benefits	30,016	27,602
Other non-current liabilities	51,161	42,317
Total liabilities	262,331	238,997
Commitments and contingencies		
Equity		
Common stock, $1 par value; authorized 30,000,000 shares; Issued: 2010-11,492,142 shares, 2009-11,085,549 shares	11,492	11,086

Capital in excess of par value	38,275	27,527
Retained earnings	144,347	123,140
Accumulated other comprehensive loss	(13,736)	(10,439)
Total Quaker shareholders equity	180,378	151,314
Noncontrolling interest	6,721	4,981
Total equity	187,099	156,295
Total liabilities and equity	$ 449,430	$ 395,292

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

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QUAKER CHEMICAL CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2010	2009	2008
	(In thousands)		
Cash flows from operating activities			
Net income	$ 34,091	$ 17,490	$ 12,040
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	9,867	9,525	10,879
Amortization	988	1,078	1,177
Equity in net income of associated companies, net of dividends	19	(833)	(275)
Deferred income taxes	1,849	(505)	1,014
Uncertain tax positions (non-deferred portion)	(1,130)	1,266	211
Deferred compensation and other, net	(628)	652	819
Stock-based compensation	3,096	2,130	3,901
Restructuring and related activities		2,289	2,916
Loss (gain) on disposal of property, plant and equipment	32	(1,202)	(10)
Insurance settlement realized	(1,640)	(1,608)	(1,556)
Pension and other postretirement benefits	(2,636)	(7,929)	(3,527)
Increase (decrease) in cash from changes in current assets and current liabilities, net of acquisitions:			
Accounts receivable	(4,469)	(6,816)	15,582
Inventories	(7,153)	9,765	(73)
Prepaid expenses and other current assets	(814)	(129)	(181)
Accounts payable and accrued liabilities	5,511	16,540	(27,892)
Change in restructuring liabilities		(4,473)	(749)
Estimated taxes on income	564	4,363	(885)
Net cash provided by operating activities	37,547	41,603	13,391
Cash flows from investing activities			
Capital expenditures	(9,354)	(13,834)	(11,742)
Payments related to acquisitions, net of cash acquired	(35,909)	(1,975)	(1,859)
Proceeds from disposition of assets	229	1,666	177
Insurance settlement received and interest earned	5,122	5,204	5,306
Change in restricted cash, net	(1,124)	2,327	(12,031)
Net cash used in investing activities	(41,036)	(6,612)	(20,149)
Cash flows from financing activities			
Net (decrease) increase in short-term borrowings	(1,456)	(1,755)	743
Proceeds from long-term debt	9,841	3,500	10,000
Repayment of long-term debt	(636)	(23,973)	(3,401)
Dividends paid	(10,449)	(10,111)	(9,503)
Stock options exercised, other	5,500	412	11,919
Excess tax benefit related to stock option exercises	2,558		
Distributions to noncontrolling shareholders	(1,021)	(890)	(404)
Net cash provided by (used in) financing activities	4,337	(32,817)	9,354

Effect of exchange rate changes on cash	(133)	1,985	(1,899)
Net increase in cash and cash equivalents	715	4,159	697
Cash and cash equivalents at beginning of the period	25,051	20,892	20,195
Cash and cash equivalents at end of the period	$ 25,766	$ 25,051	$ 20,892
Supplemental cash flow disclosures			
Cash paid during the year for:			
Income taxes	$ 7,799	$ 180	$ 4,561
Interest	4,884	5,113	5,314
Non-cash activities:			
Restricted insurance receivable (See also Note 20 of Notes to Consolidated Financial Statements)	$ 5,000	$ 5,000	$ 5,000
Property, plant and equipment acquired by capital lease	848	432	

The accompanying notes are an integral of these consolidated financial statements

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QUAKER CHEMICAL CORPORATION

CONSOLIDATED STATEMENT OF COMPREHENSIVE (LOSS) INCOME AND CHANGES IN EQUITY

(In thousands)	Common stock	Capital in excess of par value	Retained earnings	Accumulated other comprehensive loss	Noncontrolling Interest	Comprehensive Income (Loss)	Total
Balance at December 31, 2007	$ 10,147	$ 10,104	$ 115,767	$ (5,625)	$ 4,513		$ 134,906
Net income			11,132		908	$ 12,040	
Currency translation adjustments				(10,110)	(1,065)	(11,175)	
Defined benefit retirement plans:							
Net gain (loss) arising during the period, other				(10,238)		(10,238)	
Amortization of actuarial (gain) loss				888		888	
Amortization of prior service cost (credit)				(477)		(477)	
Amortization of initial net asset				(148)		(148)	
Current period changes in fair value of derivatives				(1,302)		(1,302)	
Unrealized gain on available-for-sale securities				(255)		(255)	
Comprehensive loss						(10,667)	(10,667)
Comprehensive income attributable to noncontrolling interest						157	
Comprehensive loss attributable to Quaker Chemical Corporation						$ (10,510)	
Effects of adjustment to apply change of measurement date provisions of defined benefit retirement plans guidance:							
Service cost, interest cost and expected return on plan assets for December 1, 2007 December 31, 2007, net of tax			7				7
Amortization of prior service cost for December 1, 2007 December 31, 2007, net of tax				30			30
			(9,817)				(9,817)

Dividends ($0.92 per share)							
Dividends paid to noncontrolling interests					(404)		(404)
Shares issued upon exercise of options and other	590	11,066					11,656
Shares issued for employee stock purchase plan	13	250					263
Equity-based compensation plans	83	3,818					3,901
Balance at December 31, 2008	10,833	25,238	117,089	(27,237)	3,952		129,875
Net income			16,220		1,270	$ 17,490	
Currency translation adjustments				10,497	649	11,146	
Defined benefit retirement plans:							
Net gain (loss) arising during the period, other				3,075		3,075	
Amortization of actuarial (gain) loss				2,633		2,633	
Amortization of prior service cost (credit)				65		65	
Amortization of initial net asset				(140)		(140)	
Current period changes in fair value of derivatives				642		642	
Unrealized gain on available-for-sale securities				26		26	
Comprehensive income						34,937	34,937
Comprehensive loss attributable to noncontrolling interest						(1,919)	
Comprehensive income attributable to Quaker Chemical Corporation						$ 33,018	
Dividends ($0.92 per share)			(10,169)				(10,169)
Dividends paid to noncontrolling interests					(890)		(890)
Shares issued upon exercise of options and other	10	120					130
Shares issued for employee stock purchase plan	26	256					282
Equity-based compensation plans	217	1,913					2,130
Balance at December 31, 2009	$ 11,086	$ 27,527	$ 123,140	$ (10,439)	$ 4,981		$ 156,295
Net income			31,807		2,284	$ 34,091	
Currency translation adjustments				328	477	805	
Defined benefit retirement plans:							
Net gain (loss) arising during the period, other				(6,267)		(6,267)	

Amortization of actuarial (gain) loss				1,832		1,832	
Amortization of prior service cost (credit)				91		91	
Amortization of initial net asset				(3)		(3)	
Current period changes in fair value of derivatives				708		708	
Unrealized gain on available-for-sale securities				14		14	
Comprehensive income						31,271	31,271
Comprehensive loss attributable to noncontrolling interest						(2,761)	
Comprehensive income attributable to Quaker Chemical Corporation						$ 28,510	
Dividends ($0.935 per share)			(10,600)				(10,600)
Dividends paid to noncontrolling interests					(1,021)		(1,021)
Shares issued upon exercise of options and other	297	4,965					5,262
Shares issued for employee stock purchase plan	10	228					238
Equity-based compensation plans	99	2,997					3,096
Excess tax benefit from stock option exercises		2,558					2,558
Balance at December 31, 2010	$ 11,492	$ 38,275	$ 144,347	$ (13,736)	$ 6,721		$ 187,099

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

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QUAKER CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share amounts)

Note 1 Significant Accounting Policies

Principles of consolidation: All majority-owned subsidiaries are included in the Company s consolidated financial statements, with appropriate elimination of intercompany balances and transactions. Investments in associated (less than majority-owned) companies are accounted for under the equity method. The Company s share of net income or losses of investments is included in the consolidated statement of income. The Company periodically reviews these investments for impairments and, if necessary, would adjust these investments to their fair value when a decline in market value is deemed to be other than temporary.

The Financial Accounting Standards Board s (FASB s) guidance regarding the consolidation of certain Variable Interest Entities (VIEs) generally requires that assets, liabilities and results of the activities of a VIE be consolidated into the financial statements of the enterprise that is considered the primary beneficiary. The consolidated financial statements include the accounts of the Company and all of its subsidiaries in which a controlling interest is maintained and would include any VIEs if the Company was the primary beneficiary pursuant to the provisions of the guidance.

Reclassifications: Certain reclassifications of prior years data have been made to improve comparability.

Translation of foreign currency: Assets and liabilities of non-U.S. subsidiaries and associated companies are translated into U.S. Dollars at the respective rates of exchange prevailing at the end of the year. Income and expense accounts are translated at average exchange rates prevailing during the year. Translation adjustments resulting from this process are recorded directly in equity and will be included in income only upon sale or liquidation of the underlying investment. All non-U.S. subsidiaries use their local currency as its functional currency.

Cash and cash equivalents: The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Inventories: Inventories are valued at the lower of cost or market value. Inventories are valued using the first-in, first-out (FIFO) method. See also Note 8 of Notes to Consolidated Financial Statements.

Long-lived assets: Property, plant and equipment are stated at cost. Depreciation is computed using the straight-line method on an individual asset basis over the following estimated useful lives: buildings and improvements, 10 to 45 years; and machinery and equipment, 3 to 15 years. The carrying value of long-lived assets is periodically evaluated whenever changes in circumstances or current events indicate the carrying amount of such assets may not be recoverable. An estimate of undiscounted cash flows produced by the asset, or the appropriate group of assets, is compared with the carrying value to determine whether impairment exists. If necessary, the Company recognizes an impairment loss for the difference between the carrying amount of the assets and their estimated fair value. Fair value is based on current and anticipated future undiscounted cash flows. Upon sale or other dispositions of long-lived assets, the applicable amounts of asset cost and accumulated depreciation are removed from the accounts and the net amount, less proceeds from disposals is recorded to income. Expenditures for renewals and betterments, which increase the estimated useful life or capacity of the assets, are capitalized; expenditures for repairs and maintenance are expensed when incurred.

Capitalized software: The Company capitalizes certain costs incurred in connection with developing or obtaining software for internal use. In connection with the upgrade and implementations of the

Company s global transaction and consolidation systems, approximately $2,338 and $1,319 of net costs were capitalized at December 31, 2010 and 2009, respectively. These costs are amortized over a period of five years once the assets are ready for their intended use.

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QUAKER CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

Goodwill and other intangible assets: The Company records goodwill and indefinite-lived intangible assets at fair value at acquisition. Goodwill and indefinite-lived intangible assets are not amortized, but tested for impairment at least annually. These tests will be performed more frequently if there are triggering events. Definite-lived intangible assets are amortized over their estimated useful lives, generally for periods ranging from 5 to 20 years. The Company continually evaluates the reasonableness of the useful lives of these assets. See also Note 19 of Notes to Consolidated Financial Statements.

Revenue recognition: The Company recognizes revenue in accordance with the terms of the underlying agreements, when title and risk of loss have been transferred, collectability is reasonably assured, and pricing is fixed or determinable. This generally occurs for product sales when products are shipped to customers or, for consignment arrangements, upon usage by the customer and when services are performed. License fees and royalties are recognized in accordance with agreed-upon terms, when performance obligations are satisfied, the amount is fixed or determinable, and collectability is reasonably assured, and are included in other income. 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 principal, revenues are 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 revenue at the amount of the administrative fee earned by the Company for ordering the goods. Third-party products transferred under arrangements resulting in net reporting totaled $56,528, $27,483 and $32,194 for 2010, 2009 and 2008, respectively.

Research and development costs: Research and development costs are expensed as incurred. Research and development expenses are included in selling, general and administrative expenses, and during 2010, 2009 and 2008 were $15,690**,** $14,991 and $16,877, respectively.

Concentration of credit risk: Financial instruments, which potentially subject the Company to a concentration of credit risk, principally consist of cash equivalents, short-term investments, and trade receivables. The Company invests temporary and excess funds in money market securities and financial instruments having maturities typically within 90 days. The Company has not experienced losses from the aforementioned investments. See also Note 7 of Notes to Consolidated Financial Statements.

Environmental liabilities and expenditures: Accruals for environmental matters are recorded when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated. If no amount in the range is considered more probable than any other amount, the Company records the lowest amount in the range in accordance with generally accepted accounting principles. Accrued liabilities are exclusive of claims against third parties and are not discounted. Environmental costs and remediation costs are capitalized if the costs extend the life, increase the capacity or improve safety or efficiency of the property from the date acquired or constructed, and/or mitigate or prevent contamination in the future.

Comprehensive income (loss): The Company presents comprehensive income (loss) in its Statement of Comprehensive (Loss) Income and Changes in Equity. The components of accumulated other comprehensive loss at December 31, 2010 include: accumulated foreign currency translation adjustments of $13,368, minimum pension liability of $(26,448), unrealized holding gains on available-for-sale securities of $11, and the fair value of derivative instruments of $(667). The components of accumulated other comprehensive loss at December 31, 2009 include: accumulated foreign currency translation adjustments of $13,232, minimum pension liability of

$(22,293), unrealized holding losses on available-for-sale securities of $(3), and the fair value of derivative instruments of $(1,375).

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QUAKER CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

Income taxes and uncertain tax positions: The provision for income taxes is determined using the asset and liability approach of accounting for income taxes. Under this approach, deferred taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. The provision for income taxes represents income taxes paid or payable for the current year plus the change in deferred taxes during the year. Deferred taxes result from differences between the financial and tax bases of the Company s assets and liabilities and are adjusted for changes in tax rates and tax laws when changes are enacted. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. The Company applies the FASB s guidance regarding uncertain tax positions to all income tax positions taken on previously filed tax returns or expected to be taken on a future tax return. The guidance prescribes a benefit recognition model with a two-step approach, a more-likely-than-not recognition criterion, and a measurement attribute that measures the position as the largest amount of tax benefit that is greater than 50% likely of being realized upon effective settlement. The guidance also requires that the amount of interest expense and income to be recognized related to uncertain tax positions be computed by applying the applicable statutory rate of interest to the difference between the tax position recognized, including timing differences, and the amount previously taken or expected to be taken in a tax return. The Company s continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense.

Derivatives: The Company uses derivative financial instruments primarily for purposes of hedging exposures to fluctuations in interest rates. The Company does not enter into derivative contracts for trading or speculative purposes. The Company recognizes all derivatives on the balance sheet at fair value. For derivative instruments designated as cash flow hedges, the effective portion of any hedge is reported in Accumulated Other Comprehensive Income (Loss) until it is cleared to earnings during the same period in which the hedged item affects earnings. The Company uses no derivative instruments designated as fair value hedges.

The Company has entered into interest rate swaps in order to fix a portion of its variable rate debt. The swaps had a combined notional value of $15,000 and $40,000 and a fair value of $(1,026) and $(2,160) at December 31, 2010 and December 31, 2009, respectively. The counterparties to the swaps are major financial institutions. Refer to Note 5 Hedging Activities for more information.

Recently issued accounting standards:

The FASB updated its guidance regarding a vendor s multiple-deliverable arrangements in October 2009. The updated guidance establishes a selling price hierarchy to be followed in determining the selling price for each deliverable in multiple-deliverable arrangements, eliminates the residual method of allocation and requires that arrangement consideration be allocated at the inception of the arrangement using the relative selling price method and requires enhanced disclosure regarding multiple-deliverable arrangements. The guidance is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning after June 15, 2010. The Company is currently assessing the impact of this guidance on its financial statements.

Accounting estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingencies at the date of the financial statements and the reported amounts of net sales and expenses during the reporting period. Actual results could differ from such estimates.

Note 2 Restructuring and Related Activities

In the fourth quarter of 2008, Quaker s management approved a restructuring plan (2008 4th Quarter Program) to reduce operating costs, primarily in North America and Europe. Included in the restructuring plans were provisions for severance for 57 employees. The Company recognized a $2,916 restructuring charge in the fourth

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QUAKER CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

quarter of 2008. Employee separation benefits varied depending on local regulations within certain foreign countries and included severance and other benefits. The Company completed the initiatives under this program during 2009.

In the first quarter of 2009, Quaker s management implemented an additional restructuring program (2009 1st Quarter Program) which included provisions for severance for 60 employees totaling $2,289. The Company completed the initiatives under this program during 2009.

Note 3 Fair Value Measures

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 are 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 are not active.

Level 3: Unobservable inputs that reflect the reporting entity s own assumptions.

The Company values its interest rate swaps, company-owned life insurance policies, various deferred compensation assets and liabilities at fair value and acquisition related contingent consideration at fair value. The Company s assets and liabilities subject to fair value measurement are as follows (in thousands):

	Fair Value as of December 31, 2010	**Fair Value Measurements at December 31, 2010 Using Fair Value Hierarchy**		
		Level 1	**Level 2**	**Level 3**
Assets				
Company-owned life insurance	$ 2,033	$	$ 2,033	$

Company-owned life insurance Deferred compensation assets	593		593	
Other deferred compensation assets				
Large capitalization registered investment companies	69	69		
Mid capitalization registered investment companies	4	4		
Small capitalization registered investment companies	8	8		
International developed and emerging markets registered investment companies	40	40		
Fixed income registered investment companies	10	10		
Total	$ 2,757	$ 131	$ 2,626	$

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QUAKER CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

	Fair Value as of December 31, 2010	Fair Value Measurements at December 31, 2010 Using Fair Value Hierarchy		
		Level 1	Level 2	Level 3
Liabilities				
Deferred compensation liabilities				
Large capitalization registered investment companies	$ 347	$ 347	$	$
Mid capitalization registered investment companies	88	88		
Small capitalization registered investment companies	71	71		
International developed and emerging markets registered investment companies	213	213		
Fixed income registered investment companies	52	52		
Fixed general account	182		182	
Interest rate derivatives	1,026		1,026	
Acquisition related contingent consideration	5,350			5,350
Total	$ 7,329	$ 771	$ 1,208	$ 5,350

	Fair Value as of December 31, 2009	Fair Value Measurements at December 31, 2009 Using Fair Value Hierarchy		
		Level 1	Level 2	Level 3
Assets				
Company-owned life insurance	$ 1,869	$	$ 1,869	$
Company-owned life insurance Deferred compensation assets	622		622	
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	39	39		

Fixed income registered investment companies	11	11		
Total	$ 2,616	$ 125	$ 2,491	$

QUAKER CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

	Fair Value as of December 31, 2009	Fair Value Measurements at December 31, 2009 Using Fair Value Hierarchy		
		Level 1	Level 2	Level 3
Liabilities				
Deferred compensation liabilities				
Large capitalization registered investment companies	$ 557	$ 557	$	$
Mid capitalization registered investment companies	98	98		
Small capitalization registered investment companies	108	108		
International developed and emerging markets registered investment companies	205	205		
Fixed income registered investment companies	64	64		
Fixed general account	184		184	
Interest rate derivatives	2,160		2,160	
Total	$ 3,376	$ 1,032	$ 2,344	$

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. Upon review of the underlying assets upon which the deferred compensation liabilities are based, the Company reclassified the fixed general account from Level 1 to Level 2 as of December 31, 2009. The fair value of the acquisition related contingent consideration 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.

Changes in the fair value of the Level 3 liability during the year ended December 31, 2010 was as follows:

	Contingent Consideration
Balance at December 31, 2009	$
Purchases, sales, acquisitions and settlements, net	5,350
Realized gains	

Unrealized gains		
Balance at December 31, 2010	$	5,350

Note 4 Uncertain Tax Positions

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

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QUAKER CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

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.

As of December 31, 2010, the Company s cumulative liability for gross unrecognized tax benefits was $10,464. The Company had accrued $857 for cumulative penalties and $1,824 for cumulative interest at December 31, 2010.

The Company continues to recognize interest and penalties associated with uncertain tax positions as a component of Taxes on Income in its Consolidated Statement of Income. The Company has recognized $(12) for penalties and $80 for interest (net of expirations and settlements) on its Consolidated Statement of Income for the twelve-month period ended December 31, 2010.

The Company estimates that during the year ending December 31, 2011 it will reduce its cumulative liability for gross unrecognized tax benefits by approximately $1,400 to $1,600 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 ended December 31, 2011.

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 from 2004, United Kingdom, Brazil, Italy and Spain from 2006, China and the United States from 2007 and various domestic state tax jurisdictions from 1993.

During 2010, the Company derecognized several uncertain tax positions due to expiration of the applicable statutes of limitations for certain tax years. As a result, the Company recognized a $1,828 decrease in its cumulative liability for gross unrecognized tax benefits.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits for the years ended December 31, 2010, 2009 and 2008, respectively, is as follows:

	2010	2009	2008
Unrecognized tax benefits at January 1	$ 10,686	$ 10,012	$ 10,861
Increase unrecognized tax benefits taken in prior periods		14	
(Decrease) unrecognized tax benefits taken in prior periods			(115)
Increase unrecognized tax benefits taken in current period	2,249	1,272	1,824
(Decrease) unrecognized tax benefits taken in current period			
Increase unrecognized tax benefits due to settlements			
		(402)	(1,030)

(Decrease) unrecognized tax benefits due to settlements			
(Decrease) in unrecognized tax benefits due to lapse of statute of limitations	(1,828)	(422)	(1,114)
Increase (decrease) foreign exchange rates	(643)	212	(414)
Unrecognized tax benefits at December 31	$ 10,464	$ 10,686	$ 10,012

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QUAKER CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

Note 5 Hedging Activities

Effective January 1, 2009, the Company adopted FASB s guidance regarding disclosure of derivative instruments and hedging activities. The guidance requires additional disclosure about the Company s derivative activities, but does not require any new accounting related to derivative activities. The Company has applied the requirements of the guidance on a prospective basis. Accordingly, disclosures related to periods prior to the date of adoption have not been presented.

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 are designated as cash flow hedges and reported on the Consolidated 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 authoritative guidance. The notional amount of the Company s interest rate swaps was $15,000 as of December 31, 2010, and $40,000 as of December 31, 2009.

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

	Consolidated Balance Sheet Location	Fair Value	
		December 31, 2010	December 31, 2009
Derivatives designated as cash flow hedges:			
Interest rate swaps	Other current liabilities	$	$ 1,006
Interest rate swaps	Other non-current liabilities	1,026	1,154
		$ 1,026	$ 2,160

Cash Flow Hedges

Interest Rate Swaps

	For the Years Ended December 31,	
	2010	2009
Amount of Gain (Loss) Recognized in Accumulated OCI on Derivative (Effective Portion)	$ 708	$ 642

Amount and Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Interest Expense	$ (1,590)	$ (1,594)
Amount and Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Other Income	$	$

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QUAKER CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

Note 6 Investments in Associated Companies

Investments in associated (less than majority-owned) companies are accounted for under the equity method. The Company has a 50% investment in Kelko Quaker Chemical, S.A. (Venezuela), a 50% investment in Nippon Quaker Chemical, Ltd. (Japan), a 40% investment in TecniQuimia Mexicana S.A. de C.V. (Mexico) and a 50% investment in Kelko Quaker Chemical S.A. (Panama).

Effective January 1, 2010, Venezuela s economy was considered to be highly inflationary under U.S. generally accepted accounting principles since it has experienced a rate of general inflation in excess of 100% over the latest three-year period, based upon the blended Consumer Price Index and National Consumer Price Index. Accordingly, all gains and losses resulting from the remeasurement of the Company s Venezuelan 50% owned equity affiliate (Kelko Quaker Chemical, S.A.) are required to be recorded directly in the Consolidated Statement of Income. On January 8, 2010, the Venezuelan government announced the devaluation of the Bolivar Fuerte and the establishment of a two-tier exchange structure. The Company recorded a charge in the first quarter of 2010 of approximately $0.03 per diluted share to reflect the devaluation.

During the fourth quarter of 2010, the Company identified errors in reserves for pension and certain other items at its TecniQuimia Mexicana S.A. de C.V. affiliate. The affiliate adjusted for these items in the fourth quarter of 2010, which had the effect of reducing Equity Income and Net Income by $564 in the fourth quarter and year-to-date periods of 2010. The Company does not believe this adjustment is material to the Consolidated Financial Statements for the years ended December 31, 2007, 2008, 2009 or 2010 and, therefore, has not restated any prior period amounts.

Summarized financial information of the associated companies, in the aggregate, is as follows:

	December 31,	
	2010	2009
Current assets	$ 34,830	$ 29,739
Noncurrent assets	5,689	5,072
Current liabilities	17,581	14,572
Noncurrent liabilities	4,333	494

	Year Ended December 31,		
	2010	2009	2008
Net sales	$ 65,592	$ 52,099	$ 60,407
Gross margin	24,810	20,215	20,072
Operating income	5,211	4,508	3,456
Net income	1,071	1,856	806

Note 7 Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable are recorded at the invoiced amount and generally do not bear interest. The allowance for doubtful accounts is the Company s best estimate of the amount of probable credit losses in existing accounts receivable. Reserves for customers filing for bankruptcy protection are dependent on the Company s evaluation of likely proceeds from the bankruptcy process. Large and/or financially

distressed customers are generally reserved for on a specific review basis while a general reserve is established for other customers based on historical experience. The Company performs a formal review of its allowance for doubtful accounts quarterly. Account balances are charged off against the allowance when the Company feels it is

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probable the receivable will not be recovered. The Company does not have any off-balance-sheet credit exposure related to its customers. During 2010, the Company s five largest customers accounted for approximately 20% of its consolidated net sales with the largest customer (Arcelor-Mittal Group) accounting for approximately 9% of consolidated net sales.

At December 31, 2010 and 2009, the Company had gross trade accounts receivable totaling $120,544 and $112,795 with trade accounts receivable greater than 90 days past due of $4,924 and $4,928, respectively. Following are the changes in the allowance for doubtful accounts during the years ended December 31, 2010, 2009 and 2008.

	Balance at Beginning of Period	Charged to Costs and Expenses	Write-Offs Charged to Allowance	Effect of Exchange Rate Changes	Balance at End of Period
ALLOWANCE FOR DOUBTFUL ACCOUNTS					
Year ended December 31, 2010	$ 4,002	$ 860	$ (538)	$ (46)	$ 4,278
Year ended December 31, 2009	$ 3,508	$ 1,389	$ (918)	$ 23	$ 4,002
Year ended December 31, 2008	$ 3,072	$ 1,087	$ (505)	$ (146)	$ 3,508

Note 8 Inventories

Total inventories comprise:

	December 31, 2010	2009
Raw materials and supplies	$ 31,909	$ 23,495
Work in process and finished goods	28,932	26,545
	$ 60,841	$ 50,040

Note 9 Other Current Liabilities

Other current liabilities comprise:

	December 31, 2010	2009
Non-income taxes	$ 6,100	$ 3,866
Current portion of uncertain tax positions	2,161	2,767
Income taxes payable	1,693	595
Professional fees	1,615	1,304

Freight	1,229	1,099
Legal	1,211	1,051
Current portion of interest rate swaps		1,006
Selling expenses	1,110	947
Other	2,296	2,589
Total	$ 17,415	$ 15,224

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

Note 10 Property, Plant and Equipment

Property, plant and equipment comprise:

	December 31, 2010	December 31, 2009
Land	$ 6,458	$ 6,185
Building and improvements	69,233	52,227
Machinery and equipment	124,043	117,527
Construction in progress	5,625	15,041
	205,359	190,980
Less accumulated depreciation	(128,824)	(123,554)
	$ 76,535	$ 67,426

The Company leases certain equipment under capital leases in Europe, South America and the U.S., including its manufacturing facility in Tradate, Italy. Gross property, plant and equipment includes $4,454 and $3,938 of capital leases with $1,020 and $807 of accumulated depreciation at December 31, 2010 and 2009, respectively. The following is a schedule by years of future minimum lease payments:

For the year ended December 31,	
2011	$ 570
2012	404
2013	246
2014	64
2015	64
2016 and beyond	123
Total net minimum lease payments	1,471
Less amount representing interest	(198)
Present value of net minimum lease payments	$ 1,273

Note 11 Asset Retirement Obligations

The FASB s guidance regarding asset retirement obligations addresses the accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated retirement costs. The FASB issued further guidance which clarified that the term conditional asset retirement obligation (CARO) refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. A liability is recorded when there is enough information regarding

the timing of the CARO to perform a probability weighted discounted cash flow analysis.

The Company s CAROs consist primarily of asbestos contained in certain manufacturing facilities and decommissioning costs related to its aboveground storage tanks and had an accrued CARO of $320 and $306 at December 31, 2010 and 2009, respectively. The Company accrued interest of $14 on this liability, which is included in other non-current liabilities, during each of the years 2010 and 2009.

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(Dollars in thousands except per share amounts)

Note 12 Taxes on Income

Taxes (benefit) on income consist of the following:

	Year Ended December 31,		
	2010	**2009**	**2008**
Current:			
Federal	$ 1,429	$ 1,266	$ 211
State	195	133	20
Foreign	9,143	6,171	3,732
	10,767	7,570	3,963
Deferred:			
Federal	1,204	(948)	355
Foreign	645	443	659
Total	$ 12,616	$ 7,065	$ 4,977

The components of earnings (losses) before income taxes were as follows:

	2010	**2009**	**2008**
Domestic	$ 9,482	$ (1,920)	$ 1,960
Foreign	36,731	25,612	14,669
Total	$ 46,213	$ 23,692	$ 16,629

Total deferred tax assets and liabilities are composed of the following at December 31:

	2010		2009 *	
	Current	**Non-current**	**Current**	**Non-current**
Retirement benefits	$ 534	$ 7,720	$ 1,599	$ 5,865
Allowance for doubtful accounts	550		481	
Insurance and litigation reserves	574	395	484	541
Postretirement benefits		2,447		2,110
Supplemental retirement benefits		1,811		2,408
Performance incentives	3,041	418	2,562	335
Equity-based compensation	185	411	248	888
Alternative minimum tax carryforward		2,092		2,092
Insurance settlement		10,314		9,096
Operating loss carryforward		3,837		5,972

Foreign tax credit		3,395		3,801
Uncertain tax positions	163	3,871		4,034
Interest rate swaps and other		511	786	352
	5,047	37,222	6,160	37,494
Valuation allowance	(393)	(4,530)	(612)	(5,054)
Total deferred income tax assets, net	$ 4,654	$ 32,692	$ 5,548	$ 32,440
Depreciation	$	$ 1,798	$	$ 2,110
Europe pension and other		2,472		2,394
Amortization and other	211	5,684	238	4,912
Total deferred income tax liabilities	$ 211	$ 9,954	$ 238	$ 9,416

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

Following are the changes in the Company s deferred tax asset valuation allowance for the years ended December 31, 2010, 2009 and 2008:

	Balance at Beginning of Period	Additional Valuation Allowance	Allowance Utilization and Other	Effect of Exchange Rate Changes	Balance at End of Period
VALUATION ALLOWANCE					
Year ended December 31, 2010	$ 5,666	$ 38	$ (769)	$ (12)	$ 4,923
Year ended December 31, 2009	$ 5,228	$ 1,397	$ (1,188)	$ 229	$ 5,666
Year ended December 31, 2008	$ 4,161	$ 1,273	$ (2)	$ (204)	$ 5,228

The Company s net deferred tax assets and liabilities are classified in the Consolidated Balance Sheet as follows:

	2010	2009 *
Current deferred tax assets	$ 4,624	$ 5,523
Non-current deferred tax assets	28,846	28,237
Current deferred tax liabilities	181	213
Non-current deferred tax liabilities	6,108	5,213
Net deferred tax asset	$ 27,181	$ 28,334

The following is a reconciliation of income taxes at the Federal statutory rate with income taxes recorded by the Company for the years ended December 31:

	2010	2009 *	2008
Income tax provision at the Federal statutory tax rate	$ 16,175	$ 8,292	$ 5,820
Differences in tax rates on foreign earnings and remittances	(2,546)	(2,106)	(132)
Foreign dividends	15,645	159	
Excess foreign tax credit utilization	(15,198)		
Foreign tax refunds			(460)
Uncertain tax positions	(1,130)	457	(494)
Domestic production activities deduction	(932)		
State income tax provisions, net	127	86	13
Non-deductible entertainment and business meals expense	152	118	192
Miscellaneous items, net	323	59	38

Taxes on income	$ 12,616	$ 7,065	$ 4,977

* During the fourth quarter of 2010, the Company identified errors in the methodology of recording its net deferred tax assets and liabilities on its Consolidated Balance Sheet. The Company corrected for this item in the fourth quarter of 2010, and reclassified its prior year deferred tax balances to conform to the current year presentation. The Company does not believe this adjustment is material to the Consolidated Financial Statements for the years ended 2009 or 2010.

At December 31, 2010, the Company domestically had a net deferred tax asset of $14,835 inclusive of alternative minimum tax (AMT) credits of $2,092. Additionally, the Company has foreign tax credit carryovers

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(Dollars in thousands except per share amounts)

of $3,395 which have the following expiration dates: $129 in 2014, $730 in 2016, $1,023 in 2017, $594 in 2018 and $919 in 2019. A full valuation allowance has been taken against these foreign tax credits. Finally, the Company has foreign tax loss carryforwards of $13,646 of which $330 expires in 2011, $460 in 2014, $351 in 2015, $3,157 in 2018, $184 in 2019, $102 in 2020 and $1,067 in 2023; the remaining foreign tax losses have no expiration dates. A partial valuation allowance has been established with respect to the tax benefit of these losses for $1,528.

U.S. income taxes have not been provided on the undistributed earnings of non-U.S. subsidiaries because it is the Company s intention to continue to reinvest these earnings in those subsidiaries to support growth initiatives. U.S. and foreign income taxes that would be payable if such earnings were distributed may be lower than the amount computed at the U.S. statutory rate due to the availability of tax credits. The amount of such undistributed earnings at December 31, 2010 was approximately $91,000. Any income tax liability which might result from ultimate remittance of these earnings is expected to be substantially offset by foreign tax credits.

Note 13 Pension and Other Postretirement Benefits

The Company maintains various noncontributory retirement plans, the largest of which is in the U.S., covering substantially all of its employees in the U.S. and certain other countries. The plans of the Company s subsidiaries in The Netherlands and in the United Kingdom are subject to the provisions of FASB s guidance regarding employers accounting for pension plans. The plans of the remaining non-U.S. subsidiaries are, for the most part, either fully insured or integrated with the local governments plans and are not subject to the provisions of the guidance. The guidance requires that employers recognize on a prospective basis the funded status of their defined benefit pension and other postretirement plans on their consolidated balance sheet and recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost. The Company s U.S. pension plan year ends on November 30 and the measurement date is December 31. The measurement date for the Company s other postretirement benefits plan is December 31.

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The following table shows the Company plans funded status reconciled with amounts reported in the consolidated balance sheet as of December 31:

	Pension Benefits						Other Postretirement Benefits	
	2010			2009			2010	2009
	Foreign	Domestic	Total	Foreign	Domestic	Total	Domestic	Domestic
Change in benefit obligation								
Benefit obligation at beginning of year	$ 47,444	$ 62,432	$ 109,876	$ 43,577	$ 66,808	$ 110,385	$ 7,576	$ 9,648
Service cost	1,606	368	1,974	1,776	342	2,118	16	15
Interest cost	2,587	3,385	5,972	2,545	3,848	6,393	401	445
Employee contributions	89		89	84		84		
Curtailment (gain)/loss		(5)	(5)	(12)		(12)		
Benefits paid	(1,407)	(7,384)	(8,791)	(1,338)	(10,884)	(12,222)	(924)	(966)
Plan expenses and premiums paid	(356)	(175)	(531)	(382)	(175)	(557)		
Actuarial (gain)/loss	6,310	4,504	10,814	(526)	2,493	1,967	746	(1,566)
Translation difference	(3,023)		(3,023)	1,720		1,720		
Benefit obligation at end of year	$ 53,250	$ 63,125	$ 116,375	$ 47,444	$ 62,432	$ 109,876	$ 7,815	$ 7,576
Change in plan assets								
Fair value of plan assets at beginning of year	$ 50,176	$ 41,690	$ 91,866	$ 43,432	$ 34,716	$ 78,148	$	$
Actual return on plan assets	4,344	4,601	8,945	2,993	6,732	9,725		
Employer contributions	3,362	4,371	7,733	3,786	11,301	15,087	924	966
Employee contributions	89		89	84		84		

Benefits paid	(1,407)	(7,384)	(8,791)	(1,338)	(10,884)	(12,222)	(924)	(966)
Plan expenses and premiums paid	(356)	(175)	(531)	(382)	(175)	(557)		
Translation difference	(3,335)		(3,335)	1,601		1,601		
Fair value of plan assets at end of year	$ 52,873	$ 43,103	$ 95,976	$ 50,176	$ 41,690	$ 91,866	$	$
Net amount recognized	$ (377)	$ (20,022)	$ (20,399)	$ 2,732	$ (20,742)	$ (18,010)	$ (7,815)	$ (7,576)
Amounts recognized in the balance sheet consist of:								
Non-current asset	$ 3,474	$	$ 3,474	$ 6,733	$	$ 6,733	$	$
Current liabilities	(262)	(587)	(849)	(240)	(3,675)	(3,915)	(823)	(802)
Non-current liabilities	(3,589)	(19,435)	(23,024)	(3,761)	(17,067)	(20,828)	(6,992)	(6,774)
Net amount recognized	$ (377)	$ (20,022)	$ (20,399)	$ 2,732	$ (20,742)	$ (18,010)	$ (7,815)	$ (7,576)
Amounts not yet reflected in net periodic benefit costs and included in accumulated other comprehensive income:								
Transition asset (obligation)	$	$	$	$ 4	$	$ 4	$	$
Prior service credit (cost)	(123)	(624)	(747)	(165)	(728)	(893)		
Accumulated gain (loss)	(8,725)	(27,121)	(35,846)	(4,882)	(26,664)	(31,546)	(1,951)	(1,266)
Accumulated other comprehensive income (AOCI)	(8,848)	(27,745)	(36,593)	(5,043)	(27,392)	(32,435)	(1,951)	(1,266)
Cumulative employer contributions in excess of net period benefit cost	8,471	7,723	16,194	7,775	6,650	14,425	(5,864)	(6,310)
Net amount recognized	$ (377)	$ (20,022)	$ (20,399)	$ 2,732	$ (20,742)	$ (18,010)	$ (7,815)	$ (7,576)

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The accumulated benefit obligation for all defined benefit pension plans was $112,505 ($62,755 Domestic, $49,750 Foreign) and $105,447 ($62,072 Domestic, $43,375 Foreign) at December 31, 2010 and 2009, respectively.

Information for pension plans with accumulated benefit obligation in excess of plan assets:

	2010			2009		
	Foreign	Domestic	Total	Foreign	Domestic	Total
Projected benefit obligation	$ 11,390	$ 63,125	$ 74,515	$ 10,855	$ 62,432	$ 73,287
Accumulated benefit obligation	10,007	62,755	72,762	9,237	62,072	71,309
Fair value of plan assets	7,540	43,103	50,643	6,854	41,690	48,544

Information for pension plans with a projected benefit obligation in excess of plan assets:

	2010			2009		
	Foreign	Domestic	Total	Foreign	Domestic	Total
Projected benefit obligation	$ 11,390	$ 63,125	$ 74,515	$ 10,855	$ 62,432	$ 73,287
Fair value of plan assets	7,540	43,103	50,643	6,854	41,690	48,544

Components of net periodic benefit cost pension plans:

	2010			2009		
	Foreign	Domestic	Total	Foreign	Domestic	Total
Service cost	$ 1,606	$ 368	$ 1,974	$ 1,776	$ 342	$ 2,118
Interest cost	2,587	3,385	5,972	2,545	3,848	6,393
Expected return on plan assets	(2,135)	(3,307)	(5,442)	(1,969)	(2,886)	(4,855)
Settlement charge		1,317	1,317		2,443	2,443
Curtailment charge		19	19			
Other, amortization, net	36	1,516	1,552	(160)	1,704	1,544
Net periodic benefit cost	$ 2,094	$ 3,298	$ 5,392	$ 2,192	$ 5,451	$ 7,643

	2008		
	Foreign	Domestic	Total
Service cost	$ 1,890	$ 925	$ 2,815
Interest cost	2,617	3,812	6,429
Expected return on plan assets	(2,205)	(3,915)	(6,120)
Other, amortization, net	28	1,034	1,062

Net periodic benefit cost	$ 2,330	$ 1,856	$ 4,186

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Other changes recognized in other comprehensive income:

		2010			2009	
	Foreign	Domestic	Total	Foreign	Domestic	Total
Net (gain) loss arising during period	$ 4,100	$ 3,204	$ 7,304	$ (1,562)	$ (1,354)	$ (2,916)
Prior service cost (credit) arising during the period						
Recognition of amortizations in net periodic benefit cost						
Transition (obligation) asset	4		4	188		188
Prior service (cost) credit	(30)	(104)	(134)	(35)	(85)	(120)
Actuarial gain (loss)	(10)	(2,747)	(2,757)	7	(4,062)	(4,055)
Effect of exchange rates on amounts included in AOCI	(259)		(259)	261		261
Total recognized in other comprehensive income	3,805	353	4,158	(1,141)	(5,501)	(6,642)
Total recognized in net periodic benefit cost and other comprehensive (income) loss	$ 5,899	$ 3,651	$ 9,550	$ 1,051	$ (50)	$ 1,001

		2008	
	Foreign	Domestic	Total
Net (gain) loss arising during period	$ (360)	$ 14,983	$ 14,623
Prior service cost (credit) arising during the period		768	768
Recognition of amortizations in net periodic benefit cost			
Transition (obligation) asset	199		199
Prior service (cost) credit	(34)	(61)	(95)
Actuarial gain (loss)	(193)	(973)	(1,166)
Effect of exchange rates on amounts included in AOCI	(836)		(836)
Total recognized in other comprehensive income	(1,224)	14,717	13,493
Total recognized in net periodic benefit cost and other comprehensive income	$ 1,106	$ 16,573	$ 17,679

Components of net periodic benefit cost other postretirement plan:

	2010	2009	2008
Service cost	$ 16	$ 15	$ 19
Interest cost and other	462	419	680
Net periodic benefit cost	$ 478	$ 434	$ 699

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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Other changes recognized in other comprehensive income:

	2010	2009	2008
Net (gain) loss arising during period	$ 747	$ (1,566)	$ 1,206
Recognition of amortizations in net periodic benefit cost			
Prior service (cost) credit		26	67
Actuarial gain (loss)	(62)		(175)
Total recognized in other comprehensive income	685	(1,540)	1,098
Total recognized in net periodic benefit cost and other comprehensive income	$ 1,163	$ (1,106)	$ 1,797

Estimated amounts that will be amortized from accumulated other comprehensive loss over the next fiscal year:

	Pension Plans			Other Postretirement
	Foreign	Domestic	Total	Benefits
Actuarial (gain) loss	$ 174	$ 1,542	$ 1,716	$ 126
Prior service cost (credit)	31	82	113	
	$ 205	$ 1,624	$ 1,829	$ 126

Weighted-average assumptions used to determine benefit obligations at December 31:

	Pension Benefits		Other Postretirement Benefits	
	2010	2009	2010	2009
U.S. Plans:				
Discount rate	5.20%	5.71%	4.80%	5.50%
Rate of compensation increase	3.40%	3.41%	N/A	N/A
Foreign Plans:				
Discount rate	5.42%	5.95%	N/A	N/A
Rate of compensation increase	3.60%	4.00%	N/A	N/A

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Weighted-average assumptions used to determine net periodic benefit costs for years ended December 31:

	Pension Benefits		Other Postretirement Benefits	
	2010	2009	2010	2009
U.S. Plans:				
Discount rate	5.71%	6.25%	5.50%	6.25%
Expected long-term return on plan assets	8.25%	8.50%	N/A	N/A
Rate of compensation increase	3.41%	3.43%	N/A	N/A
Foreign Plans:				
Discount rate	5.95%	5.83%	N/A	N/A
Expected long-term return on plan assets	4.34%	4.28%	N/A	N/A
Rate of compensation increase	4.00%	3.92%	N/A	N/A

The long-term rates of return on assets were selected from within the reasonable range of rates determined by (a) historical real returns for the asset classes covered by the investment policy and (b) projections of inflation over the long-term period during which benefits are payable to plan participants.

Assumed health care cost trend rates at December 31:

	2010	2009
Health care cost trend rate for next year	7.70%	7.90%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.5%	4.5%
Year that the rate reaches the ultimate trend rate	2027	2027

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1% point Increase	1% point Decrease
Effect on total service and interest cost	$ 32	$ (28)
Effect on postretirement benefit obligations	622	(549)

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Plan Assets and Fair Value

The Company s pension plan target asset allocation and the weighted-average asset allocations at December 31, 2010 and 2009 by asset category were as follows:

	Plan Assets at December 31,		
	Target	2010	2009
Asset Category			
U.S. Plans			
Equity securities	57%	61%	53%
Debt securities	36%	37%	34%
Other	7%	2%	13%
Total	100%	100%	100%
Foreign Plans			
Equity securities and other	17%	17%	17%
Debt securities	83%	83%	83%
Total	100%	100%	100%

As of December 31, 2010 and 2009, Other consisted principally of hedge funds (approximately 0% and 5% of plan assets at December 31, 2010 and 2009, respectively) and/or cash and cash equivalents (approximately 2% and 9% of plan assets, respectively).

The Company s pension investment policy is designed to ensure that pension assets are invested in a manner consistent with meeting the future benefit obligations of the pension plans and maintaining compliance with various laws and regulations including the Employee Retirement Income Security Act of 1974 (ERISA).

The Company establishes strategic asset allocation percentage targets and appropriate benchmarks for significant asset classes with the aim of achieving a prudent balance between return and risk. The Company s investment horizon is generally long term, and, accordingly, the target asset allocations encompass a long-term perspective of capital markets, expected risk and return and perceived future economic conditions while also considering the profile of plan liabilities. To the extent feasible, the short-term investment portfolio is managed to immunize the short-term obligations, the intermediate portfolio duration is immunized to reduce the risk of volatility in intermediate plan distributions and the total return portfolio is expected to maximize the long-term real growth of plan assets. The critical investment principles of diversification, assessment of risk and targeting the optimal expected returns for given levels of risk are applied. The Company s investment guidelines prohibit use of securities such as letter stock and other unregistered securities, commodities or commodity contracts, short sales, margin transactions, private placements (unless specifically addressed by addendum), or any derivatives, options or futures for the purpose of portfolio leveraging.

The target asset allocation is reviewed periodically and is determined based on a long-term projection of capital market outcomes, inflation rates, fixed income yields, returns, volatilities and correlation relationships. The interaction between plan assets and benefit obligations is periodically studied to assist in establishing such strategic asset allocation targets. Asset performance is monitored with an overall expectation that plan assets will meet or exceed benchmark performance over rolling five-year periods. The Company s pension committee, as authorized by the Company s Board of Directors, has discretion to manage the assets within established asset allocation ranges approved by senior management of the Company. As of December 31, 2010, the plan s investments were in compliance with all approved ranges of asset allocations.

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The following is a description of the valuation methodologies used for the investments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy:

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and money market funds and are classified as a Level 1 investment.

Registered investment companies

The shares of registered investment companies, which represent the net asset values of shares held by the Plan, are valued at quoted market prices in an exchange and active markets and are classified as Level 1 investments.

Common Stock

Common stock is valued at quoted market prices in an exchange and active markets, and is classified as a Level 1 investment.

Corporate Bonds

Corporate bonds are valued at quoted market prices in an exchange and active markets, and are classified as a Level 1 investment.

Pooled Separate Accounts

Pooled Separate Accounts consist of insurance annuity contracts and are valued based on the reported unit value at year end. Units of the pooled separate accounts are not traded in an active exchange or market; however, valuation is based on the underlying investments of the units and is classified as a Level 2 investment.

Diversified Equity Securities of Registered Investment Companies

Investment in diversified equity securities of registered investment companies is based upon the quoted redemption value of shares in the fund owned by the plan at year end. The shares of the fund are not available in an exchange and active market; however, the fair value is determined based on the underlying investments in the fund as traded in an exchange and active market and is classified as a Level 2 investment.

Fixed Income Securities of Registered Investment Companies

Investment in fixed income securities of registered investment companies is based upon the quoted redemption value of shares in the fund owned by the plan at year end. The shares of the fund are not available in an exchange and active market; however, the fair value is determined based on the underlying investments in the fund as traded in an exchange and active market and is classified as a Level 2 investment.

Alternative Assets

Alternative assets at December 31, 2009 were comprised of an investment in a Hedge Fund of Funds and were valued based upon the quoted redemption value of units owned by the Plan at year end. Units of the fund were not available in an active exchange and active market and valuation was based on unobservable inputs and classified as a Level 3 investment. The Hedge Fund of Funds was liquidated during the year ended December 31, 2010.

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Insurance Contract

Investment in the foreign pension plan insurance contract is valued at reported cash surrender value of the contract at year end. Cash surrender value is determined based on unobservable inputs, which are contractually determined, regarding return, fees, and the present value of the future cash flows of the contract. The contract is classified as a Level 3 investment.

Real Estate

The foreign pension plan s investment in real estate consists of an investment in a property fund. The fund s underlying investments consist of real property, which are valued using unobservable inputs. The property fund is classified as a Level 3 investment.

As of December 31, 2010 and 2009, the U.S. and Foreign Plans investments measured at fair value on a recurring basis were as follows:

	Fair Value as of December 31, 2010	Fair Value Measurements at December 31, 2010 Using Fair Value Hierarchy		
		Level 1	Level 2	Level 3
U.S. Pension Assets				
Cash and cash equivalents	$ 713	$ 713	$	$
Large capitalization common stock	4,944	4,944		
Large capitalization registered investment companies	11,764	11,764		
Small capitalization common stock	1,971	1,971		
Small capitalization registered investment companies	417	417		
International developed and emerging markets registered investment companies	7,312	7,312		
Fixed income corporate securities	8,781	8,781		
Fixed income registered investment companies	5,820	5,820		
Pooled separate accounts	1,381		1,381	
Total U.S. pension plan assets	$ 43,103	$ 41,722	$ 1,381	$
Foreign Pension Assets				
Cash and cash equivalents	$ 105	$ 105	$	$
Insurance contract (underlying notional investments in debt and equity securities)	45,334			45,334
Diversified equity securities registered investment companies	4,008		4,008	

Fixed income registered investment companies	3,087		3,087	
Real estate registered investment companies	339			339
Total foreign pension assets	$ 52,873	$ 105	$ 7,095	$ 45,673
Total pension assets at fair value	$ 95,976	$ 41,827	$ 8,476	$ 45,673

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(Dollars in thousands except per share amounts)

	Fair Value as of December 31, 2009	Fair Value Measurements at December 31, 2009 Using Fair Value Hierarchy		
		Level 1	Level 2	Level 3
U.S. Pension Assets				
Cash and cash equivalents	$ 3,614	$ 3,614	$	$
Large capitalization common stock	4,139	4,139		
Large capitalization registered investment companies	9,147	9,147		
Small capitalization common stock	206	206		
Small capitalization registered investment companies	1,759	1,759		
International developed and emerging markets registered investment companies	6,987	6,987		
Fixed income corporate securities	6,115	6,115		
Fixed income registered investment companies	6,538	6,538		
Pooled separate accounts	1,293		1,293	
Alternative assets	1,892			1,892
Total U.S. pension plan assets	$ 41,690	$ 38,505	$ 1,293	$ 1,892
Foreign Pension Assets				
Cash and cash equivalents	$ 32	$ 32	$	$
Insurance contract (underlying notional investments in debt and equity securities)	43,322			43,322
Diversified equity securities registered investment companies	3,628		3,628	
Fixed income registered investment companies	2,882		2,882	
Real estate registered investment companies	312			312
Total foreign pension assets	$ 50,176	$ 32	$ 6,510	$ 43,634
Total pension assets at fair value	$ 91,866	$ 38,537	$ 7,803	$ 45,526

Changes in the fair value of the U.S. and Foreign Level 3 investments during the years ended December 31, 2010 and 2009 were as follows:

	Alternative Assets	Insurance Contract	Real Estate Fund	Total
Balance at December 31, 2008	$ 1,783	$ 38,557	$	$ 40,340

Purchases, sales and settlements, net		1,963	308	2,271
Unrealized gains	109	1,792	6	1,907
Currency translation adjustment		1,010	(2)	1,008
Balance at December 31, 2009	$ 1,892	$ 43,322	$ 312	$ 45,526
Purchases, sales and settlements, net	(1,895)	1,614		(281)
Realized gains	3			3
Unrealized gains		3,469	39	3,508
Currency translation adjustment		(3,071)	(12)	(3,083)
Balance at December 31, 2010	$	$ 45,334	339	$ 45,673

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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The total value of plan assets for the Company s pension plans is $95,976 and $91,866 as of December 31, 2010 and 2009, respectively. U.S. pension assets include Company common stock in the amounts of $417 (1% of total U.S. plan assets) and $206 (less than 1% of total U.S. plan assets) at December 31, 2010 and 2009, respectively.

Cash Flows

Contributions

The Company expects to make minimum cash contributions of $8,397 to its pension plans ($4,887 Domestic, $3,510 Foreign) and $823 to its other postretirement benefit plan in 2011.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension Benefits			Other Postretirement Benefits
	Foreign	Domestic	Total	
2011	$ 1,584	$ 4,390	$ 5,974	$ 823
2012	1,640	4,368	6,008	813
2013	1,603	4,862	6,465	792
2014	1,820	4,900	6,720	763
2015	1,686	4,404	6,090	721
2016 and beyond	11,895	22,044	33,939	3,010

The Company maintains a plan under which supplemental retirement benefits are provided to certain officers. Benefits payable under the plan are based on a combination of years of service and existing postretirement benefits. Included in total pension costs are charges of $2,042, $3,489 and $1,773 in 2010, 2009 and 2008, respectively, representing the annual accrued benefits under this plan. Included in the 2010 and 2009 charges are settlement charges of $1,317 and $2,443, respectively, in connection with the retirement of the Company s former CEO.

Defined Contribution Plan

The Company has a 401(k) plan with an employer match covering substantially all domestic employees. Effective January 1, 2006, the plan added a nonelective contribution on behalf of participants who have completed one year of service equal to 3% of the eligible participants compensation. The Company suspended its elective match to the plan and made its nonelective contribution to the plan in the form of Company common stock in 2009. The Company reinstated the elective match to the plan in 2010 and continues to make its nonelective contribution to the plan in the form of Company common stock. Total Company contributions were $2,197, $1,000 and $1,774 for 2010, 2009 and 2008, respectively.

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Note 14 Debt

Debt consisted of the following:

	December 31, 2010	December 31, 2009
Industrial development authority monthly 5.60% fixed rate demand bonds maturing 2018	$ 5,000	$ 5,000
Industrial development authority monthly 5.26% fixed rate demand bond maturing 2028	10,000	10,000
Credit facilities (2.02% weighted average borrowing rate at December 31, 2010)	55,000	46,428
Ohio Department of Development term loan (see below)	3,395	3,500
Other debt obligations (including capital leases)	1,350	1,188
	74,745	66,116
Short-term debt	(77)	(1,428)
Current portion of long-term debt	(813)	(1,003)
	$ 73,855	$ 63,685

During the next five years, payments on the Company s debt, including capital lease maturities, are due as follows: $890 in 2011, $639 in 2012, $552 in 2013, $55,377 in 2014, $384 in 2015 and $16,903 beyond 2015.

The Company s primary credit facility is a syndicated multicurrency credit agreement with Bank of America, N.A., as administrative agent, swing line lender and letter of credit issuer, and certain other financial institutions as lenders. As discussed in a Current Report on Form 8-K filed on June 21, 2010, the Company amended its credit facility to increase the maximum principal amount for revolving credit borrowings from $125,000 to $175,000. This amount can be increased to $225,000 at the Company s option if lenders agree to increase their commitments and the Company satisfies certain conditions. The amendment also extended the maturity date of the Company s credit line from August 2012 to June 2014 and amended certain acquisition and other covenants, including a reduced interest rate spread and a new interest rate tier for leverage ratios below one times EBITDA that would allow for a further interest rate spread reduction.

In May 2008, the Company entered into a financing agreement to issue a $10,000 Industrial Development Revenue Bond (IDRB) to finance the expansion of the Company s Middletown, Ohio manufacturing facility. Proceeds from the bond issuance are restricted, and can be used only for capital expenditures related to the expansion. Of the $10,000 received from the bond issuance, all had been expended at December 31, 2010.

In addition to the IDRB, the Company s Middletown, Ohio expansion project was also financed by a low interest rate $3,500 loan from the Ohio Department of Development. Principal repayment on this loan began in September, 2010 at 1% with final maturity in 2021.

The provisions of the agreements require that the Company maintain certain financial ratios and covenants, all of which the Company was in compliance with as of December 31, 2010 and 2009. At December 31, 2010 and 2009, the Company had approximately $55,000 and $46,428 outstanding on these credit lines at a weighted average borrowing rate of 2.02% and 2.54% (LIBOR plus a spread), respectively. 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 $15,000 and $40,000 at December 31, 2010 and 2009,

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

respectively. As of December 31, 2010, the Company is currently receiving a LIBOR rate and paying an additional average fixed rate of approximately 5% on its interest rate swaps. The Company s swaps mature in 2012.

At December 31, 2010 and 2009, the amounts at which the Company s debt is recorded are not materially different from their fair market value.

Note 15 Equity and Stock-Based Compensation

The Company has 30,000,000 shares of common stock authorized, with a par value of $1, and 11,492,142 shares issued as of December 31, 2010.

Holders of record of the Company s common stock for a period of less than 36 consecutive calendar months or less are entitled to 1 vote per share of common stock. Holders of record of the Company s common stock for a period greater than 36 consecutive calendar months are entitled to 10 votes per share of common stock.

The Company is authorized to issue 10,000,000 shares of preferred stock, $1 par value, subject to approval by the Board of Directors. The Board of Directors may designate one or more series of preferred stock and the number of shares, rights, preferences, and limitations of each series. No preferred stock has been issued.

In the fourth quarter of 2009, the Company filed a shelf registration statement on Form S-3 with the Securities and Exchange Commission (the SEC). The registration statement was declared effective on January 29, 2010 and permits the Company to offer and sell from time to time in one or more public offerings up to $100 million aggregate dollar amount of its securities, which may be shares of preferred stock (either separately or represented by depositary shares), common stock, debt securities and warrants to purchase the Company s debt or equity securities, as well as units that include any of these securities, on terms, in each case, established at the time of the offering. The registration statement provides the Company with the ability to issue registered debt or equity securities on an accelerated basis.

The Company applies the FASB s guidance regarding share-based payments, which requires the recognition of the fair value of stock compensation in net income. The Company elected the modified prospective method in adopting the guidance. Under this method, the provisions of the guidance apply to all awards granted or modified after the date of adoption. In addition, the unrecognized expense of awards not yet vested at the date of adoption is recognized in net income in the periods after the date of adoption using the same valuation method (e.g. Black-Scholes) and assumptions determined under the original provisions of the guidance as disclosed in the Company s previous filings.

Effective October 3, 2008, Ronald J. Naples, Chairman, retired as the Company s Chief Executive Officer. In accordance with Mr. Naples Employment, Transition and Consulting Agreement, Mr. Naples equity-based compensation awards (both nonvested stock and stock options) had to be remeasured and vesting accelerated to coincide with the October 3, 2008 retirement date. These actions resulted in incremental equity compensation expense of approximately $2,437 ($989 for nonvested stock and $1,448 for stock options) for the year ended December 31, 2008. These incremental expenses are included in the following reconciliation to total equity-based compensation expense for 2008.

The Company recognized approximately $3,096 of share-based compensation expense and $1,084 of related tax benefits in its consolidated statement of income for the year ended December 31, 2010. The compensation expense was comprised of $404 related to stock options, $1,096 related to nonvested stock awards, $42 related to

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the Company s Employee Stock Purchase Plan, $1,424 related to its non-elective 401(k) matching contribution in stock and $130 related to the Company s Director Stock Ownership Plan. The Company recognized approximately $2,130 of share-based compensation expense and $746 of related tax benefits in its consolidated statement of income for the year ended December 31, 2009. The compensation expense was comprised of $241 related to stock options, $989 related to nonvested stock awards, $49 related to the Company s Employee Stock Purchase Plan, $723 related to its non-elective 401(k) matching contribution in stock and $128 related to the Company s Director Stock Ownership Plan. The Company recognized approximately $3,901 of share-based compensation expense and $1,365 of related tax benefits in its consolidated statement of income for the year ended December 31, 2008. The compensation expense was comprised of $1,919 related to stock options, $1,809 related to nonvested stock awards, $46 related to the Company s Employee Stock Purchase Plan, and $127 related to the Company s Director Stock Ownership Plan.

Based on its 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. Beginning in 1999, the LTIP program provided for common stock awards. Common stock awards issued in 2008, 2009 and 2010 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.

During 2010, the Company recorded $2,558 of excess tax benefits in capital in excess of par value on its Consolidated Balance Sheet related to stock option exercises, which occurred over the current and prior years. Previously, the Company s actual taxable income in affected jurisdictions was not sufficient to recognize these benefits, while the Company s full-year 2010 taxable income was sufficient to recognize these benefits. As a result, the Company recognized these benefits as a cash inflow from financing activities in its Consolidated Statement of Cash Flows which represents the Company s estimate of cash savings during 2010.

Stock option activity under all plans is as follows:

	2010			2009		
	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (years)	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (years)
Options outstanding at January 1,	526,508	16.66		402,504	21.26	

Options granted	110,939	18.82		165,990	6.93	
Options exercised	(324,903)	19.59				
Options forfeited						
Options expired	(9,100)	20.71		(41,986)	22.27	
Options outstanding at December 31,	303,444	14.19	4.9	526,508	16.66	3.6
Options exercisable at December 31,	64,463	17.27	2.5	311,875	21.24	2.1

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(Dollars in thousands except per share amounts)

	2008		
	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (years)
Options outstanding at January 1,	1,033,175	21.36	
Options granted	145,184	19.45	
Options exercised	(683,982)	21.43	
Options forfeited	(14,411)	20.81	
Options expired	(77,462)	17.83	
Options outstanding at December 31,	402,504	21.26	3.1
Options exercisable at December 31,	311,741	21.43	2.4

The total intrinsic value of options exercised during 2010 was approximately $4,924. Intrinsic value is calculated as the difference between the current market price of the underlying security and the strike price of a related option. As of December 31, 2010, the total intrinsic value of options outstanding was $8,513, and the total intrinsic value of exercisable options was approximately $1,610.

A summary of the Company s outstanding stock options at December 31, 2010 is as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 12/31/2010	Weighted Average Contractual Life	Weighted Average Exercise Price	Number Exercisable at 12/31/2010	Weighted Average Exercise Price
$5.33 - $7.98	133,023	5.16	6.93	22,366	6.93
$7.99 - $18.62					
$18.63 - $21.28	132,577	5.75	18.92	4,253	19.45
$21.29 - $23.94	37,844	0.76	23.13	37,844	23.13
$23.95 - $26.60					
	303,444	4.87	14.19	64,463	17.27

As of December 31, 2010, unrecognized compensation expense related to options granted in 2008 was $6, for options granted during 2009 was $131 and for options granted in 2010 was $476.

During the first quarter of 2007, the Company granted 166,065 stock options under the Company s LTIP plan subject only to time vesting over a three-year period. The options were valued using the Black-Scholes model with the following assumptions: dividend yield of 4.4%, expected volatility of 27.0%, risk-free interest rate of 4.7%, an expected term of six years, and a forfeiture rate of 3% over

the remaining life of the options. Approximately $11, $66 and $660 of expense was recorded on these options during 2010, 2009 and 2008, respectively. The fair value of these awards is amortized on a straight-line basis over the vesting period of the awards.

During the first quarter of 2008, the Company granted 145,184 stock options under the Company s LTIP plan subject only to time vesting over a three-year period. The options were valued using the Black-Scholes model with the following assumptions: dividend yield of 4.1%, expected volatility of 30.31%, risk-free interest rate of 3.15%, an expected term of six years, and a forfeiture rate of 3% over the remaining life of the options. Approximately $72**,** $72 and $951 of expense was recorded on these options during 2010, 2009 and 2008, respectively. The fair value of these awards is amortized on a straight-line basis over the vesting period of the awards.

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During the first quarter of 2009, the Company granted 165,990 stock options under the Company s LTIP plan subject only to time vesting over a three-year period. The options were valued using the Black-Scholes model with the following assumptions: dividend yield of 3.9%, expected volatility of 44.22%, risk-free interest rate of 2.09%, an expected term of six years, and a forfeiture rate of 3% over the remaining life of the options. Approximately $112 and $94 of expense was recorded on these options during 2010 and 2009. The fair value of these awards is amortized on a straight-line basis over the vesting period of the awards.

During the first quarter of 2010, the Company granted 110,939 stock options under the Company s LTIP subject only to time vesting over a three-year period. The options were valued using the Black-Scholes model with the following assumptions: dividend yield of 5.1%, expected volatility of 53.72%, a risk free interest rate of 2.85%, an expected term of six years, and a forfeiture rate of 3% over the remaining life of the options. Approximately $209 of expense was recorded on these options during 2010. The fair value of these awards is amortized on a straight-line basis over the vesting period of the awards.

Under the Company s LTIP plan, 158,207 shares were outstanding as of December 31, 2009. In the first quarter of 2010, 41,204 shares of nonvested stock were granted at a weighted average grant date fair value of $18.82. In the second quarter of 2010, 11,096 shares of nonvested stock were granted to Directors at a weighted average grant date fair value of $25.94. As of December 31, 2010, 40,531 of these awards were vested, 6,900 shares were forfeited and 163,076 shares were outstanding. 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 December 31, 2010, unrecognized compensation expense related to these awards was $912, to be recognized over a weighted average remaining period of 1.61 years.

Under the Company s GAIP plan, 69,675 shares were outstanding as of December 31, 2009. Through December 31, 2010, 4,375 shares vested, 2,050 shares were forfeited and 63,250 shares were outstanding. As of December 31, 2010, unrecognized compensation expense related to these awards was $203 to be recognized over a weighted average remaining period of 1.25 years.

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 by giving written notice to the Committee. 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

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number of shares. As of December 31, 2010, 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 their 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. The Company recorded approximately $130, $128 and $127 of expense in 2010, 2009 and 2008, respectively.

Note 16 Earnings Per Share

The Company follows FASB s guidance regarding the calculation of earnings per share 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 Company previously included such shares as part of its diluted share calculation under the treasury stock method, in accordance with the FASB s previous guidance regarding share-based payments and calculating earnings per share.

The following table summarizes EPS calculations for the years ended December 31, 2010, 2009 and 2008:

	December 31,		
	2010	2009	2008
Basic Earnings per Common Share			
Net income attributable to Quaker Chemical Corporation	$ 31,807	$ 16,220	$ 11,132
Less: income allocated to participating securities	(654)	(280)	(123)
Net income available to common shareholders	$ 31,153	$ 15,940	$ 11,009
Basic weighted average common shares outstanding	11,039,410	10,806,518	10,419,654
Basic earnings per common share	$ 2.82	$ 1.48	$ 1.06
Diluted Earnings per Common Share			
Net income attributable to Quaker Chemical Corporation	$ 31,807	$ 16,220	$ 11,132
Less: income allocated to participating securities	(646)	(279)	(123)

Net income available to common shareholders	$ 31,161	$ 15,941	$ 11,009
Basic weighted average common shares outstanding	11,039,410	10,806,518	10,419,654
Effect of dilutive securities, employee stock options	202,551	59,244	67,340
Diluted weighted average common shares outstanding	11,241,961	10,865,762	10,486,994
Diluted earnings per common share	$ 2.77	$ 1.47	$ 1.05

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The following numbers of stock options are not included in dilutive earnings per share since in each case the exercise price is greater than the average market price for the applicable periods: 0, 360,518 and 162,183 in 2010, 2009 and 2008, respectively.

Note 17 Business Segments

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

(1) Metalworking process chemicals industrial process fluids for various heavy industrial and manufacturing applications.

(2) Coatings temporary and permanent coatings for metal and concrete products and chemical milling maskants.

(3) Other chemical products other various chemical products.

Segment data includes direct segment costs, as well as general operating costs, including depreciation, allocated to each segment based on net sales. Inter-segment transactions are immaterial.

The table below presents information about the reported segments for the years ended December 31:

	Metalworking Process Chemicals	Coatings	Other Chemical Products	Total
2010				
Net sales	$ 511,305	$ 30,999	$ 1,759	$ 544,063
Operating income for reportable segments	98,427	7,093	(77)	105,443
Depreciation	9,150	555	31	9,736
Segment assets	430,383	18,201	846	449,430
Expenditures for long-lived assets	8,983	370	1	9,354
2009				
Net sales	$ 419,226	$ 30,372	$ 1,892	$ 451,490
Operating income for reportable segments	72,440	6,798	(129)	79,109
Depreciation	8,630	625	39	9,294
Segment assets	376,745	17,592	955	395,292
Expenditures for long-lived assets	13,747	58	29	13,834
2008				
Net sales	$ 540,094	$ 37,327	$ 4,220	$ 581,641
Operating income for reportable segments	61,120	8,714	91	69,925
Depreciation	9,252	639	72	9,963
Segment assets	362,676	21,217	1,546	385,439

Expenditures for long-lived assets	11,317	425		11,742

Operating income comprises revenue less related costs and expenses. Nonoperating expenses 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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QUAKER CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

A reconciliation of total segment operating income to total consolidated income before taxes and equity in net income of associated companies for the years ended December 31, 2010, 2009 and 2008 is as follows:

	2010	2009	2008
Total operating income for reportable segments	$ 105,443	$ 79,109	$ 69,925
Non-income tax contingency charge	(4,132)		
CEO transition charges	(1,317)	(2,443)	(3,505)
Restructuring and related charges		(2,289)	(2,916)
Non-operating charges	(50,744)	(46,980)	(41,468)
Depreciation of corporate assets and amortization	(1,119)	(1,309)	(2,093)
Interest expense	(5,225)	(5,533)	(5,509)
Interest income	1,201	728	1,100
Other income, net	2,106	2,409	1,095
Consolidated income before taxes and equity in net income of associated companies	$ 46,213	$ 23,692	$ 16,629

Net sales are attributed to geographic region based on the location of the originating seller. Net sales and long-lived asset information by geographic area as of and for the years ended December 31 is as follows:

	2010	2009	2008
Net sales			
North America	$ 190,623	$ 172,035	$ 239,466
Europe	148,426	130,217	175,741
Asia/Pacific	125,189	93,389	98,231
South America	75,169	52,197	64,998
South Africa	4,656	3,652	3,205
Consolidated	$ 544,063	$ 451,490	$ 581,641

	2010	2009	2008
Long-lived assets			
North America	$ 82,383	$ 67,523	$ 57,088
Europe	24,793	28,599	27,485
Asia/Pacific	14,099	13,360	13,704
South America	6,998	6,280	4,721
South Africa	41	25	22

Consolidated	$ 128,314	$ 115,787	$ 103,020

Note 18 Business Acquisitions and Divestitures

In July 2010, the Company completed the acquisition of the assets of D.A. Stuart s U.S. aluminum hot rolling oil business from Houghton International for $6,793. This acquisition strategically strengthens the Company s position in the non-ferrous industry, as the acquired product portfolio is complementary to its existing business. The Company allocated $2,351 to intangible assets, comprised of customer lists, to be amortized over 15 years; trade names, to be amortized over 10 years; and a trademark, to be amortized over one year. In addition, the Company recorded $3,133 of goodwill, all of which will be tax-deductible, and was assigned to the metalworking process chemicals segment.

QUAKER CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

In December 2010, the Company completed the acquisition of Summit Lubricants, Inc. for approximately $29,116, subject to certain post closing adjustments. Summit Lubricants manufactures and distributes specialty greases and lubricants and is complementary to the Company s existing business. The Company allocated $17,100 to intangible assets, comprised of 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 $3,087 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. The pro forma results of operations have not been provided because the effects were not material:

	D.A. Stuart	Summit Lubricants	Total
Current assets	$ 1,176	$ 6,198	$ 7,374
Fixed assets	133	9,430	9,563
Intangibles	2,351	17,100	19,451
Goodwill	3,133	3,087	6,220
Total assets	6,793	35,815	42,608
Current liabilities		(1,349)	(1,349)
Earnout		(5,350)	(5,350)
Total liabilities assumed		(6,699)	(6,699)
Cash paid	$ 6,793	$ 29,116	$ 35,909

In the fourth quarter of 2006, the Company acquired the remaining interest in its Chinese joint venture. In accordance with the purchase agreement, payments for the acquisition were required as follows: $614 within five business days of closing, $825 one year from the closing date, $825 two years from the closing date, and $889 three years from the closing date. The Company recorded the present value of the remaining payments as debt at the time of acquisition. The Company made the final payment in the fourth quarter of 2009. In addition, the Company allocated $797 to intangible assets, comprising customer lists to be amortized over ten years; and a non-competition agreement to be amortized over two years. The Company also recorded $230 of goodwill, which was assigned to the metalworking process chemicals segment.

In March 2005, the Company acquired the remaining 40% interest in its Brazilian joint venture for $6,700. In addition, annual $1,000 payments for four years were paid subject to the former minority partners compliance with the terms of the purchase agreement. The final payment was made in February 2009. All four payments were recorded as goodwill and assigned to the metalworking process chemicals segment. Additionally, in connection with the acquisition, the Company allocated $1,475 to intangible assets, comprising customer lists of $600 to be amortized over 20 years; and

non-competition agreements of $875 to be amortized over five years. The Company also recorded $610 of goodwill, which was assigned to the metalworking process chemicals segment.

QUAKER CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

Note 19 Goodwill and Other Intangible Assets

The Company completed its annual impairment assessment as of the end of the third quarter of 2010 and no impairment charge was warranted. The Company has recorded no impairment charges in the past. The changes in carrying amount of goodwill for the years ended December 31, 2010 and 2009 are as follows:

	Metalworking Process Chemicals	Coatings	Total
Balance as of December 31, 2008	$ 32,916	$ 8,081	$ 40,997
Goodwill additions	1,000		1,000
Currency translation adjustments and other	4,518		4,518
Balance as of December 31, 2009	$ 38,434	$ 8,081	$ 46,515
Goodwill additions	6,220		6,220
Currency translation adjustments	23		23
Balance as of December 31, 2010	$ 44,677	$ 8,081	$ 52,758

Gross carrying amounts and accumulated amortization for definite-lived intangible assets as of December 31 are as follows:

	Gross Carrying Amount		Accumulated Amortization	
	2010	2009	2010	2009
Amortized intangible assets				
Customer lists and rights to sell	$ 24,379	$ 8,373	$ 4,974	$ 4,428
Trademarks and patents	2,035	1,788	1,800	1,788
Formulations and product technology	5,278	3,278	2,708	2,450
Other	4,004	3,409	3,284	3,203
Total	$ 35,696	$ 16,848	$ 12,766	$ 11,869

The Company recorded $988, $1,078 and $1,177 of amortization expense in 2010, 2009 and 2008, respectively. Estimated annual aggregate amortization expense for the subsequent five years is as follows:

For the year ended December 31, 2011	$ 1,930

For the year ended December 31, 2012	$ 1,831
For the year ended December 31, 2013	$ 1,654
For the year ended December 31, 2014	$ 1,422
For the year ended December 31, 2015	$ 1,422

The Company has two indefinite-lived intangible assets totaling $1,100 for trademarks at December 31, 2010. The Company had one indefinite-lived intangible asset of $600 for trademarks at December 31, 2009.

QUAKER CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

Note 20 Other Assets

Other assets comprise:

	December 31, 2010	December 31, 2009
Restricted insurance settlement	$ 29,480	$ 25,998
Pension assets	3,474	6,733
Deferred compensation assets	1,068	1,051
Supplemental retirement income program	2,033	1,869
Uncertain tax positions	2,846	1,174
Other	3,660	2,712
Total	$ 42,561	$ 39,537

In December 2005, an inactive subsidiary of the Company reached a settlement agreement and release with one of its insurance carriers for $15,000. In accordance with the agreement, the subsidiary received $7,500 cash in December 2005 and the remaining $7,500 in December of 2006. In the first quarter of 2007, the subsidiary reached a settlement agreement and release with another one of its insurance carriers for $20,000 payable in four annual installments of $5,000, the final 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. The proceeds of the settlement and release agreements have been deposited into interest bearing accounts which earned approximately $122 and $204 in 2010 and 2009, respectively, offset by $1,640 and $1,608 of payments in 2010 and 2009, respectively. Due to the restricted nature of the proceeds, a corresponding deferred credit was established in Other non-current liabilities for an equal and offsetting amount, and will remain until the restrictions lapse or the funds are exhausted via payments of claims and costs of defense. See Notes 21 and 22 of Notes to Consolidated Financial Statements.

Note 21 Other Non-Current Liabilities

	December 31, 2010	December 31, 2009
Restricted insurance settlement	$ 29,480	$ 25,998
Uncertain tax positions (includes interest and penalties)	10,985	10,680
Environmental reserves	961	1,237
Fair value of interest rate swaps	1,026	1,154
Contingent acquisition consideration	5,350	
Other (primarily deferred and long-term compensation agreements)	3,359	3,248
Total	$ 51,161	$ 42,317

See also Notes 20 and 22 of Notes to Consolidated Financial Statements.

Note 22 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

QUAKER CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

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 December 31, 2010, the Company believes that the range of potential-known liabilities associated with ACP contamination including the water and soil remediation program is approximately $1,300 to $2,300, 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 recharge basin adjacent to ACP. Based on the modeling, it is estimated that P-2 will operate for another three to five years and P-3 will operate for one and one-half years to up to two 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. Also included in the reserve are anticipated expenditures to operate an on-site soil vapor extraction system.

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 $374 and $99 was accrued at December 31, 2010 and December 31, 2009, 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 $7,700 (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 has challenged the applicability of these limits to the claims being brought against the subsidiary. In

QUAKER CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

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. 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. See also Notes 20 and 21 of Notes to Consolidated Financial Statements.

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-subsidiary 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-subsidiary 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-subsidiary relationship are in the early stages of litigation. The Company has been successful in the past 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 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, several jurisdictions contacted the subsidiary requesting information, but no tax assessments were received. In two jurisdictions, 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. At this time, the subsidiary has either modified or is in the process of modifying 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

QUAKER CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

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 already 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.

Included in the year-end results is a net charge of $4,132, which consists 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. These charges 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 $22,000 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.

The Company leases certain manufacturing and office facilities and equipment under non-cancelable operating leases with various terms from 1 to 15 years expiring in 2019. Rent expense for 2010, 2009 and 2008 was $5,112, $4,885 and $4,473, respectively. The Company s minimum rental commitments under non-cancelable operating leases at December 31, 2010, were approximately $4,937 in 2011, $4,270 in 2012, $3,195 in 2013, $2,483 in 2014, $2,210 in 2015, and $3,094 thereafter.

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QUAKER CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

Note 23 Quarterly Results (unaudited)

	First (1)	Second (2)	Third (3)	Fourth (4)
2010				
Net sales	$ 128,320	$ 135,991	$ 137,669	$ 142,083
Gross profit	47,340	48,531	49,028	47,890
Operating income	13,671	13,413	9,431	11,616
Net income attributable to Quaker Chemical Corporation	9,419	9,153	6,340	6,895
Net income attributable to Quaker Chemical Corporation per share basic earnings per common share	$ 0.85	$ 0.82	$ 0.56	$ 0.60
Net income attributable to Quaker Chemical Corporation per share diluted earnings per common share	$ 0.84	$ 0.80	$ 0.55	$ 0.59
2009				
Net sales	$ 98,507	$ 102,335	$ 118,922	$ 131,726
Gross profit	28,714	36,037	44,472	47,615
Operating (loss) income	(272)	5,794	8,576	11,990
Net income attributable to Quaker Chemical Corporation	2	3,234	5,052	7,932
Net income attributable to Quaker Chemical Corporation per share basic earnings per common share	$ 0.00	$ 0.29	$ 0.46	$ 0.72
Net income attributable to Quaker Chemical Corporation per share diluted earnings per common share	$ 0.00	$ 0.29	$ 0.45	$ 0.71

(1) Net income attributable to Quaker Chemical Corporation in the first quarter of 2010 includes a devaluation charge related to the Company s 50% owned equity affiliate in Venezuela of approximately $0.03 per diluted common share and tax benefits of approximately $0.11 per diluted common share resulting from the derecognition of several uncertain tax positions due to the expiration of applicable statutes of limitation and resolution of tax audits for certain tax years. Net income attributable to Quaker Chemical Corporation in the first quarter of 2009 includes restructuring charges of approximately $0.14 per diluted common share and a non-taxable gain of approximately $0.11 per diluted common share related to the sale of excess land in Europe.

(2) Net income attributable to Quaker Chemical Corporation includes CEO transition costs of approximately $0.07 per diluted common share in the second quarter of 2009.

(3) Net income attributable to Quaker Chemical Corporation includes CEO transition costs of approximately $0.08 per diluted common share and $0.07 per diluted common share in the third quarters of 2010 and 2009, respectively. In addition, net income attributable to Quaker Chemical Corporation includes a non-income tax contingency charge of approximately $0.21 per diluted common share in the third quarter of 2010. Finally, net income attributable to Quaker Chemical Corporation includes tax benefits of approximately $0.04 and $0.02 per diluted common share in the third quarters of 2010 and 2009, respectively, resulting from the derecognition of several

uncertain tax positions to the expiration of applicable statutes of limitation and resolution of tax audits for certain tax years.

(4) Net income attributable to Quaker Chemical Corporation includes tax benefits of approximately $0.06 and $0.03 per diluted common share in the fourth quarters of 2010 and 2009, respectively, resulting from the derecognition of several uncertain tax positions to the expiration of applicable statutes of limitation and resolution of tax audits for certain tax years. In addition, net income attributable to Quaker Chemical Corporation includes a non-income tax contingency charge of approximately $0.05 per diluted common share in the fourth quarter of 2010. Finally, net income attributable to Quaker Chemical Corporation includes a charge of approximately $0.05 per diluted common share related to an out-of-period adjustment at one of the Company s equity affiliates. See Note 6 of Notes to the Consolidated Financial Statements for further discussion.

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Item 9. ***Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.***

None.

Item 9A. ***Controls and Procedures.***

Conclusion regarding the Effectiveness 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 covered 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.

Management s Report on Internal Control over Financial Reporting

The management of Quaker is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Rule 13a-15(f) promulgated under the Exchange Act. Internal control over financial reporting is a process designed 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.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Our management, with the participation of our principal executive officer and principal financial officer, assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2010. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control Integrated Framework*. Based on its assessment, Quaker s management has concluded that as of December 31, 2010, the Company s internal control over financial reporting is effective based on those criteria.

Management has excluded Summit Lubricants, Inc. (Summit) from our assessment of internal control over financial reporting as of December 31, 2010 because we acquired Summit on December 31, 2010. Summit is a wholly owned subsidiary of the Company, whose total assets and total revenues represent approximately 8% and 0%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2010.

The effectiveness of the Company s internal control over financial reporting as of December 31, 2010 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included in Item 8. Financial Statements and Supplementary Data.

Changes in Internal Controls 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 fourth quarter of the year ended December 31, 2010 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 fourth quarter of the year ended December 31, 2010.

Item 9B. ***Other Information.***
None.

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PART III

Item 10. ***Directors, Executive Officers and Corporate Governance.***
Incorporated by reference is (i) the information beginning immediately following the caption Proposal 1 Election of Directors and Nominee Biographies in the Registrant s definitive Proxy Statement relating to the Annual Meeting of Shareholders to be held May 11, 2011 to be filed with the SEC no later than 120 days after the close of its fiscal year ended December 31, 2010 (the 2011 Proxy Statement) to, but not including, the caption Corporate Governance, (ii) the information appearing in Item 4(a) of this Report, (iii) the information in the 2011 Proxy Statement beginning with and including the sub-caption, Section 16(a) Beneficial Ownership Reporting Compliance to, but not including the caption Certain Relationships and Related Transactions, and (iv) the information in the 2011 Proxy Statement beginning with and including the sub-caption Code of Conduct to, but not including the caption Compensation Committee Interlocks and Insider Participation.

Item 11. ***Executive Compensation.***
Incorporated by reference is the information in the 2011 Proxy Statement (i) beginning with and including the caption Compensation Committee Interlocks and Insider Participation to, but not including the caption Proposal 2 Approval of the Global Annual Incentive Plan , (ii) the information in the 2011 Proxy Statement beginning with and including the caption, Executive Compensation to, but not including the caption, Proposal 4 Advisory Vote on Compensation of Our Named Executive Officers , and (iii) the information in the 2011 Proxy Statement beginning with and including the caption, Director Compensation to, but not including the caption Stock Ownership of Certain Beneficial Owners and Management.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.***
Incorporated by reference is the information in the 2011 Proxy Statement beginning immediately following the caption Stock Ownership of Certain Beneficial Owners and Management to, but not including the sub-caption Section 16(a) Beneficial Ownership Reporting Compliance.

The following table sets forth certain information relating to the Company s equity compensation plans as of December 31, 2010. Each number of securities reflected in the table is a reference to shares of Quaker common stock.

Equity Compensation Plans

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected

	(a)	(b)	in column (a)) (c)
Equity compensation plans approved by security holders	303,444	$ 14.19	413,675(1)
Equity compensation plans not approved by security holders			
Total	303,444	$ 14.19	413,675

(1) As of December 31, 2010, 301,500 of these shares were available for issuance as restricted stock awards under the Company s 2001 Global Annual Incentive Plan, 83,757 shares were available for issuance upon the exercise of stock options and/or as restricted stock awards under the Company s 2006 Long-Term Performance Incentive Plan, and 28,418 shares were available for issuance under the 2003 Director Stock Ownership Plan.

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Item 13. ***Certain Relationships and Related Transactions, and Director Independence.***
Incorporated by reference is the information in the 2011 Proxy Statement beginning immediately following the sub-caption Certain Relationships and Related Transactions to, but not including, the caption Proposal 6 Ratification of Appointment of Independent Registered Public Accounting Firm, and the additional information in the 2011 Proxy Statement beginning with and including the sub-caption Director Independence to, but not including the sub-caption Governance Committee Procedures for Selecting Director Nominees.

Item 14. ***Principal Accountant Fees and Services.***
Incorporated by reference is the information in the 2011 Proxy Statement beginning with and including the sub-caption Audit Fees to, but not including the statement recommending a vote for ratification of the appointment of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for the year ending December 31, 2011.

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PART IV

Item 15. ***Exhibits and Financial Statement Schedules.***
(a) Exhibits and Financial Statement Schedules

1. Financial Statements and Supplementary Data.

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Notes to Consolidated Financial Statements	36

2. Financial Statement Schedules
All schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto. Financial statements of 50% or less owned companies have been omitted because none of the companies meets the criteria requiring inclusion of such statements.

3. Exhibits (numbered in accordance with Item 601 of Regulation S-K)

3(i)	Amended and Restated Articles of Incorporation dated July 16, 1990. Incorporated by reference to Exhibit 3(a) as filed by Registrant with Form 10-K for the year 1996.
3(ii)	By-laws (as amended effective October 4, 2008). Incorporated by reference to Exhibit 10.1 as filed by Registrant with Form 10-Q for the quarter ended September 30, 2008.
4	Shareholder Rights Plan dated March 6, 2000. Incorporated by reference to Exhibit 1 to Form 8-K as filed by the Registrant on March 7, 2000.
10.1	Employment Agreement by and between Registrant and Jose Luiz Bregolato dated June 14, 1993. Incorporated by reference to Exhibit 10(k) as filed by Registrant with Form 10-K for the year 1995. *
10.2	Deferred Compensation Plan as adopted by the Registrant dated December 17, 1999, effective July 1, 1997. Incorporated by reference to Exhibit 10(ff) as filed by Registrant with Form 10-K for the year 1999. *
10.3	Supplemental Retirement Income Program adopted by the Registrant on November 6, 1984, as amended November 8, 1989. Incorporated by reference to Exhibit 10(gg) as filed by Registrant with Form 10-K for the year 1999. *
10.4	2001 Global Annual Incentive Plan as approved May 9, 2001, effective January 1, 2001. Incorporated by reference to Exhibit 10(hh) as filed by Registrant with Form 10-K for the year 2001. *

10.5	2003 Director Stock Ownership Plan as approved May 14, 2003. Incorporated by reference to Exhibit 10(ww) as filed by the Registrant with Form 10-K for the year 2003. *
10.6	Change in Control Agreement by and between Registrant and Jose Luiz Bregolato, dated June 23, 2004, effective May 14, 2004. Incorporated by reference to Exhibit 10(aaa) as filed by the Registrant with Form 10-Q for the quarter ended June 30, 2004. *

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10.7	Credit Agreement between Registrant and Bank of America, N.A. and ABN AMRO Bank, N.V. and Banc of America Securities, in the amount of $100,000,000, dated October 14, 2005. Incorporated by reference to Exhibit 10(jjj) as filed by the Registrant with Form 10-Q for the quarter ended September 30, 2005.
10.8	Settlement Agreement and Release between Registrant, an inactive subsidiary of the Registrant, and Hartford Accident and Indemnity Company dated December 12, 2005. Incorporated by reference to Exhibit 10(nnn) as filed by the Registrant with Form 10-K for the year 2005.
10.9	Amendment to Registrant s Deferred Compensation Plan for key officers dated December 20, 2005. Incorporated by reference to Exhibit 10 as filed by Registrant with Form 8-K filed on December 22, 2005. *
10.10	2001 Global Annual Incentive Plan, as amended and restated. Incorporated by reference to Appendix D to the Registrant s definitive proxy statement filed on March 31, 2006. *
10.11	2006 Long-Term Performance Incentive Plan. Incorporated by reference to Appendix E to the Registrant s definitive proxy statement filed on March 31, 2006. *
10.12	Form of Stock Option Agreement provided for associates under the Registrant s 2006 Long-Term Performance Incentive Plan. Incorporated by reference to Exhibit 10.3 as filed by Registrant with Form 8-K filed on May 12, 2006. *
10.13	Form of Restricted Stock Award Agreement for executive officers and other employees under Registrant s 2006 Long-Term Performance Incentive Plan. Incorporated by reference to Exhibit 10 as filed by Registrant with Form 8-K filed on June 27, 2006. *
10.14	Employment Agreement by and between L. Willem Platzer and Quaker Chemical B.V., a Netherlands corporation and a subsidiary of Registrant, dated August 21, 2006. Incorporated by reference to Exhibit 10 as filed by the Registrant with Form 8-K filed on August 22, 2006. *
10.15	First Amendment to Syndicated Multicurrency Credit Agreement between Registrant and Bank of America, N.A. and certain other financial institutions dated October 6, 2006. Incorporated by reference to Exhibit 10.30 as filed by the Registrant with Form 10-K for the year ended 2008.
10.16	2006 Long-Term Performance Incentive Plan (amended and restated effective November 8, 2006). Incorporated by reference to Exhibit 10(www) as filed by the Registrant with Form 10-K for the year ended 2006. *
10.17	Financing Agreement by and among Montgomery County Industrial Development Authority and Registrant and Brown Brothers Harriman & Co. dated February 1, 2007. Incorporated by reference to Exhibit 10(yyy) as filed by the Registrant with Form 10-K for the year ended 2006.
10.18	Settlement Agreement and Release between Registrant, an inactive subsidiary of Registrant and Federal Insurance Company dated March 26, 2007. Incorporated by reference to Exhibit 10(zzz) as filed by the Registrant with Form 10-Q for the quarter ended March 31, 2007.
10.19	Change in Control Agreement by and between Registrant and L. Willem Platzer dated April 2, 2007, effective January 1, 2007. Incorporated by reference to Exhibit 10(aaaa) as filed by the Registrant with Form 10-Q for the quarter ended March 31, 2007. *
10.20	Change in Control Agreement by and between Registrant and Jan F. Nieman dated June 27, 2007, effective January 1, 2007. Incorporated by reference to Exhibit 10 (cccc) as filed by the Registrant with Form 10-Q for the quarter ended June 30, 2007. *

10.21	Memorandum of Employment dated June 28, 2007 between Registrant and Mark A. Featherstone, effective April 9, 2007. Incorporated by reference to Exhibit 10 as filed by the Registrant with Form 8-K filed on July 2, 2007. *
10.22	Amendment No. 1 to the Registrant s Director Stock Ownership Plan (as amended March 7, 2007) approved on July 25, 2007. Incorporated by reference to Exhibit 10.37 as filed by the Registrant with Form 10-K for the year ended 2008. *
10.23	Second Amendment to Syndicated Multicurrency Credit Agreement between Registrant and Bank of America, N.A. and certain other financial institutions dated August 13, 2007. Incorporated by reference to Exhibit 10(eeee) as filed by the Registrant with Form 10-Q for the quarter ended September 30, 2007.
10.24	Claim Handling and Funding Agreement between SB Decking, Inc., an inactive subsidiary of Registrant, and Employers Insurance Company of Wausau dated September 25, 2007. Incorporated by reference to Exhibit 10(ffff) as filed by the Registrant with Form 10-Q for the quarter ended September 30, 2007.
10.25	Settlement Agreement and Mutual Release entered into between AC Products, Inc., wholly owned subsidiary of Registrant, and Orange County Water District, effective November 8, 2007. Incorporated by reference to Exhibit 10.47 as filed by the Registrant with Form 10-K for the year ended 2007.
10.26	Financing Agreement by and among Butler County Port Authority and Registrant and Brown Brothers Harriman & Co. dated May 15, 2008. Incorporated by reference to Exhibit 10.1 as filed by the Registrant with Form 10-Q for the quarter ended June 30, 2008.
10.27	Engineering, Procurement and Construction Contract by and between Registrant and FMC Technologies, Inc., effective May 14, 2008. Incorporated by reference to Exhibit 10.2 as filed by the Registrant with Form 10-Q for the quarter ended June 30, 2008.
10.28	Employment, Transition and Consulting Agreement by and between Registrant and Ronald J. Naples dated May 22, 2008, effective May 7, 2008. Incorporated by reference to Exhibit 10.3 as filed by the Registrant with Form 10-Q for the quarter ended June 30, 2008. *
10.29	1995 Naples Supplemental Retirement Income Program and Agreement (as amended and restated effective May 7, 2008) dated May 22, 2008. Incorporated by reference to Exhibit 10.4 as filed by the Registrant with Form 10-Q for the quarter ended June 30, 2008. *
10.30	Employment Agreement by and between Registrant and Michael F. Barry dated July 1, 2008. Incorporated by reference to Exhibit 10.5 as filed by the Registrant with Form 10-Q for the quarter ended June 30, 2008. *
10.31	Change in Control Agreement by and between Registrant and Michael F. Barry dated July 1, 2008. Incorporated by reference to Exhibit 10.6 as filed by the Registrant with Form 10-Q for the quarter ended June 30, 2008. *
10.32	Butler County Port Authority Industrial Development Revenue Bond dated May 15, 2008. Incorporated by reference to Exhibit 10.7 as filed by the Registrant with Form 10-Q for the quarter ended June 30, 2008.
10.33	Expatriate Agreement by and between Jan F. Nieman and Quaker Chemical Limited (Hong Kong) and Quaker Chemical B.V., both subsidiaries of Registrant, dated June 3, 2003, effective August 1, 2003 and Amended Expatriate Agreement by and between Jan F. Nieman and Quaker Chemical (China) Co. Ltd., Quaker Chemical Limited (Hong Kong) and Quaker Chemical B.V., all subsidiaries of Registrant, dated July 27, 2008, effective August 1, 2008. Incorporated by reference to Exhibit 10.37 as filed by the Registrant with Form 10-K for the year ended December 31, 2009.*

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10.34	Memorandum of Employment by and between Registrant and Joseph F. Matrange dated September 30, 2008. Incorporated by reference to Exhibit 10.48 as filed by the Registrant with Form 10-K for the year ended 2008. *
10.35	Memorandum of Employment by and between Registrant and D. Jeffry Benoliel dated October 1, 2008. Incorporated by reference to Exhibit 10.49 as filed by the Registrant with Form 10-K for the year ended 2008. *
10.36	Consultancy Agreement by and between Registrant and Mark Harris dated October 29, 2008. Incorporated by reference to Exhibit 10.50 as filed by the Registrant with Form 10-K for the year ended 2008. *
10.37	Compromise Agreement by and between Registrant and Mark Harris dated October 29, 2008. Incorporated by reference to Exhibit 10.51 as filed by the Registrant with Form 10-K for the year ended 2008. *
10.38	Amendment to Memorandum of Employment by and between Mark A. Featherstone and Registrant dated November 19, 2008, effective January 1, 2008. Incorporated by reference to Exhibit 10.52 as filed by the Registrant with Form 10-K for the year ended 2008. *
10.39	Change in Control Agreement by and between Registrant and Mark A. Featherstone dated November 19, 2008, effective January 1, 2008. Incorporated by reference to Exhibit 10.53 as filed by the Registrant with Form 10-K for the year ended 2008. *
10.40	Change in Control Agreement by and between Registrant and D. Jeffry Benoliel dated November 19, 2008, effective January 1, 2008. Incorporated by reference to Exhibit 10.54 as filed by the Registrant with Form 10-K for the year ended 2008. *
10.41	Change in Control Agreement by and between Registrant and Joseph F. Matrange dated November 19, 2008, effective October 1, 2008. Incorporated by reference to Exhibit 10.55 as filed by the Registrant with Form 10-K for the year ended 2008. *
10.42	Change in Control Agreement by and between Registrant and Ronald S. Ettinger dated November 19, 2008, effective October 1, 2008. Incorporated by reference to Exhibit 10.56 as filed by the Registrant with Form 10-K for the year ended 2008. *
10.43	Change in Control Agreement by and between Registrant and George H. Hill dated November 19, 2008, effective October 1, 2008. Incorporated by reference to Exhibit 10.57 as filed by the Registrant with Form 10-K for the year ended 2008. *
10.44	Supplemental Retirement Income Program (as amended and restated effective January 1, 2008), approved November 19, 2008. Incorporated by reference to Exhibit 10.58 as filed by the Registrant with Form 10-K for the year ended 2008. *
10.45	Directors Deferred Compensation Plan (amended and restated as of January 1, 2005), approved November 19, 2008. Incorporated by reference to Exhibit 10.59 as filed by the Registrant with Form 10-K for the year ended 2008. *
10.46	Amendment No. 1 to the 2001 Global Annual Incentive Plan (as amended and restated effective January 1, 2006), approved November 19, 2008. Incorporated by reference to Exhibit 10.60 as filed by the Registrant with Form 10-K for the year ended 2008. *
10.47	Amendment No. 1 to the 2006 Long-Term Performance Incentive Plan (as amended and restated effective November 8, 2006), approved November 19, 2008. Incorporated by reference to Exhibit 10.61 as filed by the Registrant with Form 10-K for the year ended 2008. *
10.48	Third Amendment to Syndicated Multicurrency Credit Agreement between Registrant and Bank of America, N.A. and certain other financial institutions dated February 13, 2009, effective February 17, 2009. Incorporated by reference to Exhibit 10.62 as filed by the Registrant with Form 10-K for the year ended 2008.

10.49	Amendment No. 2 to the Quaker Chemical Corporation 2003 Director Stock Ownership Plan (As Amended March 7, 2007). Incorporated by reference to Exhibit 10.1 as filed by the Registrant with Form 10-Q for the quarter ended March 31, 2009. *
10.50	Amended Expatriate Agreement by and between Jan F. Nieman and Quaker Chemical (China) Ltd., Quaker Chemical Limited (Hong Kong) and Quaker Chemical B.V., all subsidiaries of Registrant, dated April 6, 2010, Effective March 1, 2010. Incorporated by reference to Exhibit 10.1 as filed by the Registrant with Form 10-Q for the quarter ended March 31, 2010. *
10.51	Employment Agreement by and between Registrant and Joseph Berquist dated April 1, 2010. Incorporated by reference to Exhibit 10.2 as filed by the Registrant with Form 10-Q for the quarter ended March 31, 2010. *
10.52	Change in Control Agreement by and between Registrant and Joseph Berquist dated April 1, 2010. Incorporated by reference to Exhibit 10.3 as filed by the Registrant with Form 10-Q for the quarter ended March 31, 2010. *
10.53	Fourth Amendment to Syndicated Multicurrency Credit Agreement between Registrant and Bank of America, N.A. and certain other financial institutions dated June 21, 2010. Incorporated by reference to Exhibit 10.1 as filed by the Registrant with Form 10-Q for the quarter ended June 30, 2010.
10.54	Stock Purchase Agreement by and among Registrant, Summit Lubricants Inc., Ronald Krol, Brian Caputi, Dale M. Perry and Anthony Musilli, dated December 31, 2010.
10.55	Amendment No. 3 to the Quaker Chemical Corporation 2003 Director Stock Ownership Plan (As Amended January 26, 2011). *
10.56	Employment Agreement by and between Carlos Claro and Quaker Chemical Industria e Comercio Ltda., a Brazilian corporation and a subsidiary of the Registrant, dated January 5, 2011. *
21	Subsidiaries and Affiliates of the Registrant
23	Consent of Independent Registered Public Accounting Firm
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 Mark A. Featherstone pursuant to 18 U.S.C. Section 1350.

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

(b) *Exhibits required by Regulation 601 S-K*

See (a) 3 of this Item 15

(c) *Financial Statement Schedules*

See (a) 2 of this Item 15

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

By: /s/ MICHAEL F. BARRY
Michael F. Barry

Chairman of the Board, Chief Executive Officer and President

Date: March 2, 2011

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signatures	Capacity	Date
/s/ MICHAEL F. BARRY **Michael F. Barry** **Chairman of the Board, Chief Executive Officer and President**	Principal Executive Officer and Director	March 2, 2011
/s/ MARK A. FEATHERSTONE **Mark A. Featherstone** **Vice President, Chief Financial Officer and Treasurer**	Principal Financial Officer	March 2, 2011
/s/ GEORGE H. HILL **George H. Hill** **Global Controller**	Principal Accounting Officer	March 2, 2011
/s/ JOSEPH B. ANDERSON, JR. **Joseph B. Anderson, Jr.**	Director	March 2, 2011
/s/ PATRICIA C. BARRON **Patricia C. Barron**	Director	March 2, 2011

/s/ DONALD R. CALDWELL	Director	March 2, 2011
Donald R. Caldwell		
/s/ ROBERT E. CHAPPELL	Director	March 2, 2011
Robert E. Chappell		
/s/ WILLIAM R. COOK	Director	March 2, 2011
William R. Cook		
/s/ EDWIN J. DELATTRE	Director	March 2, 2011
Edwin J. Delattre		
/s/ JEFFRY D. FRISBY	Director	March 2, 2011
Jeffry D. Frisby		
/s/ RONALD J. NAPLES	Director	March 2, 2011
Ronald J. Naples		
/s/ ROBERT H. ROCK	Director	March 2, 2011
Robert H. Rock		