QUAKER CHEMICAL CORP
Form 10-K
February 26, 2015

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

FORM 10-K

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

For the fiscal year ended December 31, 2014
or

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

For the transition period from to
Commission file number 001-12019

QUAKER CHEMICAL CORPORATION
(Exact name of Registrant as specified in its charter)

A Pennsylvania Corporation (State or other jurisdiction of incorporation or organization)	No. 23-0993790 (I.R.S. Employer Identification No.)
One Quaker Park, 901 E. Hector Street, Conshohocken, Pennsylvania (Address of principal executive offices)	19428-2380 (Zip Code)

Registrant’s telephone number, including area code: (610) 832-4000

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

Title of each class	Name of each Exchange on which registered
Common Stock, $1.00 par value	New York Stock Exchange

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

None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files) Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if smaller reporting company)	Smaller reporting company ¨

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

State the aggregate market value of voting and non-voting common equity held by non-affiliates of the Registrant. (The aggregate market value is computed by reference to the last reported sale on the New York Stock Exchange on June 30, 2014): $1,002,670,297

Indicate the number of shares outstanding of each of the Registrant's classes of common stock as of the latest practicable date: 13,304,569 shares of Common Stock, $1.00 Par Value, as of January 31, 2015.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement relating to the Annual Meeting of Shareholders to be held on May 6, 2015 are incorporated by reference into Part III.

PART I

As used in this Report, the terms "Quaker," the "Company," "we" and "our" refer to Quaker Chemical Corporation, its subsidiaries, and associated companies, unless the context otherwise requires.

Item 1. Business.

General Description

Quaker develops, produces, and markets a broad range of formulated chemical specialty products and offers chemical management services ("CMS") for various heavy industrial and manufacturing applications in a global portfolio throughout its four regions: the North America region, the Europe, Middle East and Africa ("EMEA") region, the Asia/Pacific region and the South America region. The principal products and services in Quaker's global portfolio include: (i) rolling lubricants (used by manufacturers of steel in the hot and cold rolling of steel and by manufacturers of aluminum in the hot rolling of aluminum); (ii) corrosion preventives (used by steel and metalworking customers to protect metal during manufacture, storage, and shipment); (iii) metal finishing compounds (used to prepare metal surfaces for special treatments such as galvanizing and tin plating and to prepare metal for further processing); (iv) machining and grinding compounds (used by metalworking customers in cutting, shaping, and grinding metal parts which require special treatment to enable them to tolerate the manufacturing process, achieve closer tolerance, and improve tool life); (v) forming compounds (used to facilitate the drawing and extrusion of metal products); (vi) bio-lubricants (mainly used in machinery of the forestry and construction industries); (vii) hydraulic fluids (used by steel, metalworking, and other customers to operate hydraulically activated equipment); (viii) chemical milling maskants for the aerospace industry and temporary and permanent coatings for metal and concrete products; (ix) construction products, such as flexible sealants and protective coatings, for various applications; (x) specialty greases; (xi) die casting lubricants; and (xii) programs to provide chemical management services. Individual product lines representing more than 10% of consolidated revenues for any of the past three years are as follows:

	2014	2013	2012
Rolling lubricants	20.1 %	20.7 %	20.7 %
Machining and grinding compounds	16.3 %	17.7 %	17.6 %
Hydraulic fluids	13.0 %	12.9 %	13.5 %
Corrosion preventives	12.5 %	12.5 %	12.4 %

A substantial portion of Quaker's sales worldwide are made directly through its own employees and its CMS programs with the balance being handled through distributors and agents. Quaker employees visit the plants of customers regularly and, through training and experience, identify production needs which can be resolved or alleviated either by adapting Quaker's existing products or by applying new formulations developed in Quaker's laboratories. Quaker relies less on the use of advertising, and more heavily upon its reputation in the markets which it serves. Generally, separate manufacturing facilities of a single customer are served by different personnel.

As part of the Company's CMS, 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 its customers. Where the Company acts as an agent, such revenue is recorded using net reporting as service revenues at the amount of the administrative fee earned by the Company for ordering the goods. Third-party products transferred under arrangements resulting in net reporting totaled $46.8 million, $41.6 million and $39.3 million for 2014, 2013 and 2012, respectively. The Company recognizes revenue in accordance with the terms of the underlying agreements, when title and risk of loss have been transferred, when collectability is reasonably assured, and when

pricing is fixed or determinable. This generally occurs for product sales when products are shipped to customers or, for consignment-type arrangements, upon usage by the customer and, for services, when they are performed. License fees and royalties are included in other income when the amounts are recognized in accordance with their agreed-upon terms, when performance obligations are satisfied, when the amount is fixed or determinable, and when collectability is reasonably assured.

During 2014, the Company's acquisition activity included the November 2014 purchase of Binol AB ("Binol") for approximately $19.1 million. Binol is a leading bio-lubricants producer with environmentally friendly technology and products for the metalworking and forestry and construction industries. In addition, the Company acquired ECLI Products, LLC ("ECLI") in August 2014 for approximately $53.1 million. ECLI is a specialty grease manufacturer for OEM first-fill customers across several industry sectors, including automotive, industrial, aerospace/military, electronics, office automation and natural resources. Finally, in June 2014, the Company acquired the remaining 49% ownership interest in its Australian affiliate, Quaker Chemical (Australasia) Pty. Limited, for approximately $7.6 million.

Competition

The chemical specialty industry comprises a number of companies of similar size as well as companies larger and smaller than Quaker. Quaker cannot readily determine its precise position in every industry it serves. Based on information available to Quaker, however, it is estimated that Quaker holds a leading global position (among a group in excess of 25 other suppliers) in the market for process fluids to produce sheet steel. It is also believed that Quaker holds significant global positions in the markets for process fluids

in portions of the automotive and industrial markets. The offerings of many of our competitors differ from those of Quaker, with some who offer a broad portfolio of fluids, including general lubricants, to those who have a more specialized product range, and, all of whom, provide different levels of technical services to individual customers. Competition in the industry is based primarily on the ability to provide products that meet the needs of the customer, render technical services and laboratory assistance to the customer and, to a lesser extent, on price.

Major Customers and Markets

In 2014, Quaker's five largest customers (each composed of multiple subsidiaries or divisions with semi-autonomous purchasing authority) accounted for approximately 18% of our consolidated net sales, with the largest customer (Arcelor-Mittal Group) accounting for approximately 9% of our consolidated net sales. A significant portion of Quaker's revenues are realized from the sale of process fluids and services to manufacturers of steel, automobiles, appliances, and durable goods, and, therefore, Quaker is subject to the same business cycles as those experienced by these manufacturers and their customers. Furthermore, steel customers typically have limited manufacturing locations as compared to metalworking customers and generally use higher volumes of products at a single location. Accordingly, the loss or closure of one or more steel mills or other major sites of a significant customer could have a material adverse effect on Quaker's business.

Raw Materials

Quaker uses over 1,000 raw materials, including mineral oils and derivatives, animal fats and derivatives, vegetable oils and derivatives, ethylene derivatives, solvents, surface active agents, chlorinated paraffinic compounds, and a wide variety of other organic and inorganic compounds. In 2014, three raw material groups (mineral oils and derivatives, animal fats and derivatives, and vegetable oils and derivatives) each accounted for at least 10% of the total cost of Quaker's raw material purchases. The price of mineral oil and its derivatives can be affected by the price of crude oil and their refining capacity. In addition, animal fat and vegetable oil prices are impacted by increased biodiesel consumption. Accordingly, significant fluctuations in the price of crude oil could have a material effect upon certain products used in the Company's business. Many of the raw materials used by Quaker are "commodity" chemicals, and, therefore, Quaker's earnings could be affected by market changes in raw material prices. Reference is made to the disclosure contained in Item 7A of this Report.

Patents and Trademarks

Quaker has a limited number of patents and patent applications, including patents issued, applied for, or acquired in the United States and in various foreign countries, some of which may prove to be material to its business. Principal reliance is placed upon Quaker's proprietary formulae and the application of its skills and experience to meet customer needs. Quaker's products are identified by trademarks that are registered throughout its marketed area.

Research and Development—Laboratories

Quaker's research and development laboratories are directed primarily toward applied research and development since the nature of Quaker's business requires continual modification and improvement of formulations to provide chemical specialties to satisfy customer requirements. Quaker maintains quality control laboratory facilities in each of its manufacturing locations. In addition, Quaker maintains facilities in Conshohocken, Pennsylvania; Santa Fe Springs, California; Batavia, New York; Aurora, Illinois; Dayton, Ohio; Uithoorn, The Netherlands; Karlshamn, Sweden; Rio de Janiero, Brazil; and Qingpu, China that are devoted primarily to applied research and development.

Research and development costs are expensed as incurred. Research and development expenses during 2014, 2013 and 2012 were $22.1 million, $21.6 million and $20.0 million, respectively.

Most of Quaker's subsidiaries and associated companies also have laboratory facilities. Although not as complete as the laboratories mentioned above, these facilities are generally sufficient for the requirements of the customers being served. If problems are encountered which cannot be resolved by local laboratories, such problems are generally referred to the laboratory staff in Conshohocken, Santa Fe Springs, Uithoorn or Qingpu.

Regulatory Matters

In order to facilitate compliance with applicable Federal, state, and local statutes and regulations relating to occupational health and safety and protection of the environment, the Company has an ongoing program of site assessment for the purpose of identifying capital expenditures or other actions that may be necessary to comply with such requirements. The program includes periodic inspections of each facility by Quaker and/or independent experts, as well as ongoing inspections and training by on-site personnel. Such inspections address operational matters, record keeping, reporting requirements and capital improvements. Capital expenditures directed solely or primarily to regulatory compliance amounted to approximately $0.8 million, $0.6 million and $1.0 million in 2014, 2013 and 2012, respectively. In 2015, the Company expects to incur approximately $2.1 million for capital expenditures directed primarily to regulatory compliance.

Number of Employees

On December 31, 2014, Quaker's consolidated companies had approximately 1,941 full-time employees of whom 626 were employed by the parent company and its U.S. subsidiaries and 1,315 were employed by its non-U.S. subsidiaries. Associated companies of Quaker (in which it owns less than 50% and has significant influence) employed 70 people on December 31, 2014.

Company Segmentation

The Company's reportable operating segments evidence the structure of the Company's internal organization, the method by which the Company's resources are allocated and the manner by which the Company assesses its performance. The Company's reportable operating segments are organized by geography as follows: North America, EMEA, Asia/Pacific and South America. See Note 4 of Notes to Consolidated Financial Statements included in Item 8 of this Report.

Non-U.S. Activities

Since significant revenues and earnings are generated by non-U.S. operations, Quaker's financial results are affected by currency fluctuations, particularly between the U.S. Dollar and the E.U. Euro, the Brazilian Real, the Chinese Renminbi and the Indian Rupee, and the impact of those currency fluctuations on the underlying economies. Incorporated by reference is (i) the foreign exchange risk information contained in Item 7A of this Report, (ii) the geographic information in Note 4 of Notes to Consolidated Financial Statements included in Item 8 of this Report and (iii) information regarding risks attendant to foreign operations included in Item 1A of this Report.

Quaker on the Internet

Financial results, news and other information about Quaker can be accessed from the Company's website at http://www.quakerchem.com. This site includes important information on the Company's locations, products and services, financial reports, news releases and career opportunities. The Company's periodic and current reports on Forms 10-K, 10-Q and 8-K, including exhibits and supplemental schedules filed therewith, and amendments to those reports, filed with the Securities and Exchange Commission ("SEC") are available on the Company's website, free of charge, as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. Information contained on, or that may be accessed through, the Company's website is not incorporated by reference in this Report and, accordingly, you should not consider that information part of this Report.

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," "
"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-K, 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 2014, 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 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 demand for the Company's products and services is largely derived from the demand for its customers' products, which subjects the Company to uncertainties related to downturns in a customer's business and unanticipated customer production shutdowns. Other major risks and uncertainties include, but are not limited to, significant increases in raw material costs, worldwide economic and political conditions, foreign currency fluctuations, terrorist attacks and other acts of violence, 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.

Item 1A. Risk Factors.

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

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

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

Our business depends on attracting and retaining qualified management personnel.

The unanticipated departure of any key member of our management team could have an adverse effect on our business. Given the relative size of the Company and the breadth of its global operations, there are a limited number of qualified management personnel to assume the responsibilities of management level employees, should there be turnover. In addition, because of the specialized and technical nature of our business, our future performance is dependent on the continued service of, and our ability to attract and retain, qualified management, commercial and technical personnel. Competition for such personnel is intense, and we may be unable to continue to attract or retain such personnel. In an effort to mitigate such risks, the Company utilizes retention bonuses, offers competitive pay and maintains continued succession planning, but there can be no assurance that these mitigating factors will be adequate to attract or retain qualified management personnel.

Inability to obtain sufficient price increases or contract concessions to offset increases in the costs of raw material could result in a loss of sales and/or market share and could have a material adverse effect on the Company's liquidity, financial position and results of operations. Conversely, an inability to implement timely price decreases to

compensate for changes in raw material costs could result in a loss of sales and/or market share and could have a material adverse effect on the Company's liquidity, financial position and results of operations.

Quaker uses over 1,000 raw materials, including mineral oils and derivatives, animal fats and derivatives, vegetable oils and derivatives, ethylene derivatives, solvents, surface active agents, chlorinated paraffinic compounds, and a wide variety of other organic and inorganic compounds. In 2014, three raw material groups (mineral oils and derivatives, animal fats and derivatives, and vegetable oils and derivatives) each accounted for at least 10% of the total cost of Quaker's raw material purchases. The price of mineral oils and derivatives can be affected by crude oil pricing and their refining capacity. In addition, many of the raw materials used by Quaker are "commodity" chemicals. Accordingly, Quaker's earnings can be impacted by market changes in raw material prices.

In the past, Quaker has experienced volatility in its raw material costs, particularly crude oil derivatives. In addition, refining capacity can be constrained by various factors, which can further contribute to volatile raw material costs and negatively impact margins. Animal fat and vegetable oil prices also can be impacted by increased biodiesel consumption. Although the Company has been successful in the past in recovering a substantial amount of the raw material cost increases while retaining its customers, there can be no assurance that the Company can continue to recover higher raw material costs or retain customers in the future. Conversely, the Company has been successful in maintaining acceptable levels of margin in periods of raw material decline, but there can be no assurance that the Company can continue to maintain its margins, through appropriate price and contract concessions, while retaining all customers in the future. As a result of the Company's past pricing actions, in periods of rising and declining costs, customers may become more likely to consider competitors' products, some of which may be available at a lower cost. A significant loss of customers could result in a material adverse effect on the Company's results of operations.

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

The chemical specialty industry can experience some tightness of supply for certain raw materials. In addition, in some cases, we choose to source from a single supplier and/or suppliers in economies that have experienced instability. Any significant disruption in supply could affect our ability to obtain raw materials, which could have a material adverse effect on our liquidity, financial position and results of operations. In addition, the Company's raw materials are subject to various regulatory laws, and a change in the ability to legally use such raw materials may impact Quaker's liquidity, financial position and results of operations.

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

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

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

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

During 2014, our five largest customers (each composed of multiple subsidiaries or divisions with semi-autonomous purchasing authority) together accounted for approximately 18% of our consolidated net sales, with the largest customer (Arcelor-Mittal Group) accounting for approximately 9% of our consolidated net sales.

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

The Company maintains a $300.0 million unsecured multicurrency credit facility (the "Credit Facility") with a group of lenders, which can be increased to $400.0 million at the Company's option if lenders agree to increase their commitments and the Company satisfies certain conditions. The Credit Facility, which matures in 2018, provides the availability of revolving credit borrowings. In general, the borrowings under the Credit Facility bear interest at either a base rate or LIBOR rate plus a margin based on the Company's consolidated leverage ratio.

The Credit Facility contains certain limitations on investments, acquisitions and liens, as well as default provisions customary for facilities of its type. While these covenants and restrictions are not currently considered to be overly

restrictive, they could become more difficult to comply with as our business or financial conditions change. In addition, deterioration in the Company's results of operations or financial position could significantly increase borrowing costs.

Quaker is exposed to market rate risk for changes in interest rates, due to the variable interest rate applied to the Company's borrowings under its Credit Facility. Accordingly, if interest rates rise significantly, the cost of debt to Quaker will increase, perhaps significantly, depending on the extent of Quaker's borrowings under the Credit Facility. At December 31, 2014, the Company had $58.4 million in outstanding borrowings under the Credit Facility. Incorporated by reference is the interest rate risk information contained in Item 7A of this report.

Environmental laws and regulations and/or pending and future legal proceedings may materially and adversely affect the Company's liquidity, financial position, results of operations and reputation in the markets it serves.

The Company is a party to proceedings, cases, and requests for information from, and negotiations with, various claimants and Federal and state agencies relating to various matters, including environmental matters. An adverse result in one or more matters or any potential future matter of a similar nature could materially and adversely affect the Company's liquidity, financial position, results of operations and reputation in the markets it serves. Incorporated herein by reference is the information concerning pending asbestos-related litigation against an inactive subsidiary, amounts accrued associated with certain environmental non-capital remediation costs and other potential commitments or contingencies highlighted in Note 23, of Notes to Consolidated Financial Statements, which appears in Item 8 of this Report.

Compliance with a complex global regulatory environment could have an impact on the Company's public perception and/or a material adverse effect on the Company's liquidity, financial position and results of operations.

Changes in the Company's regulatory environment, particularly, but not limited to, the United States, Brazil, China and the European Union, could lead to heightened regulatory scrutiny, could adversely impact our ability to continue selling certain products in our domestic or foreign markets and could increase the cost of doing business. For instance, the European Union's Registration, Authorization and Restriction of Chemicals ("REACH" and analogous non-E.U. laws and regulations), or other similar laws and regulations, could result in fines, ongoing monitoring and other future business activity restrictions, which could have a material adverse effect on the Company's liquidity, financial position and results of operations. In addition, non-compliance with the U.S. Foreign Corrupt Practices Act ("FCPA"), the UK Bribery Act and other similar laws and regulations, could result in a negative impact to the Company's reputation, potential fines or ongoing monitoring, which could also have an adverse effect on the Company.

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

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

Potential product, service or other related liability claims could have a material adverse effect on the Company's liquidity, financial position and results of operations.

The development, manufacture and sale of specialty chemical products and other related services involve inherent exposure to potential product liability claims, service level claims, product recalls and related adverse publicity. Any of these potential product or service risks could also result in substantial and unexpected expenditures and affect customer confidence in our products and services, which could have a material adverse effect on the Company's liquidity, financial position and results of operations. Although the Company maintains product and other general liability insurance, there can be no assurance that this type or the level of coverage would be adequate to cover these potential risks. In addition, the Company may not be able to continue to maintain its existing insurance or obtain comparable insurance at a reasonable cost, if at all, in the event a significant product or service claim arises.

We may be unable to adequately protect our proprietary rights, which may limit the Company's ability to compete in its markets.

Quaker has a limited number of patents and patent applications, including patents issued, applied for, or acquired in the United States and in various foreign countries, some of which may prove to be material to its business. Principal reliance is placed upon Quaker's proprietary formulae and the application of its skills and experience to meet customer needs. Also, Quaker's products are identified by trademarks that are registered throughout its marketed area. Despite our efforts to protect such proprietary information through patent and trademark filings, through the use of appropriate trade secret protections and through the inability of certain products to be effectively replicated by others, it is possible that competitors or other unauthorized third parties may obtain, copy, use or disclose our technologies, products, and processes. In addition, the laws and/or judicial systems of foreign countries in which we design, manufacture, market and sell our products may afford little or no effective protection of our proprietary technology. These potential risks to our proprietary information could subject the Company to increased competition and negative impacts to our

liquidity, financial position and results of operations.

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

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

An inability to appropriately capitalize on Company growth, including prior or future acquisitions, may adversely affect the Company's liquidity, financial position and results of operations.

Quaker has completed several acquisitions recently and in the past and, also, may continue to seek acquisitions to grow its business in the future. In addition, the Company continues to grow organically through increased end market growth and incremental market share.

The success of the Company's growth depends on its ability to successfully integrate such opportunities, including, but not limited to, the following:

- successfully execute the integration or consolidation of the acquired or additional business into existing processes and operations;
- develop or modify financial reporting, information systems and other related financial tools to ensure overall financial integrity and adequacy of internal control procedures;
- identify and take advantage of potential cost reduction opportunities, while maintaining legacy business and other related attributes; and
- further penetrate existing and new markets with the product capabilities acquired in acquisitions.

The Company may fail to derive significant benefits or may not create the appropriate infrastructure to support such additional business, which could have a material adverse effect on liquidity, financial position and results of operations. Also, if the Company fails to achieve sufficient financial performance from an acquisition, certain long-lived assets, such as property, plant and equipment, goodwill or other intangible assets, could become impaired and result in the recognition of an impairment loss.

The scope of our international operations subjects the Company to risks, including, but not limited to, risks from changes in trade regulations, currency fluctuations, and political and economic instability.

Since significant revenues and earnings are generated by non-U.S. operations, Quaker's financial results are affected by currency fluctuations, particularly between the U.S. Dollar and the E.U. Euro, the Brazilian Real, the Chinese Renminbi, and the Indian Rupee, and the impact of those currency fluctuations on the underlying economies. During the past three years, sales by non-U.S. subsidiaries accounted for approximately 60% to 65% of our annual consolidated net sales. Generally, all of the Company's operations use the local currency as their functional currency. The Company generally does not use financial instruments that expose it to significant risk involving foreign currency transactions; however, the size of its non-U.S. activities has a significant impact on reported operating results and attendant net assets. Therefore, as exchange rates vary, Quaker's results can be materially affected. Incorporated by reference is the foreign exchange risk information contained in Item 7A of this Report and the geographic information in Note 4 of Notes to Consolidated Financial Statements included in Item 8 of this Report.

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.

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

- changes in economic conditions from country to country, similar to past instability in certain European economies;
- changes in a country's political condition, such as the current political unrest in the Middle East;
- trade protection measures;
- longer payment cycles;
- licensing and other legal requirements;
- restrictions on the repatriation of our assets, including cash;
- the difficulties of staffing and managing dispersed international operations;
- less protective foreign intellectual property laws;
- legal systems that may be less developed and predictable than those in the United States; and
- local tax issues.

The breadth of Quaker's international operations subjects the Company to various local non-income taxes, including value-added-taxes ("VAT"). With VAT and other similar taxes, the Company essentially operates as an agent for various jurisdictions by collecting VAT-related taxes from customers and remitting those amounts to the taxing authorities on the goods it sells. The laws and regulations regarding VAT-related taxes can be complex and vary widely among countries, as well as among individual jurisdictions within a given country, and for the same products, making full compliance difficult. As VAT and other similar taxes are often charged as a percentage of the selling price of the goods sold, the amounts involved can be material. Should there be non-compliance by the Company, it may need to remit funds to the tax authorities prior to collecting the appropriate amounts from the customers or jurisdictions, which may have been incorrectly paid. In addition, the Company may choose for commercial reasons not to seek repayment from certain customers. This could have a material adverse effect on the Company's liquidity, financial position and results of operations. See Note 23 of Notes to Consolidated Financial Statements, included in Item 8 of this Report, which is incorporated herein by this reference, for further discussion.

Disruption of critical information systems or material breaches in the security of our systems may adversely affect our business and our customer relationships.

Quaker relies on information technology systems to process, transmit, and store electronic information in our day-to-day operations. The Company also relies on its technology infrastructure, among other functions, to interact with customers and suppliers,

fulfill orders and bill, collect and make payments, ship products, provide support to customers, fulfill contractual obligations and otherwise conduct business. Our information technology systems may be subjected to computer viruses or other malicious codes, unauthorized access attempts, and cyber-attacks, any of which, if successful, could result in data leaks or otherwise compromise our confidential or proprietary information and disrupt our operations. Cybersecurity incidents, such as these, are becoming more sophisticated and frequent, and there can be no assurance that our protective measures will prevent security breaches that could have a significant impact on our business, reputation and financial results. Failure to monitor, maintain or protect our information technology systems and data integrity effectively or, to anticipate, plan for and recover from significant disruptions to these systems could have a material adverse effect on our business, results of operations or financial condition.

Terrorist attacks, other acts of violence or war, natural disasters or other uncommon global events may affect the markets in which we operate and our profitability.

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

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Quaker’s corporate headquarters and a laboratory facility are located in its North American segment’s Conshohocken, Pennsylvania office. The Company’s other principal facilities in its North American segment are located in Aurora, Illinois; Detroit, Michigan; Middletown, Ohio; Santa Fe Springs, California; Batavia, New York; Dayton, Ohio; and Monterrey, N.L., Mexico. The Company’s EMEA segment has principal facilities in Uithoorn, The Netherlands; Santa Perpetua de Mogoda, Spain; Karlshamn, Sweden; and Tradate, Italy. The Company’s Asia/Pacific segment operates out of its principal facilities located in Qingpu, China; Kolkata, India; and Sydney, Australia, while its South American segment operates out of its principal facility in Rio de Janeiro, Brazil. With the exception of the Conshohocken, Santa Fe Springs, Aurora, Karlshamn, and Sydney sites, which are leased, the remaining principal facilities are owned by Quaker and, as of December 31, 2014, were mortgage free. Quaker also leases sales, laboratory, manufacturing, and warehouse facilities in other locations.

Quaker’s principal facilities (excluding Conshohocken) consist of various manufacturing, administrative, warehouse, and laboratory buildings. Substantially all of the buildings (including Conshohocken) are of fire-resistant construction and are equipped with sprinkler systems. All facilities are primarily of masonry and/or steel construction and are adequate and suitable for Quaker’s present operations. The Company has a program to identify needed capital improvements that are implemented as management considers necessary or desirable. Most locations have various numbers of raw material storage tanks ranging from 2 to 58 at each location with a capacity ranging from 1,000 to 82,000 gallons and processing or manufacturing vessels ranging in capacity from 7 to 16,000 gallons.

Each of Quaker's non-U.S. associated companies (in which it owns a less than 50% interest and has significant influence) owns or leases a plant and/or sales facilities in various locations, with the exception of Primex, Ltd.

Item 3. Legal Proceedings.

The Company is a party to proceedings, cases, and requests for information from, and negotiations with, various claimants and Federal and state agencies relating to various matters, including environmental matters. For information concerning pending asbestos-related litigation against an inactive subsidiary, amounts accrued associated with certain environmental non-capital remediation costs and the Company's value-added tax dispute settlements, reference is made to Note 23 of Notes to Consolidated Financial Statements, included in Item 8 of this Report, which is incorporated herein by this reference. The Company is a party to other litigation which management currently believes will not have a material adverse effect on the Company's results of operations, cash flow or financial condition.

Item 4. Mine Safety Disclosures.

Not Applicable

Item 4(a). Executive Officers of the Registrant.

Set forth below is information regarding the executive officers of the Company, each of whom (with the exception of Ms. Loebl, Mr. Steeples and Mr. Hostetter) has been employed by the Company for more than five years, including the respective positions and offices with the Company held by each over the respective periods indicated. Each of the executive officers, with the exception of Mr. Hostetter, is elected annually to a one-year term. Mr. Hostetter is considered an executive officer in his capacity as principal accounting officer for purposes of this item.

Name, Age, and Present Position with the Company	Business Experience During the Past Five Years and Period Served as an Officer
Michael F. Barry, 56 Chairman of the Board, Chief Executive Officer and President and Director	Mr. Barry, who has been employed by the Company since 1998, has served as Chairman of the Board since May 2009, in addition to his position as Chief Executive Officer and President held since October 2008. He served as Senior Vice President and Managing Director – North America from January 2006 to October 2008. He served as Senior Vice President and Global Industry Leader – Metalworking and Coatings from July 2005 through December 2005. He served as Vice President and Global Industry Leader – Industrial Metalworking and Coatings from January 2004 through June 2005 and Vice President and Chief Financial Officer from 1998 to August 2004.
Margaret M. Loebl, 55 Vice President, Chief Financial Officer and Treasurer	Ms. Loebl, has served as Vice President, Chief Financial Officer and Treasurer since she joined the Company in June 2012. Prior to joining the Company, Ms. Loebl, from August 2011 to December 2011, provided senior executive-level financial consulting services in Paris, France, for Constellium, a leader in the manufacturing of high-quality aluminum products and solutions. Prior to joining Constellium, she served from October 2008 through December 2010 as Corporate Vice President, Chief Financial Officer and Treasurer of TechTeam Global, Inc., a provider of information technology and business process outsourcing services. Ms. Loebl served as an Executive in Residence at the University of Illinois in support of the University's Finance Academy from August 2007 to December 2008.
D. Jeffry Benoliel, 56 Vice President and Global Leader – Metalworking, Can, Mining and Corporate Secretary	Mr. Benoliel, who has been employed by the Company since 1995, has served as Global Leader – Mining since May 1, 2014, in addition to his position as Vice President and Global Leader – Metalworking, Can and Corporate Secretary since

	July 2013. He served as Vice President – Global Metalworking and Fluid Power and Corporate Secretary from June 2011 through June 2013, and until March 2012 also held the position of General Counsel. He served as Vice President – Global Strategy, General Counsel and Corporate Secretary from October 2008 until mid-June 2011 and Vice President, Secretary and General Counsel from 2001 through September 2008.
Joseph A. Berquist, 43 Vice President and Managing Director – North America	Mr. Berquist, who has been employed by the Company since 1997, has served as Vice President and Managing Director – North America since April 2010. He served as Senior Director, North America Commercial from October 2008 through March 2010.
Ronald S. Ettinger, 62 Vice President – Human Resources	Mr. Ettinger, who has been employed by the Company since 2002, has served as Vice President-Human Resources since December 2011. He served as Director-Global Human Resources from August 2005 through November 2011.

Name, Age, and Present Position with the Company	Business Experience During the Past Five Years and Period Served as an Officer
Shane W. Hostetter, 33 Global Controller	Mr. Hostetter, who has been employed by the Company since July 2011, has served as Global Controller since September 1, 2014. He served as Corporate Controller from May 2013 to August 2014. He served as Assistant Global Controller from July 2011 to May 2013. Prior to joining the Company, Mr. Hostetter led the financial reporting department for Pulse Electronics Corporation (formerly Technitrol, Inc.) from May 2008 to June 2011.
Dieter Laininger, 52 Vice President and Managing Director – South America and Global Leader – Primary Metals	Mr. Laininger, who has been employed by the Company since 1991, has served as Vice President and Managing Director – South America, since January 2013, in addition to his position as Vice President and Global Leader – Primary Metals, to which he was appointed in June 2011. He served as Industry Business Director for Steel and Metalworking – EMEA from March 2001 through July 2011.
Joseph F. Matrange, 73 Vice President and Global Leader – Coatings	Mr. Matrange, who has been employed by the Company since 2000, has served as Vice President and Global Leader – Coatings since October 2008. He has also served as President of AC Products, Inc., a California subsidiary, since October 2000, and Epmar Corporation, a California subsidiary, since April 2002.
Jan F. Nieman, 54 Vice President and Global Leader – Grease and Fluid Power, Global Strategy and Marketing	Mr. Nieman, who has been employed by the Company since 1992, has served as Vice President – Global Strategy and Marketing since May 1, 2014, in addition to his position as Global Leader – Grease and Fluid Power since August 2013. He also served as Global Leader – Mining from August 2013 through April 30, 2014. He served as Vice President and Managing Director – Asia/Pacific from February 2005 through July 2013.
Wilbert Platzer, 53 Vice President and Managing Director – EMEA	Mr. Platzer, who has been employed by the Company since 1995, has served as Vice President and Managing Director – EMEA since January 2006.
Adrian Steeples, 54	

Vice President and Managing Director – Asia/Pacific	Mr. Steeples, who has been employed by the Company since 2010, has served as Vice President and Managing Director – Asia/Pacific since July 2013. He served as Industry Business Director – Metalworking from March 2011 through June 2013, and Manager, European and Global Special Projects, from May 2010 through February 2011. Prior to joining the Company, he worked for the BP Group serving as BP/Castrol European and Asian Pacific Sales Director in Industrial Lubricants and Services from January 2009 through December 2009.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The Company's common stock is listed on the New York Stock Exchange ("NYSE") under the trading symbol KWR. The following table sets forth, for the calendar quarters during the two most recent fiscal years, the range of high and low sales prices for the common stock as reported on the NYSE composite tape (amounts rounded to the nearest penny), and the quarterly dividends declared and paid:

	Price Range				Dividends Declared		Dividends Paid	
	2014		2013					
	High	Low	High	Low	2014	2013	2014	2013
First quarter	$ 80.91	$ 65.19	$ 63.50	$ 54.24	$ 0.250	$ 0.245	$ 0.250	$ 0.245
Second quarter	81.70	71.16	67.27	53.54	0.30	0.25	0.250	0.245
Third quarter	79.59	69.17	73.41	61.67	0.30	0.25	0.30	0.25
Fourth quarter	93.56	67.29	81.52	70.02	0.30	0.25	0.30	0.25

There are no restrictions that currently materially limit the Company's ability to pay dividends or that the Company believes are likely to materially limit the payment of future dividends. If a default under the Company's primary credit facility were to occur and continue, the payment of dividends would be prohibited. Reference is made to the "Liquidity and Capital Resources" disclosure contained in Item 7 of this Report.

As of January 16, 2015, there were 935 shareholders of record of the Company's common stock, its only outstanding class of equity securities.

Every holder of Quaker common stock is entitled to one vote or ten votes for each share held of record on any record date depending on how long each share has been held. As of January 16, 2015, 13,302,967 shares of Quaker common stock were issued and outstanding. Based on the information available to the Company on January 16, 2015, as of that date the holders on record of 789,299 shares of Quaker common stock would have been entitled to cast ten votes for each share, or approximately 39% of the total votes that would have been entitled to be cast as of that record date, and the holders on record of 12,513,668 shares of Quaker common stock would have been entitled to cast one vote for each share, or approximately 61% of the total votes that would have been entitled to be cast as of that date. The number of shares that are indicated as entitled to one vote includes those shares presumed to be entitled to only one vote. Because the holders of these shares may rebut this presumption, the total number of votes entitled to be cast as of January 16, 2015 could be more than 20,406,658.

Reference is made to the information in Item 12 of this Report under the caption "Equity Compensation Plans," which is incorporated herein by this reference.

The following table sets forth information concerning shares of the Company's common stock acquired by the Company during the fourth quarter of the fiscal year covered by this Report:

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased (1)	(b) Average Price Paid per Share (2)	(c) Total Number of Shares Purchased as part of Publicly Announced Plans or Programs (3)	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (3)
October 1 - October 31	1,175	$ 82.08	—	252,600
November 1 - November 30	—	—	—	252,600
December 1 - December 31	—	—	—	252,600
Total	1,175	$ 82.08	—	252,600

(1) All of the 1,175 shares acquired by the Company during the period covered by this report were acquired from employees upon their surrender of previously owned shares in payment of the exercise price of employee stock options exercised, for the payment of taxes upon exercise of employee stock options or for the payment of taxes upon vesting of restricted stock.

(2) The price paid per share, in each case, represented the closing price of the Company’s common stock on the date of exercise or vesting, as specified by the plan pursuant to which the applicable option or restricted stock was granted.

(3) On February 15, 1995, the Board of Directors of the Company authorized a share repurchase program authorizing the repurchase of up to 500,000 shares of Quaker common stock, and, on January 26, 2005, the Board authorized the repurchase of up to an additional 225,000 shares. Under the 1995 action of the Board, 27,600 shares may yet be purchased. Under the 2005 action of the Board, none of the shares authorized have been purchased and, accordingly, all of those shares may yet be purchased. Neither of the share repurchase authorizations has an expiration date.

The following graph compares the cumulative total return (assuming reinvestment of dividends) from December 31, 2009 to December 31, 2014 for (i) Quaker's common stock, (ii) the S&P SmallCap 600 Index (the "SmallCap Index"), and (iii) the S&P 600 Materials Group Index (the "Materials Group Index"). The graph assumes the investment of $100 on December 31, 2009 in each of Quaker's common stock, the stocks comprising the SmallCap Index and the stocks comprising the Materials Group Index.

	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014
Quaker	$100.00	$208.75	$199.57	$282.27	$410.14	$497.14
SmallCap Index	100.00	126.31	127.59	148.42	209.74	221.81
Materials Group Index	100.00	118.27	108.50	135.95	184.62	185.17

Item 6. Selected Financial Data.

The following table sets forth selected financial data for the Company and its consolidated subsidiaries (in thousands, except dividends and per share data):

	Year Ended December 31,				
	2014 (1)	2013 (2)	2012 (3)	2011 (4)	2010 (5)
Summary of Operations:					
Net sales	$ 765,860	$ 729,395	$ 708,226	$ 683,231	$ 544,063
Income before taxes and equity in net income of associated companies	78,293	72,826	62,948	59,377	46,213
Net income attributable to Quaker Chemical Corporation	56,492	56,339	47,405	45,892	32,120
Per share:					
Net income attributable to Quaker Chemical Corporation Common Shareholders - basic	$ 4.27	$ 4.28	$ 3.64	$ 3.71	$ 2.85
Net income attributable to Quaker Chemical Corporation Common Shareholders - diluted	$ 4.26	$ 4.27	$ 3.63	$ 3.66	$ 2.80
Dividends declared	1.150	0.995	0.975	0.955	0.935
Dividends paid	1.10	0.99	0.97	0.95	0.93
Financial Position					
Working capital	$ 226,617	$ 197,991	$ 170,018	$ 152,900	$ 114,291
Total assets	665,526	584,146	536,634	511,152	452,868
Long-term debt	75,328	17,321	30,000	46,701	73,855
Total equity	365,135	344,696	289,676	261,357	190,537

Notes to the above table (in thousands):

(1) The results of operations for 2014 include equity income from a captive insurance company of $2,412 after tax; offset by an after-tax charge of $321 related to the currency conversion of the Venezuelan Bolivar Fuerte to the U.S. Dollar at the Company's 50% owned affiliate in Venezuela; $1,166 of charges related to cost streamlining initiatives in the Company's EMEA and South American segments; a $902 charge related to a UK pension plan amendment; and $825 of charges related to certain customer bankruptcies.

(2) The results of operations for 2013 include equity income from a captive insurance company of $5,451 after tax; an increase to other income of $2,540 related to a mineral oil excise tax refund; and an increase to other income of $497 related to a change in an acquisition-related earnout liability; partially offset by an after-tax charge of $357 related to the currency conversion of the Venezuelan Bolivar Fuerte to the U.S. Dollar at the Company's 50% owned affiliate in Venezuela; $1,419 of charges related to cost streamlining initiatives in the Company's EMEA and South American segments; and a $796 net charge related to a non-income tax contingency.

(3) The results of operations for 2012 include equity income from a captive insurance company of $1,812 after tax; and an increase to other income of $1,737 related to a change in an acquisition-related earnout liability; partially offset by a charge of $1,254 related to the bankruptcy of certain customers in the U.S.; and a charge of $609 related to CFO transition costs.

(4) The results of operations for 2011 include equity income from a captive insurance company of $2,323 after tax; an increase to other income of $2,718 related to the revaluation of the Company's previously held ownership interest in Tecniquimia Mexicana S.A de C.V. to its fair value; and an increase to other income of $595 related to a change in an acquisition-related earnout liability.

(5) The results of operations for 2010 include equity income from a captive insurance company of $313 after tax; offset by a final charge of $1,317 related to the retirement of the Company's former Chief Executive Officer in 2008; a net charge of $4,132 related to a non-income tax contingency; a $322 after-tax charge related to the currency conversion of the Venezuelan Bolivar Fuerte to the U.S. Dollar at the Company's 50% owned affiliate in Venezuela; and a $564 after-tax charge related to an out-of-period adjustment at the Company's 40% owned affiliate in Mexico.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Executive Summary

Quaker Chemical Corporation is a leading global provider of process fluids, chemical specialties, and technical expertise to a wide range of industries, including steel, aluminum, automotive, mining, aerospace, tube and pipe, cans, and others. For nearly 100 years, Quaker has helped customers around the world achieve production efficiency, improve product quality, and lower costs through a combination of innovative technology, process knowledge, and customized services. Headquartered in Conshohocken, Pennsylvania USA, Quaker serves businesses worldwide with a network of dedicated and experienced professionals whose mission is to make a difference.

Overall, the Company performed very well in 2014, as its sales and earnings continued a trend of year-over-year growth and, also, solid cash flow generation. The Company's 2014 performance was driven by a 5% increase in net sales on increased product volumes, which was consistent with the growth of its gross profit on stable margins of 35.7% and 35.8% in 2014 and 2013, respectively. Selling, general and administrative expenses ("SG&A") increased $6.0 million from 2013, due to several factors including higher acquisition-related costs and higher labor-related costs on increased sales and merit inflation, net of lower incentive compensation and the effects of foreign currency exchange rate translation. However, SG&A, as a percentage of sales, decreased to 25.6% from 26.0% in 2013, which increased the Company's operating income to 10.1% of sales in 2014 compared to 9.8% in 2013. The year-over-year improvement in the Company's operating performance was negatively impacted by other items, such as lower other income and a higher tax rate, as compared to 2013, which are further discussed in the Company's Consolidated Operations Review section of this Item, below.

From a business perspective, the Company's performance in 2014 was highlighted by continued volume gains over all of its regions, with the exception of South America, where we continue to be adversely impacted by low end-user production and foreign exchange. Related to the remaining regions, North America continues to experience higher sales levels and a slight increase in gross margin on an improving domestic economy. Similarly, both EMEA and Asia/Pacific experienced higher sales volume on continued market share gains. In addition, North America and Europe's sales increased from recent acquisitions, but the segments' overall net performance were minimally impacted, due to acquisition-related costs and initial fair value accounting adjustments. Overall, each of the three regions' improved sales were partially offset by higher manufacturing costs, direct SG&A costs and other labor-related costs on increased volume levels and overall merit inflation. Similarly, South America had year-over-year impacts due to normal merit increases, which the Company continues to temper through certain actions, such as its most recent cost streamlining activity in the fourth quarter of 2014.

The net result was earnings per diluted share of $4.26 in 2014 compared to $4.27 in 2013, with non-GAAP earnings per diluted share increasing 11% to $4.26 in 2014 from $3.84 in 2013. Also, consistent with the operating income trends discussed above, the Company's adjusted EBITDA approximated $100 million in 2014, which was an increase of 11% from $89.6 million in 2013. See the Non-GAAP Measures section in this Item, below.

These strong earnings drove solid operating cash flows of $54.7 million in 2014. However, the Company's strong earnings in 2014 were partially offset by higher working capital investments, which decreased its operating cash flow from $73.8 million in 2013. Specifically, the primary changes to the Company's working capital were higher cash outflows from accounts receivable, inventory and accounts payable and accrued liabilities, which are further discussed in the Company's Liquidity and Capital Resources section in this Item, below.

The Company is pleased with its performance for 2014. Specifically, the Company continued to gain market share and maintain its margin levels in each of its three largest regions, which more than offset a decline in its smallest

region, South America. These performance improvements were also achieved despite an overall sluggish global economy and other headwinds, such as foreign exchange. This performance drove the fifth consecutive year of revenue, operating income and adjusted EBITDA growth, as well as total shareholder return of approximately 21%, due to the Company's continued dividend and stock price appreciation. Overall, the Company's liquidity remains a strength, as its consolidated leverage ratio continues to be less than one times EBITDA, despite added borrowings for its record year of acquisition activity. As the Company looks to 2015, the Company expects further market share gains from its recent acquisitions and other strategic initiatives. However, the Company continues to operate in a highly competitive and uncertain environment, with economic challenges in certain areas among its four regions, such as Brazil. The Company believes that its track record of increasing market share and leveraging recent acquisitions will continue, which should help offset potential market challenges. On balance, the Company remains confident in its future and expects 2015 to be another good year for Quaker, as the Company strives to increase revenue, operating income and adjusted EBITDA for a sixth consecutive year.

Critical Accounting Policies and Estimates

Quaker's discussion and analysis of its financial condition and results of operations are based upon Quaker's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires Quaker to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, Quaker evaluates its estimates, including those related to customer sales incentives, product returns, bad debts, inventories, property, plant and equipment,

investments, goodwill, intangible assets, income taxes, financing operations, restructuring, incentive compensation plans (including equity-based compensation), pensions and other postretirement benefits, and contingencies and litigation. Quaker bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. However, actual results may differ from these estimates, under different assumptions or conditions.

Quaker believes the following critical accounting policies describe the more significant judgments and estimates used in the preparation of its consolidated financial statements:

1. Accounts receivable and inventory exposures — 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 deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. 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. Further, a significant portion of Quaker's revenues is derived from sales to customers in industries where a number of bankruptcies have occurred in past years and where companies have experienced financial difficulties. When a bankruptcy occurs, Quaker must judge the amount of proceeds, if any, that may ultimately be received through the bankruptcy or liquidation process. These matters may increase the Company's exposure, should a bankruptcy occur, and may require a write down or a disposal of certain inventory due to its estimated obsolescence or limited marketability. Reserves for customers filing for bankruptcy protection are generally established at 75-100% of the amount outstanding at the bankruptcy filing date. However, initially establishing a reserve and the amount thereto is dependent on the Company's evaluation of likely proceeds to be received from the bankruptcy process, which could result in the Company recognizing minimal or no reserve at the date of bankruptcy. Large and/or financially distressed customers are generally reserved for on a specific review basis, while a general reserve is maintained for other customers based on historical experience. The Company's consolidated allowance for doubtful accounts was $6.5 million and $7.1 million at December 31, 2014 and December 31, 2013, respectively. The Company recorded a reduction in its provision for doubtful accounts of $0.3 million in 2014, compared to increases to its provision for doubtful accounts of $1.1 million and $2.1 million in 2013 and 2012, respectively. Changing the recorded provisions by 10% would have increased or decreased the Company's pre-tax earnings by less than $0.1 million, approximately $0.1 million and approximately $0.2 million in 2014, 2013 and 2012, respectively.

2. Environmental and litigation reserves — Accruals for environmental and litigation matters are recorded when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated. 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 the safety or efficiency of the property from the date acquired or constructed, and/or mitigate or prevent contamination in the future. Estimates for accruals for environmental matters are based on a variety of potential technical solutions, governmental regulations and other factors, and are subject to a large range of potential costs for remediation and other actions. A considerable amount of judgment is required in determining the most likely estimate within the range of total costs, and the factors determining this judgment may vary over time. Similarly, reserves for litigation and similar matters are based on a range of potential outcomes and require considerable judgment in determining the most probable outcome. If no amount within the range is considered more probable than any other amount, the Company accrues the lowest amount in that range in accordance with generally accepted accounting principles. See Note 23 of Notes to Consolidated Financial Statements, which appears in Item 8 of this Report.

3. Realizability of equity investments — Quaker holds equity investments in various foreign companies, whereby it has the ability to influence, but not control, the operations of the entity and its future results. Quaker would record an impairment charge to an investment, if it believed a decline in value that was other than temporary occurred. Future

adverse changes in market conditions, poor operating results of underlying investments, devaluation of foreign currencies or other events or circumstances could result in losses or an inability to recover the carrying value of the investments. These indicators may result in an impairment charge in the future. The carrying amount of the Company's equity investments at December 31, 2014 was $21.8 million, which included four investments of $14.4 million, or a 32.8% interest, in Primex, Ltd. (Barbados), $4.9 million, or a 50% interest, in Nippon Quaker Chemical, Ltd. (Japan), $2.3 million, or a 50% interest, in Kelko Quaker Chemical, S.A. (Venezuela) and $0.2 million, or a 50% interest, in Kelko Quaker Chemical, S.A. (Panama), respectively. See Note 13 of Notes to Consolidated Financial Statements, which appears in Item 8 of this Report.

4. Tax exposures, valuation allowances and uncertain tax positions — Quaker records expenses and liabilities for taxes based on estimates of amounts that will be ultimately determined to be deductible in tax returns filed in various jurisdictions. The filed tax returns are subject to audit, which often occur several years subsequent to the date of the financial statements. Disputes or disagreements may arise during audits over the timing or validity of certain items or deductions, which may not be resolved for extended periods of time. Quaker applies the provisions of FASB's guidance regarding uncertain tax positions. The guidance applies to all income tax positions taken on previously filed tax returns or expected to be taken on a future tax return. The FASB's guidance regarding accounting for uncertainty in income taxes prescribes the recognition threshold and measurement attributes for financial statement recognition and measurement of tax positions taken or expected to be taken on a tax return. The guidance further requires the determination of whether the benefits of tax positions will be more likely than not sustained upon audit based upon the technical merits of the tax position. For tax positions that are determined to be more likely than not sustained upon audit, a company recognizes the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement in the financial statements. For tax positions that are not determined to be more likely than not sustained upon audit, a company does not recognize any portion of the

benefit in the financial statements. Additionally, the guidance provides for derecognition, classification, penalties and interest, accounting in interim periods, disclosure and transition. 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. The guidance also requires that an entity net its liability for unrecognized tax benefits against deferred tax assets related to net operating losses or other tax credit carryforwards that would apply if the uncertain tax position were settled for the presumed amount at the balance sheet date. Quaker also records valuation allowances when necessary to reduce its deferred tax assets to the amount that is more likely than not to be realized. While Quaker has considered future taxable income and employs prudent and feasible tax planning strategies in assessing the need for a valuation allowance, in the event Quaker were to determine that it would be able to realize its deferred tax assets in the future in excess of its net recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made. Likewise, should Quaker determine that it would not be able to realize all or part of its net deferred tax assets in the future, an adjustment to the deferred tax asset would be charged to income in the period such determination was made. Both determinations could have a material adverse impact on the Company's financial statements. In addition, U.S. income taxes have not been provided on the undistributed earnings of non-U.S. subsidiaries since it is the Company's intention to continue to reinvest these earnings in those foreign subsidiaries for working capital needs and certain other growth initiatives. The amount of such undistributed earnings at December 31, 2014 was approximately $197.0 million. However, 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 foreign tax credits.

5. Goodwill and other intangible assets — The Company records goodwill and intangible assets at fair value as of the acquisition date and amortizes definite-lived intangible assets on a straight-line basis over the useful lives of the intangible assets based on third-party valuations of the assets. Goodwill and intangible assets, which have indefinite lives, are not amortized and are required to be assessed at least annually for impairment. The Company compares the assets' fair value to their carrying value, primarily based on future discounted cash flows, in order to determine if an impairment charge is warranted. The estimates of future cash flows involve considerable management judgment and are based upon assumptions about expected future operating performance. Assumptions used in these forecasts are consistent with internal planning, but the actual cash flows could differ from management's estimates due to changes in business conditions, operating performance, and economic conditions. The Company's assumption of weighted average cost of capital ("WACC") and estimated future net operating profit after tax ("NOPAT") are particularly important in determining estimated future cash flows.

The Company completed its annual impairment assessment as of the end of the third quarter of 2014, and no impairment charge was warranted. Furthermore, the estimated fair value of each of the Company's reporting units substantially exceeded its carrying value, with none of the Company's reporting units at risk for failing step one of the goodwill impairment test. The Company's consolidated goodwill and indefinite-lived intangible assets at December 31, 2014 and December 31, 2013 were $79.0 million and $59.3 million, respectively. The Company currently uses a WACC of 12% and, at September 30, 2014, this assumption would have had to increase by more than 8.9 percentage points before any of the Company's reporting units would fail step one of the impairment analysis. Further, at September 30, 2014, the Company's estimate of future NOPAT would have had to decrease by more than 38.2% before any of the Company's reporting units would fail step one of the impairment analysis.

6. Postretirement benefits — The Company provides certain pension and other postretirement benefits to current employees, former employees and retirees. Independent actuaries, in accordance with accounting principles generally accepted in the United States, perform the required valuations to determine benefit expense and, if necessary, non-cash charges to equity for additional minimum pension liabilities. Critical assumptions used in the actuarial valuation include the weighted average discount rate, rates of increase in compensation levels, and expected long-term

rates of return on assets. If different assumptions were used, additional pension expense or charges to equity might be required. The Company's U.S. pension plan year-end is November 30, and the measurement date is December 31. The following table highlights the potential impact on the Company's pre-tax earnings, due to changes in assumptions with respect to the Company's pension plans, based on assets and liabilities at December 31, 2014:

	1/2 Percentage Point Increase			1/2 Percentage Point Decrease		
	Foreign	Domestic	Total	Foreign	Domestic	Total
	(Dollars in millions)					
Discount rate	$ 0.8	$ 0.1	$ 0.9	$ (0.8)	$ (0.1)	$ (0.9)
Expected rate of return on plan assets	0.4	0.2	0.6	(0.3)	(0.2)	(0.5)

Liquidity and Capital Resources

Quaker's cash and cash equivalents decreased to $64.7 million at December 31, 2014 from $68.5 million at December 31, 2013. The $3.8 million decrease was the net result of $54.7 million of cash provided by operating activities, $84.5 million of cash used in investing activities, $30.2 million of cash provided by financing activities and $4.2 million of a decrease due to foreign exchange. At

December 31, 2014, the Company held approximately $60.4 million of its total cash and cash equivalents among its foreign subsidiaries, which is subject to possible limitations on repatriation to the United States.

Net cash flows provided by operating activities decreased $19.1 million to $54.7 million in 2014 compared to $73.8 million in 2013, as the Company's improved operating performance in 2014 was offset by higher working capital investment. Specifically, the Company had higher cash outflow from accounts receivables due to increased sales at the end of 2014 and a delay in the timing of cash receipts in certain regions. A key driver in the delayed timing was a significant increase in the level of bank acceptance drafts that the Company received on outstanding receivables in its Asia/Pacific region. This type of payment carries with it extended terms, if the Company chooses not to immediately exchange it with the respective issuing bank for a discounted amount. To date, all of the Company's bank acceptance drafts have been carried to their full term. Overall, the current year marked an uncommon increase in the use of such methods of payment by the Company's customers, which it expects to be at a more stable level in the next year. In addition to its receivables, the Company had higher cash outflows from inventory due to re-establishing safety stock levels, that were low at year-end 2013, and less cash inflows from accounts payable and accrued liabilities, primarily related to higher annual incentive compensation payouts on the Company's improved performance in the prior year. In addition, the Company's operating cash flow comparison was affected by a $2.0 million dividend distribution received in the prior year from its captive insurance equity affiliate and, also, the prior year mineral oil excess tax refund discussed below.

Net cash flows used in investing activities increased $72.1 million to $84.5 million in 2014 compared to $12.4 million in 2013, which was primarily the result of higher payments for acquisitions and property, plant and equipment. During 2014, the Company invested $73.5 million for acquisitions that primarily related to its purchase of ECLI, for its North American segment, and Binol, for its EMEA segment, whereas, in 2013, the Company invested $2.5 million for a business that primarily related to tin plating and a chemical milling maskants distribution network for its North American segment. Related to property, plant and equipment, the Company had $1.6 million of higher investments in 2014 primarily due to information technology development, capital improvements and other related initiatives primarily in its EMEA and North America segments, partially offset by higher payments during 2013 to expand the Company's Asia/Pacific facilities. These cash outflows were net of higher cash flow from changes in the Company's restricted cash in 2014, which is dependent upon the timing of claims and payments associated with the subsidiary's asbestos litigation.

Net cash flows provided by financing activities were $30.2 million in 2014 compared to $26.2 million of cash used in financing activities in 2013. The $56.4 million change in cash provided by financing activities was due to a change from repayments of external debt on the Company's revolving credit line made in 2013 compared to the current year borrowings on the Company's revolving credit line. The current year borrowings were primarily used to fund the increase in the Company's investing and financing activities, with its recent acquisition of ECLI and Binol, mentioned above, its $7.6 million purchase of its remaining interest in its Australian equity affiliate and its $4.7 million acquisition-related earnout payment.

The Company's primary credit line is a $300.0 million syndicated multicurrency credit agreement with Bank of America, N.A. (administrative agent) and certain other major financial institutions, which matures in June 2018. At the Company's option, the principal amount available can be increased to $400.0 million if the lenders agree to increase their commitments and the Company satisfies certain conditions. At December 31, 2014, the Company had $58.4 million of borrowings outstanding under this facility, compared to no borrowings outstanding as of December 31, 2013. The Company's access to this credit is largely dependent on its consolidated leverage ratio covenant, which cannot exceed 3.50 to 1. At December 31, 2014 and December 31, 2013, the consolidated leverage ratio was below 1.0 to 1, and the Company was also in compliance with all of the facility's other covenants.

During 2002 and 2003, the Company's Netherlands and Italian subsidiaries paid excise taxes on mineral oil sales in Italy in the total amount of approximately $2.0 million. Alleging that the mineral oil excise tax was contrary to European Union directives, the subsidiaries filed with the Customs' Authority of Milan ("Customs Office" or "Office") requests to obtain a refund of the above-mentioned amount. The parties appealed rulings to various levels of tax courts up through the Supreme Court of Italy. In March 2012, the Supreme Court rejected the appeal of the Customs Office, ruling in favor of the subsidiaries and granting a refund for the amounts requested. After filing an enforcement action, the Company ultimately collected the $2.0 million, along with approximately $0.5 million of interest, in the second quarter of 2013. This amount was recorded as other income on the Company's 2013 Consolidated Statement of Income.

At December 31, 2014, the Company's gross liability for uncertain tax positions, including interest and penalties, was $15.6 million. The Company cannot determine a reliable estimate of the timing of cash flows by period related to its uncertain tax position liability. However, should the entire liability be paid, the amount of the payment may be reduced by up to $10.8 million as a result of offsetting benefits in other tax jurisdictions.

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

The following table summarizes the Company's contractual obligations at December 31, 2014, and the effect such obligations are expected to have on its liquidity and cash flows in future periods. Pension and other postretirement plan contributions beyond 2015 are not determinable since the amount of any contribution is heavily dependent on the future economic environment and investment returns on pension trust assets. The timing of payments related to other long-term liabilities, which consist primarily of deferred compensation agreements, also cannot be readily determined due to their uncertainty. Interest obligations on the Company's long-term debt and capital leases assume the current debt levels will be outstanding for the entire respective period and apply the interest rates in effect at December 31, 2014.

Contractual Obligations	Payments due by period						
(Amounts in millions)	Total	2015	2016	2017	2018	2019	2020 and Beyond
Long-term debt	$ 75.530	$ 0.324	$ 0.331	$ 0.338	$ 63.765	$ 0.350	$ 10.422
Interest obligations	10.620	1.532	1.524	1.513	1.115	0.545	4.391
Capital lease obligations	0.201	0.079	0.064	0.058	—	—	—
Non-cancelable operating leases	12.956	5.301	4.381	2.580	0.348	0.217	0.129
Purchase obligations	2.513	2.513	—	—	—	—	—
Pension and other postretirement plan contributions	4.744	4.744	—	—	—	—	—
Other long-term liabilities (See Note 18 of Notes to Consolidated Financial Statements)	7.284	—	—	—	—	—	7.284
Total contractual cash obligations	$ 113.848	$ 14.493	$ 6.300	$ 4.489	$ 65.228	$ 1.112	$ 22.226

Non-GAAP Measures

Included in this Form 10-K filing are non-GAAP financial measures of non-GAAP earnings per diluted share and non-GAAP adjusted EBITDA. The Company believes these non-GAAP financial measures provide meaningful supplemental information as they enhance a reader's understanding of the financial performance of the Company, are more indicative of the future performance of the Company and facilitate a better comparison among fiscal periods, as the non-GAAP financial measures exclude items that are not considered core to the Company's operations. Non-GAAP results are presented for supplemental informational purposes only, and should not be considered a substitute for the financial information presented in accordance with GAAP.

The following is a reconciliation between the non-GAAP (unaudited) financial measures of non-GAAP earnings per diluted share to its most directly comparable GAAP financial measure:

	For the years ended December 31,		
	2014	2013	2012
GAAP earnings per diluted share attributable to Quaker Chemical Corporation Common Shareholders	$ 4.26	$ 4.27	$ 3.63
UK pension plan amendment per diluted share	0.05	—	—
Customer bankruptcy costs per diluted share	0.05	—	0.06

Mineral oil excise tax refund per diluted share	—	(0.14)	—
Change in an acquisition-related earnout liability per diluted share	—	(0.03)	(0.09)
Cost streamlining initiatives per diluted share	0.06	0.08	—
Currency conversion impacts of the Venezuelan Bolivar Fuerte per diluted share	0.02	0.03	—
Non-income tax contingency charge per diluted share	—	0.04	—
CFO transition costs per diluted share	—	—	0.03
Equity income in a captive insurance company per diluted share	(0.18)	(0.41)	(0.14)
Non-GAAP earnings per diluted share	$ 4.26	$ 3.84	$ 3.49

The following is a reconciliation of the non-GAAP (unaudited) financial measure of adjusted EBITDA to its most directly comparable GAAP financial measure:

	For the years ended December 31,		
	2014	2013	2012
Net income attributable to Quaker Chemical Corporation	$ 56,492	$ 56,339	$ 47,405
Depreciation and amortization	16,631	15,784	15,358
Interest expense	2,371	2,922	4,283
Taxes on income before equity in net income of associated companies	23,539	20,489	15,575
UK pension plan amendment	902	—	—
Customer bankruptcy costs	825	—	1,254
Mineral oil excise tax refund	—	(2,540)	—
Change in an acquisition-related earnout liability	—	(497)	(1,737)
Cost streamlining initiatives	1,166	1,419	—
Currency conversion impacts of the Venezuelan Bolivar Fuerte	321	357	—
Non-income tax contingency charge	—	796	—
CFO transition costs	—	—	609
Equity income in a captive insurance company	(2,412)	(5,451)	(1,812)
Adjusted EBITDA	$ 99,835	$ 89,618	$ 80,935

Out-of-Period Adjustment

During 2012, the Company reassessed its ability to significantly influence the operating and financial policies of its captive insurance equity affiliate, Primex Ltd. ("Primex"). Based on its ownership percentage and other factors, the Company determined that, during 2012, the Company obtained the ability to significantly influence Primex and, as a result, changed its method of accounting from the cost to equity method. During the first quarter of 2013, the Company identified errors in Primex's estimated 2012 financial statements, which primarily related to a reinsurance contract held by Primex. The identified errors resulted in a cumulative $1.0 million understatement of the Company's equity in net income from associated companies for the year ended December 31, 2012. The Company corrected the errors related to Primex in the first quarter of 2013, which had the net effect of increasing equity in net income from associated companies by $1.0 million for the three months ended March 31, 2013 and the year ended December 31, 2013. The Company did not believe this adjustment was material to its consolidated financial statements for the year ended December 31, 2012 or to the Company's results for the year ended December 31, 2013 and, therefore, did not restate any prior period amounts. See Note 3 of Notes to Consolidated Financial Statements in Item 8 of this Report.

Operations

Consolidated Operations Review – Comparison of 2014 with 2013

Net sales for 2014 of $765.9 million increased 5% from $729.4 million for 2013. The increase in the Company's net sales from the prior year was primarily driven by a 5% increase in product volumes. Included in the Company's net sales growth in 2014 was approximately $12.8 million, or 1.7%, of additional sales from acquisitions, which was largely offset by a decrease of $10.3 million, or 1%, due to foreign currency exchange rate translation. The effects on net sales related to price and product mix were generally consistent in 2014 compared to 2013.

Gross profit increased approximately $12.1 million, or approximately 5%, from 2013, which was driven by the increase in sales volumes, noted above, on relatively consistent gross margins of 35.7% and 35.8% for 2014 and 2013, respectively.

SG&A increased approximately $6.0 million from 2013, which was driven by the net impact of several factors. Specifically, SG&A increased from additional costs acquired with the Company's 2014 acquisitions, higher labor-related costs on increased sales and merit inflation, current year costs related to certain customer bankruptcies of approximately $0.8 million, or $0.05 per diluted share, and, also, $0.9 million, or $0.05 per diluted share, of additional costs related to an amendment to the Company's pension plan in the United Kingdom. These increases to SG&A for 2014 were partially offset by lower incentive compensation costs, decreases in foreign currency exchange rate translation and a non-income tax contingency charge of $0.8 million, or $0.04 per diluted share, recorded in the prior year. Also, the comparison of SG&A was impacted by costs from the Company's streamlining activities in its South America and EMEA regions during 2014 and 2013 of $1.2 million, or $0.06 per diluted share, and $1.2 million, or $0.07 per diluted share, respectively. In addition, the Company incurred approximately $1.1 million of diligence-related costs to support its acquisition-related activity in 2014 compared to $0.2 million in 2013.

Other income decreased $2.8 million in 2014 compared to 2013. The decrease was primarily related to the prior year refund of $2.5 million, or $0.14 per diluted share, related to past excise taxes paid on certain mineral oil sales and, also, $0.5 million, or $0.03 per diluted share, related to prior year changes in an acquisition-related earnout liability, net of a prior year charge of $0.2 million or $0.01 per diluted share, related to the cost streamlining initiatives noted above.

Interest expense was $0.6 million lower in 2014 compared to 2013, primarily due to the prior year interest accretion of an acquisition-related earnout liability, discussed above, which was settled early in the second quarter of 2014. This decrease to interest expense was net of additional expense from higher average borrowings due to the Company's 2014 acquisition activity.

Interest income was $1.6 million higher in 2014 compared to 2013, primarily due to interest received on several non-income tax-related credits and an increase in the level of the Company's invested cash in regions with higher returns.

The Company's effective tax rates for 2014 and 2013 were 30.1% and 28.1%, respectively. The primary contributor to the Company's higher effective tax rate in 2014 was an increase in reserves related to uncertain tax positions. In addition, the Company continues to enjoy a net reduction to its effective tax rate arising from lower tax rates in foreign jurisdictions. The Company has experienced and expects to further experience volatility in its effective tax rates due to the varying timing of tax audits and the expiration of applicable statutes of limitations as they relate to uncertain tax positions, among other factors.

The decrease in the Company's equity income of $3.0 million in 2014 compared to 2013 was primarily caused by lower earnings related to the Company's equity interest in a captive insurance company. Earnings attributable to this equity interest were $2.4 million, or $0.18 per diluted share, in 2014 compared to $5.5 million, or $0.41 per diluted share, in 2013, including a $1.0 million out-of-period adjustment. See the Out-of-Period Adjustment section in this Item, above. In addition, the Company's equity income includes comparable currency charges related to the conversion of the Venezuelan Bolivar Fuerte to the U.S. Dollar of $0.3 million, or $0.02 per diluted share, in 2014, and $0.4 million, or $0.03 per diluted share, in 2013.

The primary component of the $0.7 million decrease in net income attributable to noncontrolling interest in 2014 compared to 2013 was the Company's second quarter of 2014 acquisition of its noncontrolling interest in its Australian equity affiliate.

The Company's current year acquisitions generally performed in line with their expected positive operating results for 2014, however, these results were largely offset by the acquisition-related costs, noted above, and initial adjustments related to fair value accounting. Overall, the impact from the current year acquisitions to the Company's net income was slightly positive at less than $0.1 million, or less than $0.01 per diluted share, for 2014.

Changes in foreign exchange rates negatively impacted the 2014 net income, compared to 2013, by approximately $1.2 million, or $0.09 per diluted share.

Consolidated Operations Review – Comparison of 2013 with 2012

Net sales for 2013 of $729.4 million increased approximately 3% from $708.2 million in 2012. The increase in the Company's net sales from the prior year was primarily due to a 3% increase in product volumes, including acquisitions, generally across all regions, partially offset by a decrease of $3.1 million, or less than 1%, due to foreign exchange rate translation. The effects on net sales related to price and product mix were generally consistent in 2013 compared to 2012.

Gross profit increased by approximately $22.4 million, or approximately 9%, from 2012, which was primarily the result of an improvement in gross margin to 35.8% in 2013 from 33.7% in 2012 and the additional gross profit from the increased sales volumes, noted above. The increase in gross margin reflects the return of the Company's product margins to more acceptable levels.

SG&A increased approximately $14.3 million from 2012, which was primarily driven by higher labor-related costs on general year-over-year merit increases, increased selling and other related costs on improved Company performance and costs added with our recent acquisitions. In addition, non-operating SG&A expenses increased due to certain uncommon costs. For instance, 2013 SG&A includes a non-income tax contingency charge of approximately $0.8 million, or $0.04 per diluted share, and, also, costs related to streamlining certain operations in the Company's EMEA and South American segments of approximately $1.2 million, or $0.07 per diluted share. Whereas, in 2012, there were costs associated with the bankruptcies of certain U.S customers of $1.3 million, or $0.06 per diluted share, the prior year costs associated with the Company's CFO transition of $0.6 million, or $0.03 per diluted share, and lower translation due to changes in foreign exchange rates.

Other income for 2013 was approximately $3.5 million, which was primarily driven by a refund of $2.5 million, or $0.14 per diluted share, related to past excise taxes paid on certain mineral oil sales, income of $0.5 million, or $0.03 per diluted share, related to a change in an acquisition-related earnout liability and earnings from third-party license fees, partially offset by foreign exchange losses and $0.2 million, or $0.01 per diluted share, of costs associated with the streamlining initiatives mentioned above. Other income for 2012 was approximately $3.4 million, which was primarily driven by income of $1.7 million, or $0.09 per diluted share, related to a change in the acquisition-related earnout liability, noted above, earnings from third-party license fees and income from a change in a separate acquisition-related liability, partially offset by foreign exchange losses.

The decrease in interest expense from 2012 to 2013 was primarily due to lower average borrowings and lower interest rates. The increase in interest income from 2012 to 2013 was primarily due to a higher level of the Company's cash on hand.

The Company's effective tax rates for 2013 and 2012 of 28.1% and 24.7%, respectively, reflect decreases in reserves for uncertain tax positions due to the expiration of applicable statutes of limitations for certain years of approximately $0.15 and $0.17 per diluted share, respectively. In addition, the Company had certain one-time discrete items in the prior year that lowered its 2012 effective tax rate, which were partially offset by a change in the mix of income to lower tax jurisdictions in 2013.

Equity in net income of associated companies increased due to higher earnings related to the Company's equity interest in a captive insurance company in 2013 compared to 2012. Earnings attributable to this equity interest increased from approximately $1.8 million, or $0.14 per diluted share, for 2012 to approximately $5.5 million, or $0.41 per diluted share, for 2013, which includes a non-cash out-of-period adjustment of approximately $1.0 million recorded in 2013. See the Out-of-Period Adjustment section in this Item, above. Partially offsetting this increase in equity in net income of associated companies was a charge of approximately $0.4 million, or $0.03 per diluted share, related to the conversion of the Venezuelan Bolivar Fuerte to the U.S. Dollar in 2013.

Changes in foreign exchange rates negatively impacted 2013 net income, compared to 2012, by approximately $0.7 million, or $0.05 per diluted share.

Reportable Operating Segment Review – Comparison of 2014 with 2013

The Company offers its industrial process fluids, chemical specialties and technical expertise to a wide range of industries in a global product portfolio throughout its four segments: (i) North America, (ii) EMEA, (iii) Asia/Pacific and (iv) South America.

North America

North America represented approximately 44% of the Company's consolidated net sales in 2014, which increased approximately $26.0 million, or 8%, from 2013. The increase in net sales was generally attributable to higher product volumes, including acquisitions, of 9%, partially offset by a 1% decrease related to price and product mix. This reportable segment's operating earnings, excluding indirect expenses, increased approximately $7.0 million, or 11%, from 2013. The increase in 2014 was mainly driven by higher gross profit on the increases to net sales, noted above, and a slight margin improvement on a change in price and product mix, partially offset by higher labor-related costs on improved segment performance and general year-over-year merit increases.

EMEA

EMEA represented approximately 26% of the Company's consolidated net sales in 2014, which increased approximately $7.5 million, or 4%, from 2013. The increase in net sales was generally attributable to higher product volumes, including acquisitions, of 5%, partially offset by decreases related to price and product mix of 1%. Effects on net sales from foreign exchange were generally comparable in 2014 and 2013. This reportable segment's operating earnings, excluding indirect expenses, increased approximately $2.9 million, or 10%, from 2013. This increase in 2014 was mainly driven by higher gross profit on the increases to net sales, noted above, the incremental prior year costs related to EMEA's streamlining initiatives and a decrease in current year SG&A due to the impacts from the same initiatives, partially offset by higher labor-related costs on improved segment performance and general year-over-year merit increases.

Asia/Pacific

Asia/Pacific represented approximately 24% of the Company's consolidated net sales in 2014, which increased approximately $16.5 million, or 10%, from 2013. The increase in net sales was primarily due to higher product

volumes of 9% and an increase due to price and product mix of 2%, partially offset by a decrease from foreign currency exchange rate translation of 1%. The foreign currency exchange rate translation impact was primarily due to a decrease in the Australian Dollar to U.S. Dollar exchange rate, which averaged 0.90 in 2014 compared to 0.97 in 2013. This reportable segment's operating earnings, excluding indirect expenses, increased approximately $1.5 million, or 3%, from 2013. The increase in 2014 was mainly driven by higher gross profit on the increases to net sales, noted above, partially offset by lower gross margins due to a change in price and product mix and, also, higher labor-related costs on improved segment performance and general year-over-year merit increases.

South America

South America represented approximately 6% of the Company's consolidated net sales in 2014, which decreased approximately $13.6 million, or 21%, from 2013. The decrease in net sales was generally attributable to lower product volumes of 15% and a decrease from foreign currency exchange rate translation of 11%, partially offset by an increase in price and product mix of 5%. The foreign currency exchange rate translation impact was primarily due to a decrease in the Brazilian Real and Argentinian Peso to U.S. Dollar exchange rates, which averaged 0.43 and 0.12 in 2014 compared to 0.47 and 0.18 in 2013, respectively. This reportable segment's operating earnings, excluding indirect expenses, decreased approximately $4.9 million, or 53%, from 2013. The decrease in 2014 was mainly driven by lower gross profit on the decreases to net sales, noted above, a gross margin decline on a change in price and product mix, incremental costs related to South America's streamlining initiatives and higher labor-related costs on general year-over-year merit increases, partially offset by positive impacts from cost streamlining initiatives taken in this segment during 2013 and the impacts on SG&A related to lower segment performance.

Reportable Operating Segment Review – Comparison of 2013 with 2012

Overall, the Company experienced improved product margins in each of its four reportable segments in 2013 as compared to 2012, as product margins returned to more acceptable levels during 2013 compared to past recent years.

North America

North America represented approximately 42% of the Company's consolidated net sales in 2013, which decreased approximately $1.8 million, or approximately 1%, from 2012. The decrease in net sales was primarily due to a 2% decrease in base product volumes, partially offset by an increase of 1% due to acquisitions. The impact on net sales from price and product mix remained comparable to 2012. This reportable segment's operating earnings, excluding indirect expenses, increased approximately $2.7 million, or approximately 5%, from 2012, which reflects the increase in the reportable segment's product margins, noted above.

EMEA

EMEA represented approximately 26% of the Company's consolidated net sales in 2013, which increased approximately $13.0 million, or approximately 7%, from 2012. The increase in net sales was primarily due to a 5% increase in base product volumes, a 2% increase from acquisitions and a 3% increase from foreign currency exchange rate translation, partially offset by a 3% decrease in price and product mix. The foreign currency translation impact was primarily due to the E.U. Euro to U.S. Dollar exchange rate, which averaged 1.33 in 2013 compared to 1.29 in 2012. This reportable segment's operating earnings, excluding indirect expenses, increased approximately $5.0 million, or approximately 20%, from 2012, which reflects the increase in the reportable segment's product margins generated by the increase in net sales, noted above.

Asia/Pacific

Asia/Pacific represented approximately 23% of the Company's consolidated net sales in 2013, which increased approximately $12.4 million, or approximately 8%, from 2012. The increase in net sales was primarily due to a 7% increase in base product volumes and a 2% increase in price and product mix, partially offset by a 1% decrease in foreign currency exchange rate translation. The foreign currency translation impact was primarily due to decreases in the Indian Rupee and Australian Dollar to U.S. Dollar exchange rates, which averaged 0.017 and 0.97 in 2013 compared to 0.019 and 1.04 in 2012, respectively. These foreign exchange decreases were partially offset by an increase in the Chinese Renminbi to U.S. Dollar exchange rate, which averaged 0.161 in 2013 compared to 0.158 in 2012. This reportable segment's operating earnings, excluding indirect expenses, increased approximately $5.3 million, or approximately 14%, from 2012, which reflects the increase in the reportable segment's product margins generated by the increase in net sales, noted above.

South America

South America represented approximately 9% of the Company's consolidated net sales in 2013, which decreased approximately $2.5 million, or approximately 4%, from 2012. The decrease in net sales was driven by an 11% decrease due to foreign currency exchange rate translation, partially offset by a 2% increase in base product volumes and a 5% increase in price and product mix. The foreign currency translation impact was primarily due to decreases in the Brazilian Real and Argentinian Peso to U.S. Dollar exchange rates, which averaged 0.47 and 0.18 in 2013 compared to 0.51 and 0.22 in 2012, respectively. This reportable segment's operating earnings, excluding indirect expenses, increased approximately $2.4 million, or approximately 36%, from 2012, which reflects the increase in the reportable segment's product margins, noted above, and the favorable impact of cost streamlining initiatives implemented in early 2013.

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 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 ("SACRWQB"), ACP is remediating the contamination. In 2007, ACP agreed to operate two groundwater treatment systems, 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. In February 2014, ACP, with the consent of the Orange County Water District ("OCWD") and SACRWQB, ceased operations at one of its two groundwater treatment systems, as it had met the above condition for closure. At December 31, 2014, the Company believes that the remaining potential-known liabilities associated with the ACP contamination, namely estimated future cost of the water remediation program, is approximately $0.4 million to $1.0 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 23 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 our 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 60% to 65% of our consolidated net

annual sales. See Note 4 of Notes to Consolidated Financial Statements, which appears in Item 8 of this Report and the Foreign Exchange Risk section in Item 7A of this Report.

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,” “inte 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 2014 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 and other acts of violence, 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.

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 credit facility. Interest rates for the credit facility are generally based on LIBOR plus a spread. 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 throughout a given year. As of December 31, 2014, Quaker had $58.4 outstanding under its credit facility at a weighted average borrowing rate of approximately 1.16%. If interest rates had changed by 10%, the Company's interest expense would have correspondingly increased or decreased by less than $0.1 million. The Company previously used derivative financial instruments primarily for the purposes of hedging exposures to fluctuations in interest rates. Specifically, the Company had previously entered into interest rate swaps in order to fix a portion of its variable rate debt. The Company did not use any similar instruments in 2014. Quaker's other long-term and short-term debt consists primarily of fixed rate bonds and loans which are not exposed to interest rate fluctuations. The Company does not enter into derivative contracts for trading or speculative purposes. See the information included under the caption "Derivatives" in Note 1, and the information in Note 22 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 are generated by its foreign operations. These foreign operations also represent a significant portion of Quaker's assets and liabilities. Generally, all of these foreign operations use the local currency as their functional currency. Accordingly, Quaker's financial results are affected by risks that are typical of global companies, such as currency fluctuations, particularly between the U.S. Dollar and the E.U. Euro, the Brazilian Real, the Chinese Renminbi and the Indian Rupee. As exchange rates vary, Quaker's results can be materially affected. If the E.U. Euro, the Brazilian Real, the Chinese

Renminbi and the Indian Rupee had all strengthened or weakened by 10% against the U.S. Dollar, the Company's 2014 revenues and pre-tax earnings would have correspondingly increased or decreased approximately $36.6 million and $5.5 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 60% 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 protection to Quaker if the prices for the contracted raw materials rise; however, in certain limited circumstances, Quaker will not realize the benefit if such prices decline. If the Company's gross margin had changed by one percentage point, the Company's 2014 pre-tax earnings would have correspondingly increased or decreased by approximately $7.7 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 deteriorate, resulting in an impairment of their ability to make payments, additional allowances might 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 have occurred in past years and where 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 a 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 a reduction in its provisions for doubtful accounts of $0.3 million in 2014, compared to provisions for doubtful accounts of $1.1 million and $2.1 million in 2013 and 2012, respectively. A change of 10% to the recorded provisions would have increased or decreased the Company's pre-tax earnings by less than $0.1 million, approximately $0.1 million and approximately $0.2 million in 2014, 2013 and 2012, respectively.

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 accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows present fairly, in all material respects, the financial position of Quaker Chemical Corporation and its subsidiaries (the "Company") at December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 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, 2014, based on criteria established in Internal Control - Integrated Framework (2013) 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 ECLI Products, LLC and Binol AB from its assessment of internal control over financial

reporting as of December 31, 2014 because these entities were acquired by the Company in purchase business combinations in August 2014 and November 2014, respectively. We have also excluded ECLI Products, LLC and Binol AB from our audit of internal control over financial reporting. ECLI Products, LLC and Binol AB are wholly owned subsidiaries of the Company, whose total assets and total revenues represent 12% and 1%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2014.

/s/ PricewaterhouseCoopers LLP
Philadelphia, PA
February 26, 2015

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QUAKER CHEMICAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except per share data)

	Year Ended December 31,		
	2014	2013	2012
Net sales	$ 765,860	$ 729,395	$ 708,226
Costs and expenses			
Cost of goods sold	492,654	468,320	469,515
Selling, general and administrative expenses	195,850	189,832	175,487
	688,504	658,152	645,002
Operating income	77,356	71,243	63,224
Other income, net	767	3,519	3,415
Interest expense	(2,371)	(2,922)	(4,283)
Interest income	2,541	986	592
Income before taxes and equity in net income of associated companies	78,293	72,826	62,948
Taxes on income before equity in net income of associated companies	23,539	20,489	15,575
Income before equity in net income of associated companies	54,754	52,337	47,373
Equity in net income of associated companies	3,543	6,514	2,867
Net income	58,297	58,851	50,240
Less: Net income attributable to noncontrolling interest	1,805	2,512	2,835
Net income attributable to Quaker Chemical Corporation	$ 56,492	$ 56,339	$ 47,405
Earnings per common share data:			
Net income attributable to Quaker Chemical Corporation Common Shareholders – basic	$ 4.27	$ 4.28	$ 3.64
Net income attributable to Quaker Chemical Corporation Common Shareholders – diluted	$ 4.26	$ 4.27	$ 3.63

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

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QUAKER CHEMICAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)

	Year Ended December 31,		
	2014	2013	2012
Net income	$ 58,297	$ 58,851	$ 50,240
Other comprehensive (loss) income, net of tax			
Currency translation adjustments	(15,701)	(3,490)	(1,510)
Defined benefit retirement plans			
Net (loss) gain arising during the period, other	(6,210)	6,614	(14,582)
Amortization of actuarial loss	2,162	2,748	1,852
Amortization of prior service (gain) loss	(70)	119	76
Current period change in fair value of derivatives	—	—	272
Unrealized (loss) gain on available-for-sale securities	(124)	(142)	867
Other comprehensive (loss) income	(19,943)	5,849	(13,025)
Comprehensive income	38,354	64,700	37,215
Less: comprehensive income attributable to noncontrolling interest	(1,568)	(1,206)	(2,698)
Comprehensive income attributable to Quaker Chemical Corporation	$ 36,786	$ 63,494	$ 34,517

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

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QUAKER CHEMICAL CORPORATION

CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except par value and share amounts)

	December 31,	
	2014	2013
ASSETS		
Current assets		
Cash and cash equivalents	$ 64,731	$ 68,492
Accounts receivable, net	189,484	165,629
Inventories, net	77,708	71,557
Current deferred tax assets	8,367	7,826
Prepaid expenses and other current assets	11,228	15,343
Total current assets	351,518	328,847
Property, plant and equipment, net	85,763	85,488
Goodwill	77,933	58,151
Other intangible assets, net	70,408	31,272
Investments in associated companies	21,751	19,397
Non-current deferred tax assets	24,411	24,724
Other assets	33,742	36,267
Total assets	$ 665,526	$ 584,146
LIABILITIES AND EQUITY		
Current liabilities		
Short-term borrowings and current portion of long-term debt	$ 403	$ 1,395
Accounts payable	74,987	72,281
Dividends payable	3,990	3,299
Accrued compensation	19,853	20,801
Accrued pension and postretirement benefits	1,239	1,438
Current deferred tax liabilities	732	1,057
Other current liabilities	23,697	30,585
Total current liabilities	124,901	130,856
Long-term debt	75,328	17,321
Non-current deferred tax liabilities	8,584	6,729
Non-current accrued pension and postretirement benefits	46,088	37,006
Other non-current liabilities	45,490	47,538
Total liabilities	300,391	239,450
Commitments and contingencies (Note 23)		
Equity		
Common stock $1 par value; authorized 30,000,000 shares; issued and outstanding		
2014 – 13,300,891 shares; 2013 – 13,196,140 shares	13,301	13,196
Capital in excess of par value	99,056	99,038
Retained earnings	299,524	258,285
Accumulated other comprehensive loss	(54,406)	(34,700)
Total Quaker shareholders' equity	357,475	335,819

Noncontrolling interest		7,660		8,877
Total equity		365,135		344,696
Total liabilities and equity	$	665,526	$	584,146

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

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QUAKER CHEMICAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Year Ended December 31,		
	2014	2013	2012
Cash flows from operating activities			
Net income	$ 58,297	$ 58,851	$ 50,240
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	12,306	12,339	12,252
Amortization	4,325	3,445	3,106
Equity in undistributed earnings of associated companies, net of dividends	(3,180)	(4,162)	(2,350)
Deferred income taxes	1,007	(30)	2,354
Uncertain tax positions (non-deferred portion)	(1,256)	(1,826)	(1,407)
Acquisition-related fair value adjustments	—	200	(1,909)
Deferred compensation and other, net	3,174	(259)	(156)
Stock-based compensation	5,309	4,161	3,807
(Gain) loss on disposal of property, plant and equipment	(86)	200	(108)
Insurance settlements realized	(1,907)	(988)	(1,391)
Pension and other postretirement benefits	1,265	862	(1,427)
(Decrease) increase in cash from changes in current assets and current liabilities, net of acquisitions:			
Accounts receivable	(24,944)	(11,837)	779
Inventories	(5,484)	406	3,228
Prepaid expenses and other current assets	2,003	(743)	504
Accounts payable and accrued liabilities	2,999	11,301	(2,562)
Estimated taxes on income	862	1,881	(2,067)
Net cash provided by operating activities	54,690	73,801	62,893
Cash flows from investing activities			
Investments in property, plant and equipment	(13,052)	(11,439)	(12,735)
Payments related to acquisitions, net of cash acquired	(73,527)	(2,478)	(5,635)
Proceeds from disposition of assets	201	513	245
Interest earned on an insurance settlement	44	52	69
Change in restricted cash, net	1,863	936	1,322
Net cash used in investing activities	(84,471)	(12,416)	(16,734)
Cash flows from financing activities			
Decrease in short-term borrowings, net	—	—	(315)
Proceeds from long-term debt	58,771	—	—
Repayment of long-term debt	(1,368)	(12,791)	(17,632)
Dividends paid	(14,562)	(13,018)	(12,616)

Stock options exercised, other	804	(307)	(924)
Excess tax benefit related to stock option exercises	453	815	2,045
Purchase of noncontrolling interest in affiliates, net	(7,422)	—	—
Payment of acquisition-related earnout liability	(4,709)	—	—
Distributions to noncontrolling affiliate shareholders	(1,806)	(905)	(1,099)
Net cash provided by (used in) financing activities	30,161	(26,206)	(30,541)
Effect of exchange rate changes on cash	(4,141)	766	20
Net (decrease) increase in cash and cash equivalents	(3,761)	35,945	15,638
Cash and cash equivalents at beginning of period	68,492	32,547	16,909
Cash and cash equivalents at end of period	$ 64,731	$ 68,492	$ 32,547
Supplemental cash flow disclosures:			
Cash paid during the year for:			
Income taxes	$ 22,713	$ 17,744	$ 13,190
Interest	1,894	1,776	2,809
Non-cash activities:			
Change in accrued purchases of property, plant and equipment, net	$ (1,158)	$ 1,287	$ —

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

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QUAKER CHEMICAL CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Dollars in thousands, except per share amounts)

	Common stock	Capital in excess of par value	Retained earnings	Accumulated other comprehensive loss	Non-controlling interest	Total
Balance at December 31, 2011	$ 12,912	$ 89,725	$ 180,710	$ (28,967)	$ 6,977	$ 261,357
Net income	—	—	47,405	—	2,835	50,240
Amounts reported in other comprehensive loss	—	—	—	(12,888)	(137)	(13,025)
Dividends ($0.975 per share)	—	—	(12,725)	—	—	(12,725)
Distributions to noncontrolling affiliate shareholders	—	—	—	—	(1,099)	(1,099)
Shares issued upon exercise of stock options and other	102	(1,296)	—	—	—	(1,194)
Shares issued for employee stock purchase plan	7	263	—	—	—	270
Equity based compensation plans	74	3,733	—	—	—	3,807
Excess tax benefit from stock option exercises	—	2,045	—	—	—	2,045
Balance at December 31, 2012	13,095	94,470	215,390	(41,855)	8,576	289,676
Net income	—	—	56,339	—	2,512	58,851
Adjustment to prior period earnings	—	—	(335)	—	—	(335)
Amounts reported in other comprehensive income (loss)	—	—	—	7,155	(1,306)	5,849
Dividends ($0.995 per share)	—	—	(13,109)	—	—	(13,109)
Distributions to noncontrolling affiliate shareholders	—	—	—	—	(905)	(905)
Shares issued upon exercise of stock options and other	24	(668)	—	—	—	(644)
Shares issued for employee stock purchase plan	6	331	—	—	—	337
Equity based compensation plans	71	4,090	—	—	—	4,161
Excess tax benefit from stock option exercises	—	815	—	—	—	815
Balance at December 31, 2013	13,196	99,038	258,285	(34,700)	8,877	344,696
Net income	—	—	56,492	—	1,805	58,297
Amounts reported in other comprehensive loss	—	—	—	(19,706)	(237)	(19,943)
Dividends ($1.15 per share)	—	—	(15,253)	—	—	(15,253)
Distributions to noncontrolling affiliate shareholders	—	—	—	—	(1,806)	(1,806)
Acquisition of noncontrolling interests, net	—	(6,443)	—	—	(979)	(7,422)

Shares issued upon exercise of stock options and other		19		369		—		—		—		388
Shares issued for employee stock purchase plan		6		410		—		—		—		416
Equity based compensation plans		80		5,229		—		—		—		5,309
Excess tax benefit from stock option exercises		—		453		—		—		—		453
Balance at December 31, 2014	$	13,301	$	99,056	$	299,524	$	(54,406)	$	7,660	$	365,135

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 share and 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 companies (less than majority-owned and in which the Company has significant influence) are accounted for under the equity method. The Company's share of net income or losses in these investments in associated companies 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 or other impairment indicators are deemed to be other than temporary.

During the first quarter of 2014, the Company revised its Consolidated Balance Sheet for December 31, 2013 with a $335 reduction to retained earnings and a corresponding increase to its long-term deferred tax liability, relating to an adjustment that would have occurred when the Company adopted the equity method of accounting for its interest in a captive insurance equity affiliate.

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 applicable guidance.

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 as accumulated other comprehensive (loss) income and will be included as income or expense only upon sale or liquidation of the underlying investment. Generally, all of the Company's non-U.S. subsidiaries use their local currency as their 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, and are valued using the first-in, first-out ("FIFO") method. See also Note 10 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, 1 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 an 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 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 in income. Expenditures for renewals or improvements that increase the estimated useful life or capacity of the assets are capitalized, whereas expenditures for repairs and maintenance are expensed when incurred.

Capitalized software: The Company capitalizes certain costs in connection with developing or obtaining software for internal use. These costs are amortized over a period of three to five years once the assets are ready for their intended use. In connection with the implementations and upgrades to the Company's global transaction, consolidation and other related systems, approximately $1,350 and $1,198 of net costs were capitalized in property, plant and equipment on the Company's December 31, 2014 and December 31, 2013 Consolidated Balance Sheets, respectively.

Goodwill and other intangible assets: The Company records goodwill, definite-lived intangible assets and indefinite-lived intangible assets at fair value at the date of 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 triggering events indicate potential impairment. Definite-lived intangible assets are amortized over their estimated useful lives, generally for periods ranging from 4 to 20 years. The Company continually evaluates the reasonableness of the useful lives of these assets, consistent with the discussion of long-lived assets, above. See Note 12 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, when collectability is reasonably assured, and when pricing is fixed or determinable. This generally occurs when products are shipped to customers or, for consignment-type arrangements, upon usage by the customer and when services are performed. License fees and royalties are included in other income when recognized in accordance with their

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agreed-upon terms, when performance obligations are satisfied, when the amount is fixed or determinable, and when collectability is reasonably assured. 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 a principal, revenues are recognized on a gross reporting basis at the selling price negotiated with its customers. Where the Company acts as an agent, 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 $46,844, $41,553 and $39,299 for 2014, 2013 and 2012, respectively.

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 with its existing accounts receivable. Reserves for customers filing for bankruptcy protection are generally established at 75-100% of the amount outstanding at the bankruptcy filing date. However, initially establishing a reserve and the amount thereto is dependent on the Company's evaluation of likely proceeds to be received from the bankruptcy process, which could result in the Company recognizing minimal or no reserve at the date of bankruptcy. 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 probable the receivable will not be recovered. The Company does not have any off-balance-sheet credit exposure related to its customers. During 2014, the Company's five largest customers accounted for approximately 18% of its consolidated net sales with the largest customer (Arcelor-Mittal Group) accounting for approximately 9% of the Company's consolidated net sales.

During 2014, 2013 and 2012, the Company recorded charges of $825, or $0.05 per diluted share, $0 and $1,254, or $0.06 per diluted share, respectively, to its allowance for doubtful accounts and selling, general and administrative expenses ("SG&A") due to the bankruptcies of certain customers. See Note 9 of Notes to Consolidated Financial Statements.

Research and development costs: Research and development costs are expensed as incurred and are included in SG&A. Research and development expenses were $22,134, $21,578 and $19,993 in 2014, 2013 and 2012, 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.

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 there is a range of estimated liability and no amount in that range is considered more probable than another, then 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.

Asset retirement obligations: The Company follows the FASB's guidance regarding asset retirement obligations, which addresses the accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated retirement costs. Also, the Company follows the FASB's guidance for conditional asset retirement obligations ("CARO"), which relates to legal obligations 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. In accordance with this guidance, the Company records a liability when there is enough information regarding the timing of the CARO to perform a probability-weighted discounted cash flow analysis. At December 31, 2014 and December 31, 2013, the Company had limited exposure to such obligations and had immaterial liabilities recorded for such on its Consolidated Balance Sheets.

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, the United Kingdom, Mexico and Sweden are subject to the provisions of FASB's guidance regarding employers' accounting for defined benefit 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, also, 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 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, 2014, the plan's investments were in compliance with all approved ranges of asset allocations. See Note 17 of Notes to Consolidated Financial Statements.

Comprehensive income (loss): The Company presents other comprehensive income (loss) in its Statement of Comprehensive Income. The Company follows the FASB's guidance regarding the disclosure of reclassifications from Accumulated Other Comprehensive Income (Loss) ("AOCI") which requires the disclosure of significant amounts reclassified from each component of AOCI, the related tax amounts and the income statement line items affected by such reclassifications. The Company elected to present the information in its Notes to the Consolidated Financial Statements. See Note 19 of Notes to Consolidated Financial Statements.

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

to be more likely than not sustained upon audit, a company does not recognize any portion of the benefit in the financial statements. Additionally, the guidance provides for derecognition, classification, penalties and interest, accounting in interim periods, disclosure and transition. 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. The Company follows the FASB's guidance that requires an entity to net its liability for unrecognized tax benefits against deferred tax assets related to net operating losses or other tax credit carryforwards that would apply if the uncertain tax position were settled for the presumed amount at the balance sheet date. See Note 7 of Notes to Consolidated Financial Statements.

Derivatives: The Company is exposed to the impact of changes in interest rates, foreign currency fluctuations, changes in commodity prices and credit risk. The Company is currently not using derivative instruments to mitigate the risks associated with foreign currency fluctuations, changes in commodity prices or credit risk, but has used derivative financial instruments primarily for purposes of hedging exposures to fluctuations in interest rates in the past. When used, the Company recognized all derivatives on its balance sheet at fair value. For derivative instruments designated as cash flow hedges, the effective portion of any hedge would be

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reported in AOCI until it was cleared to earnings during the same period in which the hedged item affected earnings. The Company currently uses no derivative instruments designated as fair value hedges and has not entered into derivative contracts for trading or speculative purposes. See Note 22 of Notes to Consolidated Financial Statements.

Fair value measurements: The Company utilizes the FASB's guidance regarding fair value measurements, which 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. Specifically, 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.

Stock-based compensation: The Company applies the FASB's guidance regarding share-based payments, which requires the recognition of the fair value of stock-based compensation as a component of expense. 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 its 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, but not to exceed seven years from the date of grant. Common stock awards and Restricted Stock Units ("RSU") issued under the LTIP program are subject only to time vesting over a one 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. Based on historical experience, the Company has generally assumed a forfeiture rate of 13% on its nonvested stock awards. 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. See Note 5 of Notes to Consolidated Financial Statements.

Earnings per share: The Company follows the FASB's guidance regarding the calculation of earnings per share ("EPS") for nonvested stock awards with rights to non-forfeitable dividends. The guidance requires nonvested stock awards with rights to non-forfeitable dividends to be included as part of the basic weighted average share calculation under the two-class method. See Note 8 of Notes to Consolidated Financial Statements.

Segments: The Company's reporting segments are the same as the Company's operating segments. The Company's reportable operating segments evidence the structure of the Company's internal organization, the method by which the Company's resources are allocated and the manner by which the Company assesses its performance. The Company's reportable operating segments are organized by geography as follows: (i) North America, (ii) Europe, Middle East and Africa ("EMEA"), (iii) Asia/Pacific and (iv) South America. See Note 4 of Notes to Consolidated Financial Statements.

Reclassifications: Certain information has been reclassified to conform to the current year presentation.

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 – Recently Issued Accounting Standards

The FASB issued an accounting standard in August 2014 to outline specific requirements for an entity to evaluate its ability to continue as a going concern. The new guidance requires a company to assess whether certain conditions or events exist at the date financial statements are issued that may raise substantial doubt about its ability to continue as a going concern for the next year. If a company concludes that it is not able to continue as a going concern and it is not able to mitigate the conditions and events that resulted in the entity's ability to continue as a going concern, footnote disclosure is required. The guidance is effective for the annual and interim periods beginning after December 15, 2016. Early adoption is permitted. The Company is currently evaluating the effects of this guidance, but does not expect a material impact.

The FASB issued an accounting standard update in May 2014 regarding the accounting for and disclosure of revenue recognition. Specifically, the update outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers, which will be common to both GAAP and International Financial Reporting Standards. The model focuses on revenue

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recognition to reflect the actual consideration to which the entity expects to be entitled in exchange for the goods or services defined in the contract, including multiple performance obligations. The guidance is effective for annual and interim periods beginning after December 15, 2016, which allows for full retrospective adoption of prior period data or a modified retrospective adoption, whereby the cumulative past effects are recorded and disclosed in the current period. Early adoption is not permitted. Currently, the Company is evaluating the effect that the guidance may have on its financial statements.

Note 3 – Out-of-Period Adjustment

During 2012, the Company reassessed its ability to significantly influence the operating and financial policies of its captive insurance equity affiliate, Primex, Ltd. (“Primex”). Based on its ownership percentage and other factors, the Company determined that, during 2012, the Company obtained the ability to significantly influence Primex and, as a result, changed its method of accounting from the cost to equity method. During the first quarter of 2013, the Company identified errors in Primex’s estimated 2012 financial statements, which primarily related to a reinsurance contract held by Primex. The identified errors resulted in a cumulative $1,038 understatement of the Company’s equity in net income from associated companies for the year ended December 31, 2012. The Company corrected the errors related to Primex in the first quarter of 2013, which had the net effect of increasing equity in net income from associated companies by $1,038 for the three months ended March 31, 2013 and the year ended December 31, 2013. The Company did not believe this adjustment was material to its consolidated financial statements for the year ended December 31, 2012 or to the Company’s results for the year ended December 31, 2013 and, therefore, did not restate any prior period amounts.

Note 4 – Business Segments

The Company’s reportable operating segments are organized by geography as follows: (i) North America, (ii) EMEA, (iii) Asia/Pacific and (iv) South America. Operating earnings, excluding indirect operating expenses, for the Company’s reportable operating segments are comprised of revenues less costs of goods sold and SG&A directly related to the respective regions’ product sales. The indirect operating expenses consist of SG&A related expenses that are not directly attributable to the product sales of each respective reportable operating segment. Other items not specifically identified with the Company’s reportable operating segments include interest expense, interest income, license fees from non-consolidated affiliates and other income (expense).

The following tables present information about the performance of the Company’s reportable operating segments for the years ended December 31, 2014, December 31, 2013 and December 31, 2012:

	2014	2013	2012
Net sales			
North America	$ 334,400	$ 308,353	$ 310,127
EMEA	195,309	187,794	174,799
Asia/Pacific	185,974	169,505	157,062
South America	50,177	63,743	66,238
Total net sales	$ 765,860	$ 729,395	$ 708,226

	2014	2013	2012

Operating earnings, excluding indirect operating expenses			
North America	$ 68,296	$ 61,307	$ 58,571
EMEA	32,589	29,643	24,640
Asia/Pacific	43,847	42,373	37,030
South America	4,292	9,177	6,730
Total operating earnings, excluding indirect operating expenses	149,024	142,500	126,971
Non-operating charges	(67,110)	(67,145)	(59,983)
Depreciation of corporate assets and amortization	(4,558)	(4,112)	(3,764)
Consolidated operating income	77,356	71,243	63,224
Other income, net	767	3,519	3,415
Interest expense	(2,371)	(2,922)	(4,283)
Interest income	2,541	986	592
Consolidated income before taxes and equity in net income of associated companies	$ 78,293	$ 72,826	$ 62,948

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The following tables present information regarding the Company's reportable segments' assets as of December 31, 2014, December 31, 2013 and December 31, 2012:

	2014	2013	2012
Segment assets			
North America	$ 340,385	$ 298,305	$ 279,253
EMEA	124,273	103,414	101,532
Asia/Pacific	170,580	144,682	116,853
South America	30,288	37,745	38,996
Total segment assets	$ 665,526	$ 584,146	$ 536,634

During 2014, the Company revised its December 31, 2013 and December 31, 2012 segment asset detail, increasing / (decreasing) its previously published amounts in North America by ($5,764) and ($5,109), in EMEA by ($1,360) and ($627), in Asia/Pacific by $14,788 and $15,093 and in South America by ($7,664) and ($9,357), respectively. The Company considers such revisions to be immaterial.

	2014	2013	2012
Segment long-lived assets			
North America	$ 92,319	$ 91,464	$ 91,121
EMEA	20,634	20,863	20,056
Asia/Pacific	24,392	24,695	19,720
South America	3,911	4,130	5,276
Total segment long-lived assets	$ 141,256	$ 141,152	$ 136,173

The following tables present information regarding the Company's reportable segments' capital expenditures and depreciation as of December 31, 2014, December 31, 2013 and December 31, 2012:

	2014	2013	2012
Capital expenditures			
North America	$ 3,658	$ 2,793	$ 3,262
EMEA	4,811	1,391	3,332
Asia/Pacific	3,202	6,386	5,451
South America	1,381	869	690
Total segment capital expenditures	$ 13,052	$ 11,439	$ 12,735

	2014	2013	2012
Depreciation			
North America	$ 5,231	$ 5,236	$ 5,635
EMEA	3,069	3,145	2,906
Asia/Pacific	2,713	2,080	1,720
South America	1,060	1,211	1,333
Total segment depreciation	$ 12,073	$ 11,672	$ 11,594

The following table presents information regarding the Company's product lines that represent more than 10% of consolidated revenues for December 31, 2014, December 31, 2013 and December 31, 2012, with the remaining product sales being impractical to present:

	2014	2013	2012
Rolling lubricants	20.1 %	20.7 %	20.7 %
Machining and grinding compounds	16.3 %	17.7 %	17.6 %
Hydraulic fluids	13.0 %	12.9 %	13.5 %
Corrosion preventives	12.5 %	12.5 %	12.4 %

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During the years ended December 31, 2014, December 31, 2013 and December 31, 2012, the North American segment had approximately $35,532, $29,002 and $27,125 of net sales, respectively, which were attributable to non-domestic operations. At December 31, 2014, December 31, 2013 and December 31, 2012, the North American segment had approximately $3,145, $3,649 and $3,716 of long-lived assets, respectively, which were attributable to non-domestic operations.

Inter-segment revenue for the years ended December 31, 2014, December 31, 2013 and December 31, 2012 was $8,001, $8,984 and $10,026 for North America, $22,321, $20,135 and $15,414 for EMEA, $414, $504 and $321 for Asia/Pacific, and zero in all periods for South America, respectively. However, all inter-segment transactions have been eliminated from each reportable operating segment's net sales and earnings for all periods presented in the above tables.

Note 5 – Stock-Based Compensation

The Company recognized share-based compensation expense in SG&A in its Consolidated Statement of Income for the years ended December 31, 2014, December 31, 2013 and December 31, 2012, including the following:

	December 31,		
	2014	2013	2012
Stock options	$ 663	$ 517	$ 542
Nonvested stock awards and restricted stock units	2,473	1,900	1,504
Employee stock purchase plan	73	60	48
Non-elective and elective 401(k) matching contribution in stock	1,975	1,612	1,653
Director stock ownership plan	125	72	60
Total share-based compensation expense	$5,309	$4,161	$3,807

As of December 31, 2014, December 31, 2013 and December 31, 2012, the Company recorded $453, $815 and $2,045, respectively, of excess tax benefits in capital in excess of par value on its Consolidated Balance Sheets related to stock option exercises. For 2014, 2013 and 2012, the Company also 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 2014, 2013 and 2012.

Stock option activity under all plans is as follows:

	2014			2013		
	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual

		per Share	Term (years)		per Share	Term (years)
Options outstanding at January 1,	75,251	$ 44.49		107,455	$ 31.23	
Options granted	37,048	73.47		29,302	58.26	
Options exercised	(25,224)	36.65		(57,137)	27.12	
Options forfeited	—	—		(3,601)	37.81	
Options expired	—	—		(768)	37.37	
Options outstanding at December 31,	87,075	$ 59.09	5.2	75,251	$ 44.49	5.2
Options exercisable at December 31,	18,696	$ 44.38	4.1	11,840	$ 28.42	3.9

The total intrinsic value of options exercised during 2014 was approximately $1,139. 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, 2014, the total intrinsic value of options outstanding was $2,889 and the total intrinsic value of exercisable options was approximately $895.

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A summary of the Company's outstanding stock options at December 31, 2014 is as follows:

Range of Exercise Prices	Number Outstanding at 12/31/2014	Weighted Average Contractual Life	Weighted Average Exercise Price	Number Exercisable at 12/31/2014	Weighted Average Exercise Price
$ 0.00 - $ 10.00	—	—	$ —	—	$ —
$ 10.01 - $ 20.00	2,367	2.1	18.82	2,367	18.82
$ 20.01 - $ 30.00	—	—	—	—	—
$ 30.01 - $ 40.00	18,296	4.0	37.96	7,230	37.71
$ 40.01 - $ 50.00	2,192	4.5	46.21	1,462	46.21
$ 50.01 - $ 60.00	27,172	5.2	58.26	7,637	58.26
$ 60.01 - $ 70.00	—	—	—	—	—
$ 70.01 - $ 80.00	37,048	6.2	73.47	—	—
	87,075	5.2	59.09	18,696	44.38

As of December 31, 2014, unrecognized compensation expense related to options granted in 2012 was $41, for options granted during 2013 was $251 and for options granted in 2014 was $590.

Consistent with prior years, the Company granted stock options under its LTIP plan that are subject only to time vesting over a three-year period in the first quarters of 2011, 2012, 2013 and 2014. Also, in connection with a transition of key employees during the second quarter of 2012, stock options were granted that are also only subject to time vesting over a three-year period. For the purposes of determining the fair value of stock option awards, the Company uses the Black-Scholes option pricing model and the assumptions set forth in the table below:

	For the Year Ended December 31,				June 30,
	2014	2013	2012	2011	2012
Number of stock options granted	37,048	29,302	37,965	36,835	2,192
Dividend yield	2.00 %	2.49 %	3.09 %	5.00 %	2.69 %
Expected volatility	43.34 %	57.28 %	69.90 %	62.13 %	69.09 %
Risk-free interest rate	1.22 %	0.63 %	0.61 %	1.99 %	0.58 %
Expected term (years)	4.0	4.0	4.0	5.0	4.0

These awards are being amortized on a straight-line basis over the respective vesting period of each award. The compensation expense recorded on each award during 2014, 2013 and 2012, respectively, is as follows:

Year Ended December 31,		
2014	2013	2012

2014 Stock option awards	$ 227	$ —	$ —
2013 Stock option awards	$ 213	$ 174	$ —
2012 Stock option awards	$ 199	$ 189	$ 167
2011 Stock option awards	$ 24	$ 138	$ 164

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

	Number of Shares	Weighted Average Grant Date Fair Value (per share)
Nonvested awards, December 31, 2013	115,984	$ 47.27
Granted	56,258	$ 73.95
Vested	(43,897)	$ 41.17
Forfeited	(3,895)	$ 37.01
Nonvested awards, December 31, 2014	124,450	$ 61.80

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, 2014, unrecognized compensation expense related to these awards was $4,213, to be recognized over a weighted average remaining period of 2.24 years.

Activity of nonvested restricted stock units granted under the Company's LTIP plan is shown below:

	Number of Units	Weighted Average Grant Date Fair Value (per unit)
Nonvested awards, December 31, 2013	4,018	$ 49.71
Granted	3,140	$ 75.52
Nonvested awards, December 31, 2014	7,158	$ 61.03

The fair value of the nonvested restricted stock units is based on the trading price of the Company's common stock on the date of grant. The Company adjusts the grant date fair value for expected forfeitures based on historical experience for similar awards. As of December 31, 2014, unrecognized compensation expense related to these awards was $204 to be recognized over a weighted average remaining period of 1.84 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. An employee whose stock ownership of the Company exceeds five percent of the outstanding common stock is not eligible to participate in this plan.

2013 Director Stock Ownership Plan

In March 2013, the Company adopted the 2013 Director Stock Ownership Plan (the "Plan"), subject to the approval by the Company's shareholders at the annual meeting, to encourage the Directors to increase their investment in the Company. The Plan was approved at the Company's May 2013 shareholders' meeting. The Plan authorizes the issuance of up to 75,000 shares of Quaker common stock in accordance with the terms of the Plan in payment of all or a portion of the annual cash retainer payable to each of the Company's non-employee directors in 2013 and subsequent years during the term of the Plan. Under the Plan, each director who, on May 1st of the applicable calendar year, owns less than 400% of the annual cash retainer for the applicable calendar year, divided by the average of the closing price of a share of Quaker Common Stock as reported by the composite tape of the New York Stock Exchange for the previous calendar year (the "Threshold Amount"), is required to receive 75% of the annual cash retainer in Quaker common stock and 25% of the retainer in cash, unless the director elects to receive a greater percentage of Quaker common stock (up to 100%) of the annual cash retainer for the applicable year. Each director who owns more than the Threshold Amount may elect to

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receive common stock in payment of a percentage (up to 100%) of the annual cash retainer. The annual retainer is $50 and the retainer payment date is June 1. The Plan was adopted in order to replace the 2003 Director Stock Ownership Plan, which expired in May 2013.

Note 6 – Other income, net

Other income, net includes:

	2014	2013	2012
Non-income tax and other related refunds	$ 582	$ 2,876	$ 358
Change in fair value of acquisition-related liabilities	—	497	2,770
Income from third party license fees	1,063	1,027	1,264
Foreign exchange losses, net	(1,039)	(1,076)	(1,034)
Asset impairment related to a cost streamlining initiative	—	(211)	—
Gain on fixed asset disposals, net	128	382	25
Other non-operating income	329	247	337
Other non-operating expense	(296)	(223)	(305)
Total other income, net	$ 767	$ 3,519	$ 3,415

Note 7 – Taxes on Income and Uncertain Tax Positions

Taxes (benefit) on income consist of the following:

	Year Ended December 31,		
	2014	2013	2012
Current:			
Federal	$ 8,086	$ 7,216	$ 3,318
State	796	263	(69)
Foreign	13,650	13,040	9,972
	22,532	20,519	13,221
Deferred:			
Federal	2,548	155	4,409
State	57	138	(794)
Foreign	(1,598)	(323)	(1,261)
Total	$ 23,539	$ 20,489	$ 15,575

The components of earnings before income taxes were as follows:

	Year Ended December 31,		
	2014	2013	2012
Domestic	$ 32,391	$ 25,900	$ 26,520
Foreign	45,902	46,926	36,428
Total	$ 78,293	$ 72,826	$ 62,948

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

	2014		2013	
	Current	Non-current	Current	Non-current
Retirement benefits	$ 568	$ 11,179	$ 585	$ 9,371
Allowance for doubtful accounts	2,237	—	1,990	—
Insurance and litigation reserves	615	245	677	126
Postretirement benefits	—	2,137	—	1,951
Supplemental retirement benefits	—	3,448	—	3,010
Performance incentives	3,821	884	3,858	686
Equity-based compensation	353	939	351	585
Insurance settlement	—	8,429	6	9,071
Operating loss carryforward	—	8,657	—	9,228
Uncertain tax positions	—	4,313	—	5,806
Other	1,293	780	975	888
	8,887	41,011	8,442	40,722
Valuation allowance	(900)	(6,445)	(924)	(6,742)
Total deferred income tax assets, net	$ 7,987	$ 34,566	$ 7,518	$ 33,980
Depreciation	—	4,616	—	4,712
Europe pension and other	—	1,654	—	2,343
Amortization and other	353	12,468	749	8,930
Total deferred income tax liabilities	$ 353	$ 18,738	$ 749	$ 15,985

Following are the changes in the Company’s deferred tax asset valuation allowance for the years ended December 31, 2014, December 31, 2013 and December 31, 2012:

Balance at	Additional	Allowance	Effect of Exchange	Balance

	Beginning of Period	Valuation Allowance	Utilization and Other	Rate Changes	at End of Period
VALUATION ALLOWANCE					
Year ended December 31, 2014	$ 7,666	$ 5	$ (105)	$ (221)	$ 7,345
Year ended December 31, 2013	$ 7,858	$ 26	$ (1)	$ (217)	$ 7,666
Year ended December 31, 2012	$ 1,377	$ 6,594	$ (34)	$ (79)	$ 7,858

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

	2014	2013
Current deferred tax assets	$ 8,367	$ 7,826
Non-current deferred tax assets	24,411	24,724
Current deferred tax liabilities	732	1,057
Non-current deferred tax liabilities	8,584	6,729
Net deferred tax asset	$ 23,462	$ 24,764

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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, 2014, December 31, 2013 and December 31, 2012:

	2014	2013	2012
Income tax provision at the Federal statutory tax rate	$27,402	$25,489	$22,032
Differences in tax rates on foreign earnings and remittances	(3,025)	(2,487)	(3,207)
Foreign dividends	3,278	1,922	815
Excess foreign tax credit utilization	(5,011)	(3,664)	(2,237)
Research and development activities credit utilization	(226)	(200)	—
Uncertain tax positions	263	(589)	(1,196)
Domestic production activities deduction	(567)	(560)	(402)
State income tax provisions, net	517	171	(45)
Non-deductible entertainment and business meals expense	278	229	200
Miscellaneous items, net	630	178	(385)
Taxes on income	$23,539	$20,489	$15,575

At December 31, 2014, the Company domestically had a net deferred tax asset of $9,928. In addition, the Company has foreign tax loss carryforwards of $11,716 of which $165 expires in 2015, $178 expires in 2016, $230 expires in 2017, $663 expires in 2018, $490 expires in 2019, $108 expires in 2020, $238 expires in 2021, $171 expires in 2022, $7 expires in 2023 and $73 expires in 2024; 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 $1,305.

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, 2014 was approximately $197,000. Any income tax liability, which might result from ultimate remittance of these earnings, is expected to be substantially offset by foreign tax credits. It is currently impractical to estimate any such incremental tax expense.

As of December 31, 2014, the Company’s cumulative liability for gross unrecognized tax benefits was $11,845. The Company had accrued $1,845 for cumulative penalties and $1,868 for cumulative interest at December 31, 2014. As of December 31, 2013, the Company’s cumulative liability for gross unrecognized tax benefits was $12,596. The Company had accrued $2,100 for cumulative penalties and $2,108 for cumulative interest at December 31, 2013.

The Company continues to recognize interest and penalties associated with uncertain tax positions as a component of taxes on income before equity in net income of associated companies in its Consolidated Statement of Income. The Company recognized ($26) for penalties and ($31) for interest (net of expirations and settlements) on its 2014 Consolidated Statement of Income, $392 for penalties and ($247) for interest (net of expirations and settlements) on its 2013 Consolidated Statement of Income and $301 for penalties and ($26) for interest (net of expirations and settlements) on its 2012 Consolidated Statement of Income.

The Company estimates that during the year ending December 31, 2015, it will reduce its cumulative liability for gross unrecognized tax benefits by approximately $1,900 to $2,000 due to the expiration of the statute of limitations with regard to certain tax positions. This estimated reduction in the cumulative liability for unrecognized tax benefits does not consider any increase in liability for unrecognized tax benefits with regard to existing tax positions or any increase in cumulative liability for unrecognized tax benefits with regard to new tax positions for the year ending December 31, 2015.

The Company and its subsidiaries are subject to U.S. Federal income tax, as well as the income tax of various state and foreign tax jurisdictions. Tax years that remain subject to examination by major tax jurisdictions include Brazil from 2000, Italy from 2007, the Netherlands from 2008, United Kingdom from 2009, Spain and China from 2010, the United States from 2011, and various domestic state tax jurisdictions from 1993.

During the second quarter of 2012, the Italian tax authorities initiated a transfer pricing audit of the Company's Italian subsidiary. On July 7, 2012, the Company received a preliminary tax report related to this transfer pricing audit, which proposed several adjustments to the taxable income of the subsidiary. During the fourth quarter of 2012, the Company's Italian subsidiary received an assessment for the tax year 2007, which the Company appealed during the first quarter of 2013. On September 16, 2013,

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the Provincial Tax Court of Varese delivered a decision confirming the Italian tax authorities' proposed adjustment to the taxable income of the subsidiary, but denying the proposed assessment of penalties. On January 24, 2014, the Company's Italian subsidiary appealed the decision of the Provincial Tax Court of Varese. On March 7, 2014, the Italian tax authorities appealed the decision of the Provincial Tax Court denying the assessment of penalties.

The Provincial Tax Court of Varese delivered a decision in favor of the Italian tax authorities, confirming the decision of the lower tax court, without any supporting arguments on November 25, 2014. The Company is considering a further appeal of the 2007 income tax assessment to the Italian Supreme Court.

The Company and outside tax counsel believe that it is more likely than not that it will prevail on the merits of the Italian income tax assessments for 2007, therefore, the Company has established a reserve for uncertain tax positions with respect to this item and does not expect a material difference from this reserve as of December 31, 2014.

On November 29, 2013, the Italian tax authorities issued a tax assessment for the tax year 2008, raising identical issues as the assessment for 2007, noted above. On March 28, 2014, the Company filed an appeal with the Provincial Tax Court of Varese. On August 4, 2014, the Italian tax authorities issued a tax assessment for the tax year 2009, raising identical issues as the assessments for 2007 and 2008, noted above. The Company filed a request for competent authority relief between the Italian and Dutch tax authorities, and between the Italian and Spanish tax authorities for 2008 and 2009.

Related to the assessments for 2008 and 2009, the Company and outside counsel believe we should prevail on the merits of each case. Therefore, the Company does not believe it has exposure warranting an uncertain tax position reserve as of December 31, 2014.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits for the years ended December 31, 2014, December 31, 2013 and December 31, 2012, respectively, is as follows:

	2014	2013	2012
Unrecognized tax benefits at January 1	$ 12,596	$ 12,410	$ 12,719
(Decrease) increase in unrecognized tax benefits taken in prior periods	(93)	83	—
(Decrease) in unrecognized tax benefits taken in prior periods	—	—	(411)
Increase in unrecognized tax benefits taken in current period	2,678	2,182	1,733
(Decrease) in unrecognized tax benefits due to lapse of statute of limitations	(2,078)	(2,485)	(1,837)
(Decrease) increase due to foreign exchange rates	(1,258)	406	206
Unrecognized tax benefits at December 31	$ 11,845	$ 12,596	$ 12,410

The amount of unrecognized tax benefits above that, if recognized, would impact the Company's tax expense and effective tax rate is $1,066, $1,194 and $1,652 in 2014, 2013 and 2012, respectively.

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Note 8 – Earnings Per Share

The following table summarizes EPS calculations for the years ended December 31, 2014, December 31, 2013 and December 31, 2012:

	December 31,		
	2014	2013	2012
Basic earnings per common share			
Net income attributable to Quaker Chemical Corporation	$ 56,492	$ 56,339	$ 47,405
Less: income allocated to participating securities	(503)	(481)	(526)
Net income available to common shareholders	$ 55,989	$ 55,858	$ 46,879
Basic weighted average common shares outstanding	13,126,759	13,044,842	12,871,703
Basic earnings per common share	$ 4.27	$ 4.28	$ 3.64
Diluted earnings per common share			
Net income attributable to Quaker Chemical Corporation	$ 56,492	$ 56,339	$ 47,405
Less: income allocated to participating securities	(503)	(481)	(524)
Net income available to common shareholders	$ 55,989	$ 55,858	$ 46,881
	13,126,759	13,044,842	12,871,703

Basic weighted average common shares outstanding			
Effect of dilutive securities	21,309	24,770	58,798
Diluted weighted average common shares outstanding	13,148,068	13,069,612	12,930,501
Diluted earnings per common share	$ 4.26	$ 4.27	$ 3.63

The following number of stock options are not included in diluted earnings per share since the effect would have been anti-dilutive: 4,714 in 2014, 2,863 in 2013 and 4,417 in 2012.

Note 9 – Accounts Receivable and Allowance for Doubtful Accounts

At December 31, 2014 and December 31, 2013, the Company had gross trade accounts receivable totaling $195,982 and $172,762 with trade accounts receivable greater than 90 days past due of $10,149 and $11,345, respectively. The following are changes in the allowance for doubtful accounts during the years ended December 31, 2014, December 31, 2013 and December 31, 2012:

	Balance at Beginning of Period	Changes to Costs and Expenses	Write-Offs Charged to Allowance	Exchange Rate Changes And Other Adjustments	Balance at End of Period
ALLOWANCE FOR DOUBTFUL ACCOUNTS					
Year ended December 31, 2014	$ 7,133	$ (264)	$ (296)	$ (75)	$ 6,498
Year ended December 31, 2013	$ 6,399	$ 1,136	$ (407)	$ 5	$ 7,133
Year ended December 31, 2012	$ 4,569	$ 2,072	$ (737)	$ 495	$ 6,399

Included in exchange rate changes and other adjustments are allowance for doubtful accounts of $77, $0 and $416 acquired in 2014, 2013 and 2012 business acquisitions, respectively.

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Note 10 – Inventories

Total inventories comprise:

	December 31, 2014	December 31, 2013
Raw materials and supplies	$37,961	$37,063
Work in process and finished goods	39,747	34,494
	$77,708	$71,557

Note 11 – Property, Plant and Equipment

Property, plant and equipment comprise:

	December 31, 2014	December 31, 2013
Land	$ 7,962	$ 8,510
Building and improvements	78,911	80,644
Machinery and equipment	142,102	136,549
Construction in progress	5,541	8,162
	234,516	233,865
Less accumulated depreciation	(148,753)	(148,377)
	$ 85,763	$ 85,488

The Company currently leases certain equipment under capital leases in its North America and EMEA segments, and, also, in South America during 2013. Gross property, plant and equipment includes $656 and $793 of capital leases with $455 and $380 of accumulated depreciation at December 31, 2014 and December 31, 2013, respectively. The following is a schedule by years of future minimum lease payments:

For the year ended December 31,	
2015	$ 84
2016	68
2017	59
2018	—
2019	—
2020 and beyond	—

Total net minimum lease payments	211
Less amount representing interest	(10)
Present value of net minimum lease payments	$ 201

Note 12 – Goodwill and Other Intangible Assets

The Company completed its annual impairment test as of the end of the third quarter of 2014 and no impairment charge was warranted. The estimated fair value of each of the Company's reporting units substantially exceeded its carrying value, with none of the Company's reporting units at risk for failing step one of the goodwill impairment test. In addition, the Company has never recorded an impairment charge.

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Changes in the carrying amount of goodwill for the years ended December 31, 2014 and December 31, 2013 were as follows:

	North America	EMEA	Asia/Pacific	South America	Total
Balance as of December 31, 2012	$ 28,535	$ 11,411	$ 15,323	$ 3,900	$ 59,169
Goodwill additions	277	—	—	—	277
Currency translation adjustments	(685)	(227)	(305)	(78)	(1,295)
Balance as of December 31, 2013	28,127	11,184	15,018	3,822	$ 58,151
Goodwill additions	14,612	6,130	1,075	—	21,817
Currency translation adjustments	(62)	(1,264)	(87)	(622)	(2,035)
Balance as of December 31, 2014	$ 42,677	$ 16,050	$ 16,006	$ 3,200	$ 77,933

Gross carrying amounts and accumulated amortization for definite-lived intangible assets as of December 31, 2014 and December 31, 2013 were as follows:

	Gross Carrying Amount		Accumulated Amortization	
	2014	2013	2014	2013
Definite-lived intangible assets				
Customer lists and rights to sell	$ 63,502	$ 33,559	$ 12,681	$ 10,221
Trademarks and patents	18,944	6,838	4,066	3,202
Formulations and product technology	5,808	5,808	3,896	3,709
Other	6,647	5,544	4,950	4,445
Total	$ 94,901	$ 51,749	$ 25,593	$ 21,577

The Company recorded $4,325, $3,445 and $3,106 of amortization expense in 2014, 2013 and 2012, respectively. Estimated annual aggregate amortization expense for the subsequent five years is as follows:

For the year ended December 31, 2015	$6,807
	$6,334

For the year ended December 31, 2016	
For the year ended December 31, 2017	$5,877
For the year ended December 31, 2018	$5,654
For the year ended December 31, 2019	$5,574

The Company has two indefinite-lived intangible assets totaling $1,100 for trademarks at December 31, 2014 and December 31, 2013.

Note 13 – Investments in Associated Companies

As of December 31, 2014, the Company held a 50% investment in and had significant influence over Kelko Quaker Chemical, S.A. (Venezuela), Nippon Quaker Chemical, Ltd. (Japan) and Kelko Quaker Chemical S.A. (Panama) and held a 33% investment in and had significant influence over Primex, Ltd. (Barbados).

The carrying amount of the Company's equity investments at December 31, 2014 was $21,751, which includes its investments of $14,381 in Primex, Ltd. (Barbados); $4,854, in Nippon Quaker Chemical, Ltd. (Japan); $2,285 in Kelko Quaker Chemical, S.A. (Venezuela); and $231, in Kelko Quaker Chemical, S.A. (Panama).

At December 31, 2014, Venezuela operated three local exchange markets to obtain U.S. Dollars: the CADIVI, SICAD I and SICAD II. As of December 31, 2014, Kelko Quaker Chemical, S.A. ("Kelko Venezuela") had access to import on the CADIVI, it did not have access to trade on the SICAD I and it had limited access to SICAD II. Accordingly, the Company's equity investment in Kelko Venezuela was valued at the CADIVI exchange rate at December 31, 2014. Under generally accepted principles in the United States, Venezuela's economy is considered to be hyper inflationary, so, accordingly, all gains and losses resulting from the

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remeasurement of Kelko Venezuela to the CADIVI or other published exchange are required to be recorded directly to the Consolidated Statement of Income.

During the second quarter of 2014, the Company recorded a charge of $321, or $0.02 per diluted share, related to the conversion of certain Venezuelan Bolivar Fuerte to U.S. Dollars on the SICAD II exchange. During the first quarter of 2013, the Venezuelan Government announced a devaluation of the Bolivar Fuerte, which resulted in a charge of $357, or $0.03 per diluted share.

In February 2015, the Venezuelan Government announced changes to its foreign exchange market. Specifically, the Company understands that as of now there continues to be three exchange markets in Venezuela; however, the Company believes they now consist of the historical CADIVI market, a combined SICAD I and SICAD II market and a newly created, marginal currency system, or the SIMADI. The CADIVI exchange largely remains the same, except that the government further restricted who can import and trade under this exchange. The government has yet to disclose who can access or trade on the newly formed SICAD market. Finally, the newly created SIMADI is a free exchange and can generally be accessed by all requested parties, however, at significantly higher exchange rates than the CADIVI or SICAD markets. Given the uncertainty around each of these markets, the future of the Venezuela economy, and how each applies to the Company's equity investment, the Company is still assessing the impacts that these changes to the Venezuelan foreign exchange markets may have on the operations of Kelko Venezuela and the Company's related $2,285 equity investment.

During the first quarter of 2013, the Company identified errors in Primex's estimated 2012 financial statements, which primarily related to a reinsurance contract held by Primex. The identified errors resulted in a cumulative $1,038 understatement of the Company's equity in net income from associated companies for the year ended December 31, 2012, which were corrected in the first quarter of 2013. See Note 3 of Notes to Consolidated Financial Statements for further information.

Summarized financial information of Kelko Quaker Chemical, S.A. (Venezuela), Nippon Quaker Chemical, Ltd. (Japan) and Kelko Quaker Chemical S.A. (Panama), in the aggregate, is as follows:

	December 31,	
	2014	2013
Current Assets	$ 27,679	$ 28,363
Noncurrent Assets	1,105	717
Current Liabilities	13,648	13,974
Noncurrent Liabilities	397	501

	Year Ended December 31,		
	2014	2013	2012
Net Sales	$ 48,834	$ 47,226	$ 55,963
Gross Margin	15,698	16,096	18,480
Income Before Income Taxes	3,546	3,687	3,170
Net Income	2,263	2,142	2,118

Summarized financial information of Primex, Ltd. is as follows:

	December 31,	
	2014	2013
Total Assets	$109,259	$106,450
Total Liabilities	59,773	63,938

	Year Ended December 31,		
	2014	2013	2012
Revenue	$ 10,755	$ 20,895	$ 8,473
Income Before Income Taxes	10,929	25,625	8,901
Net Income	7,352	16,876	6,031

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As noted above, the Company identified errors in Primex's estimated 2012 financial statements during the first quarter of 2013, which were corrected in the first quarter of 2013. The identified errors resulted in increases to Primex's revenue of $4,905, income before taxes of $5,240 and net income of $3,422, which are included in the 2013 summarized financial information for Primex above.

During the first quarter of 2013, the Company received its first dividend distribution from Primex, Ltd. of approximately $2,000, which was accounted for as a reduction of the Company's investment balance in this associated company.

Note 14 – Other Assets

Other assets include:

	December 31,	
	2014	2013
Restricted insurance settlement	$ 23,599	$ 25,462
Deferred compensation assets	779	894
Supplemental retirement income program	1,361	1,885
Uncertain tax positions	5,516	4,677
Other	2,487	3,349
Total	$ 33,742	$ 36,267

Previously, an inactive subsidiary of the Company executed separate settlement and release agreements with two of its insurance carriers for $35,000, of which $23,599 remains. 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 $44 and $52 in 2014 and 2013, respectively, offset by $1,907 and $988 of payments in 2014 and 2013, 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 18 and 23 of Notes to Consolidated Financial Statements.

Note 15 – Other Current Liabilities

Other current liabilities comprise:

	December 31,	
	2014	2013
Non-income taxes	$ 7,717	$ 7,658

Acquisition-related consideration	246	4,797
Professional fees	1,638	2,007
Selling expenses	3,352	4,266
Legal	754	960
Freight	1,547	1,914
Income taxes payable	4,210	5,216
Other	4,233	3,767
Total	$ 23,697	$ 30,585

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Note 16 – Debt

Debt includes the following:

	December 31, 2014	December 31, 2013
Industrial development authority monthly 5.60% fixed rate demand bond maturing 2018	$ 5,000	$ 5,000
Industrial development authority monthly 5.26% fixed rate demand bond maturing 2028	10,000	10,000
Credit facilities (1.16% weighted average borrowing rate at December 31, 2014)	58,421	—
Ohio Department of Development term loan (see below)	2,109	2,428
Other debt obligations (including capital leases)	201	1,288
	75,731	18,716
Short-term debt	—	(945)
Current portion of long-term debt	(403)	(450)
	$ 75,328	$ 17,321

During the next five years, payments on the Company's debt, including capital lease maturities, are due as follows:

2015	$ 403
2016	395
2017	396
2018	63,765
2019	350
2020 and beyond	$ 10,422

The Company's primary credit line is a $300,000 syndicated multicurrency credit agreement with Bank of America, N.A. (administrative agent) and certain other major financial institutions. This facility matures in June 2018. The maximum amount available under this facility can be increased to $400,000 at the Company's option if the lenders agree and the Company satisfies certain conditions. Borrowings under the facility generally bear interest at either a base rate or LIBOR rate plus a margin. At December 31, 2014 and December 31, 2013, the Company had approximately $58,421 and $0 outstanding on these credit lines. Access to this facility is dependent on meeting certain financial, acquisition and other covenants, but primarily depends on the Company's consolidated leverage ratio calculation, which cannot exceed 3.50 to 1. As of December 31, 2014 and December 31, 2013, the Company's consolidated leverage ratio was below 1.0 to 1 and the Company was also in compliance with all of the facilities' other covenants.

As part of a past expansion project at the Company's Middletown, Ohio facility, it agreed to a low interest rate $3,500 loan with the Ohio Department of Development. Principal repayment on this loan began in September 2010 with its final maturity being in February 2021. The current interest rate of 2% will rise to 3% beginning March 2019 until final maturity.

At December 31, 2014 and December 31, 2013, the amounts at which the Company's debt is recorded are not materially different from their fair market value.

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Note 17 – Pension and Other Postretirement Benefits

The following table shows the Company’s plans’ funded status reconciled with amounts reported in the consolidated balance sheet as of December 31, 2014 and December 31, 2013:

	Pension Benefits						Other Postretirement Benefits	
	2014			2013			2014	2013
	Foreign	Domestic	Total	Foreign	Domestic	Total	Domestic	Domestic
Change in benefit obligation								
Benefit obligation at beginning of year	$ 85,745	$ 66,369	$ 152,114	$ 81,280	$ 70,407	$ 151,687	$ 5,639	$ 7,317
Service cost	2,626	250	2,876	2,864	299	3,163	19	34
Interest cost	3,210	2,823	6,033	3,150	2,437	5,587	232	185
Employee contributions	89	—	89	111	—	111	—	—
Effect of plan amendments	242	—	242	(2,138)	—	(2,138)	—	—
Benefits paid	(1,985)	(4,589)	(6,574)	(1,853)	(4,516)	(6,369)	(533)	(566)
Plan expenses and premiums paid	(361)	(250)	(611)	(367)	(225)	(592)	—	—
Transfer in of business acquisition	2,818	—	2,818	—	—	—	—	—
Actuarial loss (gain)	26,412	6,064	32,476	(566)	(2,033)	(2,599)	688	(1,331)
Translation differences and other	(11,969)	—	(11,969)	3,264	—	3,264	—	—
Benefit obligation at end of year	$106,827	$ 70,667	$177,494	$ 85,745	$ 66,369	$152,114	$ 6,045	$ 5,639
Change in plan assets								
Fair value of plan assets at beginning of year	$ 68,659	$ 50,650	$ 119,309	$ 60,909	$ 45,991	$ 106,900	$ —	$ —

Actual return on plan assets	23,981	2,591	26,572	3,237