

SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549  
-----

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934  
For the quarterly period ended September 30, 1999

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-7154  
-----

QUAKER CHEMICAL CORPORATION  
-----

(Exact name of Registrant as specified in its charter)

Pennsylvania 23-0993790  
-----

(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

Elm and Lee Streets, Conshohocken, Pennsylvania 19428 - 0809  
-----

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code 610-832-4000  
-----

Not Applicable  
-----

Former name, former address and former fiscal year, if  
changed since last report.

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

APPLICABLE ONLY TO CORPORATE ISSUERS: Indicate the number of shares  
outstanding of each of the issuer's classes of common stock, as of the latest  
practicable date.

Number of Shares of Common Stock  
Outstanding on October 31, 1999 8,929,145

QUAKER CHEMICAL CORPORATION AND CONSOLIDATED SUBSIDIARIES

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Condensed Consolidated Balance Sheet at September 30, 1999 (unaudited)  
and December 31, 1998

Condensed Consolidated Statement of Income for the three and nine  
months ended September 30, 1999 and 1998 (unaudited)

Condensed Consolidated Statement of Cash Flows for the nine  
months ended September 30, 1999 and 1998 (unaudited)

Notes to Condensed Consolidated Financial Statements (unaudited)

\* \* \* \* \*

Quaker Chemical Corporation

Condensed Consolidated Balance Sheet

(dollars in thousands)

	September 30, 1999 (Unaudited)	December 31, 1998 *
	-----	-----
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 11,659	\$ 10,213
Accounts receivable, net	56,345	52,448
Inventories		
Raw materials and supplies	11,253	12,616
Work in process and finished goods	12,044	11,901
Prepaid expenses and other current assets	13,695	8,890
	-----	-----
Total current assets	104,996	96,068
Investments in and advances to associated companies	5,982	5,280
Property, plant and equipment, at cost	109,659	111,963
Less accumulated depreciation	63,823	62,341
	-----	-----
Total property, plant and equipment	45,836	49,622
Goodwill, net	16,112	21,366
Other noncurrent assets	18,313	17,567
	-----	-----
	\$191,239	\$189,903
	=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities		
Short-term borrowings	\$ 6,182	\$ 1,420
Accounts payable	24,991	27,825
Accrued compensation	9,502	9,967
Other current liabilities	14,458	11,220
	-----	-----
Total current liabilities	55,133	50,432
Long-term debt	25,112	25,344
Other noncurrent liabilities	25,458	22,061
	-----	-----
Total liabilities	105,703	97,837
Minority interest in equity of subsidiaries	7,426	8,331
<b>SHAREHOLDERS' EQUITY</b>		
Common stock \$1 par value; authorized 30,000,000 shares; issued (including treasury shares) 9,664,009 shares	9,664	9,664
Capital in excess of par value	856	910
Retained earnings	90,811	84,873
Accumulated other comprehensive income (loss)	(11,488)	582
	-----	-----
Treasury stock, shares held at cost; 1999-738,636, 1998-770,059	89,843	96,029
	-----	-----
Total shareholders' equity	78,110	83,735
	-----	-----
	\$191,239	\$189,903
	=====	=====

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

\* Condensed from audited financial statements.

Quaker Chemical Corporation

Condensed Consolidated Statement of Income  
For the period ended September 30,

Unaudited  
(dollars in thousands, except per share data)

	Third Quarter		Nine Months	
	1999	1998	1999	1998
Net sales	\$ 67,795	\$ 65,991	\$192,722	\$193,581
Costs and expenses				
Cost of goods sold	35,729	36,439	102,521	107,114
Selling, administrative and general expenses	24,127	23,729	70,886	69,917
	59,856	60,168	173,407	177,031
Income from operations	7,939	5,823	19,315	16,550
Other income, net	417	484	1,269	1,023
Interest expense, net	(611)	(539)	(1,549)	(1,101)
Income before taxes	7,745	5,768	19,035	16,472
Taxes on income	3,098	2,307	7,614	6,589
	4,647	3,461	11,421	9,883
Equity in net income of associated companies	268	279	764	781
Minority interest in net income of subsidiaries	(651)	(185)	(1,120)	(745)
Net income	\$ 4,264	\$ 3,555	\$ 11,065	\$ 9,919
Per share data:				
Net income - basic	\$0.48	\$0.40	\$1.24	\$1.13
Net income - diluted	\$0.48	\$0.40	\$1.24	\$1.12
Dividends declared	\$0.195	\$0.19	\$0.575	\$0.55

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

Quaker Chemical Corporation

Condensed Consolidated Statement of Cash Flows  
For the Nine Months Ended September 30,

	Unaudited (dollars in thousands)	
	1999	1998
	-----	-----
Cash flows from operating activities		
Net income	\$11,065	\$ 9,919
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,750	5,459
Equity in net income of associated companies	(764)	(781)
Minority interest in earnings of subsidiaries	1,120	745
Other, net	1,468	431
Increase (decrease) in cash from changes in current assets and liabilities net of acquisitions and divestitures:		
Accounts receivable, net	(6,406)	(6,246)
Inventories	(412)	(3,073)
Prepaid expenses and other current assets	(5,304)	(4,159)
Accounts payable and accrued liabilities	4,964	3,570
Repositioning liabilities	(1,883)	(1,077)
	-----	-----
Net cash provided by operating activities	8,598	4,788
	-----	-----
Cash flows from investing activities		
Investments in property, plant, equipment and other assets	(4,057)	(6,401)
Companies acquired	-	(9,350)
Other, net	(184)	329
	-----	-----
Net cash used in investing activities	(4,241)	(15,422)
	-----	-----
Cash flows from financing activities		
Net increase in short-term borrowings	4,817	7,673
Dividends paid	(5,076)	(4,836)
Other, net	210	590
	-----	-----
Net cash (used in) provided by financing activities	(49)	3,427
	-----	-----
Effect of exchange rate changes on cash	(2,862)	580
	-----	-----
Net increase (decrease) in cash and cash equivalents	1,446	(6,627)
Cash and cash equivalents at beginning of period	10,213	18,416
	-----	-----
Cash and cash equivalents at end of period	\$11,659	\$11,789
	=====	=====

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

Quaker Chemical Corporation  
Notes to Condensed Consolidated Financial Statements  
(Dollars in Thousands)  
(Unaudited)

Note 1 - Condensed Financial Information

The attached condensed financial information has been prepared in accordance with instructions for Form 10-Q and, therefore, does not include all financial note information which might be necessary for a fair statement in accordance with generally accepted accounting principles. Such condensed financial information is unaudited, but in the opinion of management, includes all adjustments, consisting only of normal recurring adjustments and accruals, necessary for a fair statement of results for the periods indicated. The net income reported for the periods should not necessarily be regarded as indicative of net income on an annualized basis.

Certain reclassifications have been made to prior year condensed consolidated financial statements to conform to those classifications used in 1999.

Note 2 - Weighted Average Shares Outstanding

	Nine Months Ended September 30		Three Months Ended September 30	
	Basic	Diluted	Basic	Diluted
1999	8,909,298	8,956,610	8,920,148	8,969,095
1998	8,773,478	8,848,304	8,798,561	8,861,941

The difference between basic and diluted weighted average shares outstanding results from the assumption that dilutive stock options outstanding were exercised.

Note 3 - Business Segments

The Company's reportable segments are as follows:

- (1) Metalworking process chemicals - produces products used as lubricants for various heavy industrial and manufacturing applications and provides chemical management services.
- (2) Coatings - produces temporary and permanent coatings for metal products and chemical milling maskants.
- (3) Other chemical products - primarily includes chemicals used in the manufacturing of paper as well as other various chemical products.

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

The table below presents information about the reported segments for the nine months ending September 30:

	Metalworking Process Chemicals	Coatings	Other Chemical Products	Total
1999				
Net Sales	\$169,285	\$13,998	\$9,439	\$192,722
Operating Income	28,014	3,427	(330)	31,111
1998				
Net Sales	\$169,823	\$14,701	\$9,057	\$193,581
Operating Income	23,204	3,965	(551)	26,618

Operating income comprises revenue less related costs and expenses. Nonoperating expenses primarily consist of general corporate expenses identified as not being a cost of operation, interest expense, interest income, and license fees from nonconsolidated associates.

A reconciliation of total segment operating income to total consolidated income before taxes, for the nine months ended September 30, 1999 and 1998 is as follows:

	1999	1998
Total operating income for reportable segments	\$31,111	\$26,618
Non-operating charges	(7,046)	(4,609)
Depreciation and amortization	(4,750)	(5,459)
Interest expense	(1,815)	(1,531)
Interest income	266	430
Other income, net	1,269	1,023
Consolidated income before taxes	\$19,035	\$16,472

Note 4 - Comprehensive Income

The following table summarizes comprehensive income for the nine months ended September 30, 1999 and 1998:

	1999	1998
Net income	\$11,065	\$ 9,919
Foreign currency translation adjustments	(12,070)	2,242
Comprehensive (loss) income	\$ (1,005)	\$12,161

The following table summarizes comprehensive income for the three months ended September 30, 1999 and 1998:

	1999	1998
Net income	\$ 4,264	\$ 3,555
Foreign currency translation adjustments	1,452	3,212
Comprehensive income	\$ 5,716	\$ 6,767

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

Liquidity and Capital Resources

Net cash flow provided by operating activities amounted to \$8.6 million in the first nine months of 1999 compared to \$4.8 million in the same period of 1998. The increase was primarily due to higher operating income as well as a reduction in the change in working capital items, primarily related to inventory.

The Company's net cash position (cash and cash equivalents plus short-term investments less short-term borrowings and current portion of long-term debt) decreased \$3.4 million primarily as a result of increases in short-term borrowings. There was no change in the current ratio of 1.9 to 1 at September 30, 1999 as compared to December 31, 1998 due primarily to the decrease in the Company's net cash position offset by increases in accounts receivable and other current assets.



Operations

- - - - -

Comparison of Nine Months 1999 with Nine Months 1998

- - - - -

Consolidated net sales for the first nine months of 1999 decreased by less than one percent over the first nine months of 1998. The decrease in sales was the net result of a 3% increase in volume, a 1% increase in pricing of certain products, offset by approximately a 5% decrease due to foreign currency exchange rates. Net sales of the metalworking process chemicals segment were essentially flat compared to last year as higher prices and volumes were offset by the negative impact of the stronger dollar on foreign currency translations. Sales in the coatings segment were down 5% primarily due to lower maskant sales into the aerospace industry. The other chemical products segment sales increased 4% primarily due to higher paper and environmental products sales.

Income from operations improved 16% to \$19.3 million as compared to \$16.6 million in the same period of 1998, primarily due to lower raw material costs as well as cost reduction initiatives throughout the organization. The Company's cost of goods sold, as a percentage of sales, decreased 2.1% primarily as a result of lower raw material costs, sales mix effects and lower manufacturing expenses. Selling, administrative and general expenses were slightly higher compared to 1998. This increase is primarily due to additional costs incurred in connection with the growth in the Company's chemical management services business and the mid-year 1998 Brazilian acquisition partially offset by cost savings from the 1998 repositioning and integration program and a reduction in current year bonus incentives.

Net interest costs increased versus September 30, 1998 due to increased debt levels associated with the Company's mid-year 1998 acquisition in Brazil. The increase in other income was due to the absence of transactional exchange rate losses which occurred in 1998. Minority interest increased primarily as a result of higher net income of the Company's consolidated joint venture in Brazil. Earnings per share of \$1.24 (basic and diluted) were 10% and 11% higher than the prior year, respectively.

Comparison of Third Quarter 1999 with Third Quarter 1998

- - - - -

Consolidated net sales for the third quarter of 1999 increased by 3% compared with the third quarter of 1998. The increase in sales was the net result of a 6% increase in volume, a 4% increase in pricing of certain products, offset by a 7% decrease due to foreign currency exchange rates.

Income from operations increased 36% to \$7.9 million in the third quarter of 1999 compared to \$5.8 million in the third quarter of 1998. This increase was the result of higher sales, lower raw material costs, and the implementation of cost reduction initiatives throughout the organization. Other income and net interest expense in the third quarter of 1999 were consistent with the third quarter of 1998. Minority interest increased primarily as a result of higher net income of the Company's consolidated joint venture in Brazil. Earnings per share of \$.48 (basic and diluted) was 20% higher than the prior year.

Other Significant Items:

Year 2000 Readiness Disclosure

For the past two years, the Company has been actively engaged in assessing and solving its Year 2000 issue. The Company completed a comprehensive assessment of all key systems (both IT and non-IT systems). As to systems found to be non-Year 2000 compliant, the Company initiated a program of systems replacements and updates. To date, the Company has completed a substantial portion of its program and expects that the remaining work will be completed prior to year end. The systems work includes the appropriate level of testing to ensure Year 2000 compliance. Expenditures incurred and to be incurred in addressing any Year 2000 issues in the Company's systems are not expected to be material and are currently estimated to be approximately \$750 thousand, including amounts which may be capitalized as long-term assets. In addition to this effort, the Company, with the assistance of an outside consultant, has undertaken a second complete assessment of all its IT and non-IT systems. This assessment confirmed that no significant additional actions were required.

The Company has sought from its third-party providers written assurances that each will be Year 2000 compliant on a timely basis. To date, the Company has received affirmative responses from most of its third-party providers and will continue to pursue responses from its material third-party providers who have failed to respond to the initial inquiry. Notwithstanding the foregoing, the Company has not done any type of on-site review or assessment of its suppliers to determine whether they are in fact Year 2000 compliant. The Company has also made inquiries through its sales organization with certain key customers as to their Year 2000 status and will continue to do so through year end. To date, all have indicated that they are Year 2000 compliant. Though the Company does not expect there to be a failure with any of its critical third-party providers or customers, there can be no assurance that (i) the systems of the Company's material third-party providers or key customers will be Year 2000 compliant and (ii) such non-compliance will not have a material adverse effect on the Company.

The Company has also contacted its critical customers inquiring as to whether additional supplies of product will be required for the December 1999 to January 2000 time period. To date, most of these customers have indicated that additional product will not be ordered. However, if there is a significant unexpected increase in the order pattern for the December 1999 to January 2000 time period, it could interfere with the Company's ability to operate efficiently and the Company may not be able to obtain the necessary materials and services from its third-party providers, mainly raw materials and transportation.

The Company believes it is taking reasonable steps to prevent major interruptions in its business resulting from Year 2000 related issues. However, potential sources of risk specific to the Company are mainly external (third-party providers and customers) and include, but are not limited to, the inability of principal suppliers or customers to be Year 2000 compliant. The Company has analyzed various worst case scenarios as it relates to the Year 2000 issue. Its principal exposure relates to the failure of a third-party provider to be Year 2000 compliant, such as a critical raw material supplier, a utility supplier or transportation company. The Company has contingency plans in place to address failures of certain critical suppliers primarily through additional storage for critical raw materials and finished goods as well as identifying and qualifying alternate raw material suppliers. However, the Company's ability to address other failures such as loss of power or lack of transportation is limited. Accordingly, a failure of certain critical third-party providers could have a material adverse impact on the Company.

The estimates and conclusions herein contain forward-looking statements and are based on management's best estimates of future events. Risks to achieving material Year 2000 compliance include the Company's ability to discover and correct potential Year 2000 sensitive and critical problems which could have a serious impact on the Company and the ability of suppliers and customers which may have a material impact on the Company to bring their systems into Year 2000 compliance.

#### Euro Conversion

On January 1, 1999, 11 of the 15 member countries of the European Union established fixed conversion rates between their existing currencies ("legacy currencies") and one common currency - the euro. The euro trades on currency exchanges and may be used in business transactions. Beginning in January 2002, new euro-denominated bills and coins will be issued, and legacy currencies will be withdrawn from circulation. The Company's operating subsidiaries affected by the euro conversion have established plans to address the systems and business issues raised by the euro currency. The Company anticipates that the euro

conversion will not have a material adverse impact on its financial condition or results of operations.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

Quaker is exposed to the impact of interest rates, foreign currency fluctuations, and changes in commodity prices.

**Interest Rate Risk.** Quaker's exposure to market rate risk for changes in interest rates relates primarily to its short and long-term debt. All of Quaker's long-term debt has a fixed interest rate, while its short-term debt is negotiated at market rates which can be either fixed or variable. Incorporated by reference is the information in "Liquidity and Capital Resources" in Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 8 of the Notes to Consolidated Financial Statements on Pages 16 and 27, respectively, of the Registrant's 1998 Annual Report to Shareholders, the incorporated portion of which is included as Exhibit 13 to the 1998 Form 10-K. Accordingly, if interest rates rise significantly the cost of short-term debt to Quaker will increase. This can have a material adverse effect on Quaker depending on the extent of Quaker's short-term borrowings. As of September 30, 1999, Quaker had \$6,063 in short-term borrowings.

**Foreign Exchange Risk.** A significant portion of Quaker's revenues and earnings are generated by its non-U.S. operations of its foreign subsidiaries. Incorporated by reference is the information concerning Quaker's non-U.S. activities appearing in Note 11 of the Notes to Consolidated Financial Statements on Page 29 of the Registrant's 1998 Annual Report to Shareholders, the incorporated portion of which is included as Exhibit 13 to the 1998 Form 10-K. All such subsidiaries use the local currency as their functional currency. Accordingly, Quaker's financial results are affected by risks typical of international business such as currency fluctuations, particularly between the U.S. dollar, the Brazilian real and the Dutch guilder (and the E.U. euro). As exchange rates vary, Quaker's results can be materially adversely affected.

In the past, Quaker has used, on a limited basis, forward exchange contracts to hedge foreign currency transactions and foreign exchange options to reduce exposure to changes in foreign exchange rates. The amount of any gain or loss on these derivative financial instruments was not material, and there are no contracts or options outstanding at September 30, 1999. Incorporated by reference is the information concerning Quaker's Significant Accounting Policies appearing in Note 1 of the Notes to Consolidated Financial Statements on Page 23 of the Registrant's 1998 Annual Report to Shareholders, the incorporated portion of which is included as Exhibit 13 to the Form 10-K.

Commodity Price Risk. Many of the raw materials used by Quaker are commodity chemicals, and, therefore, Quaker earnings can be materially adversely 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 one year. These contracts provide for protection to Quaker if the price for the contracted raw materials rises, however, in certain limited circumstances, Quaker will not realize the benefit if such prices decline. Quaker has not been, nor is it currently a party to, any derivative financial instrument relative to commodities.

#### Forward-Looking and Cautionary Statements

Except for historical information and discussions, statements contained in this Form 10-Q may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from those projected in such statements.

Such risks and uncertainties include, but are not limited to, those disclosed under the heading "Year 2000 Readiness Disclosure," significant increases in raw material costs, worldwide economic and political conditions, and foreign currency fluctuations that may affect worldwide results of operations. Furthermore, the Company is subject to the same business cycles as those experienced by steel, automobile, aircraft, appliance or durable goods manufacturers.

PART II. OTHER INFORMATION

Items 1,2,3,4, and 5 are inapplicable and have been omitted.

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

- (a) Exhibits.  
Exhibit 27-Financial Data Schedule
  
- (b) Reports on Form 8-K.  
No reports on Form 8-K were filed during the  
quarter for which this report is filed.

\* \* \* \* \*

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

QUAKER CHEMICAL CORPORATION

-----  
(Registrant)

/s/ Michael F. Barry

-----  
Michael F. Barry, officer duly  
authorized to sign this report,  
Vice President and Chief Financial Officer

Date: November 12, 1999



5  
1,000

	9-MOS	
	DEC-31-1999	
	SEP-30-1999	
		11,659
		0
		57,938
		1,593
		23,297
	104,996	
		109,659
		63,823
		191,239
55,133		
		5,000
		9,664
0		
		0
		68,446
191,239		
		192,722
	192,722	
		102,521
		173,407
		0
		0
	1,549	
		19,035
		7,614
11,065		
		0
		0
		0
		11,065
		1.24
		1.24