UNITED STATES
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 March 31, 2004

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 (State or other jurisdiction of incorporation or organization)	**23-0993790** (I.R.S. Employer Identification No.)
One Quaker Park, 901 Hector Street, Conshohocken, Pennsylvania (Address of principal executive offices)	**19428 – 0809** (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 ☐

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ☒ No ☐

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 April 30, 2004	**9,627,878**

QUAKER CHEMICAL CORPORATION AND CONSOLIDATED SUBSIDIARIES

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Item 1. Financial Statements

Quaker Chemical Corporation

Condensed Consolidated Balance Sheet

	Unaudited (Dollars in thousands, except par value and share amounts)	
	March 31, 2004	**December 31, 2003***
ASSETS		
Current assets		
Cash and cash equivalents	$ 22,894	$ 21,915
Accounts receivable, net	82,063	78,121
Inventories		
Raw materials and supplies	15,707	14,691
Work-in-process and finished goods	18,262	17,520
Prepaid expenses and other current assets	14,065	11,277
Total current assets	152,991	143,524
Property, plant and equipment, at cost	137,402	136,448
Less accumulated depreciation	75,187	74,057
Net property, plant and equipment	62,215	62,391
Goodwill	33,309	33,301
Other intangible assets, net	9,299	9,616
Investments in associated companies	5,937	6,005
Deferred income taxes	12,875	12,846
Other assets	19,525	19,664
Total assets	$ 296,151	$ 287,347
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings and current portion of long-term debt	$ 50,614	$ 42,992
Accounts and other payables	41,439	41,259
Accrued compensation	6,385	6,816
Other current liabilities	14,942	14,738
Total current liabilities	113,380	105,805
Long-term debt	15,622	15,827
Deferred income taxes	2,749	2,688
Other noncurrent liabilities	41,278	40,967
Total liabilities	173,029	165,287
Minority interest in equity of subsidiaries	10,678	9,708
Shareholders' equity		
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	2,307	2,181
Retained earnings	118,546	117,308
Unearned compensation	(554)	(621)
Accumulated other comprehensive (loss)	(16,851)	(15,406)
	113,112	113,126
Treasury stock, shares held at cost; 2004 – 39,711 2003 – 54,178	(668)	(774)
Total shareholders' equity	112,444	112,352
	$ 296,151	$ 287,347

* Condensed from audited financial statements.

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

Quaker Chemical Corporation

Condensed Consolidated Statement of Income

	Unaudited (Dollars in thousands, except per share amounts)	
	Three Months Ended March 31,	
	2004	2003
Net sales	$ 98,131	$ 73,337
Cost of goods sold	65,676	44,971
Gross margin	32,455	28,366
Selling, general and administrative expenses	26,598	22,685
Operating income	5,857	5,681
Other income, net	559	88
Interest expense	(470)	(350)
Interest income	155	211
Income before taxes	6,101	5,630
Taxes on income	1,922	1,858
	4,179	3,772
Equity in net income of associated companies	149	86
Minority interest in net income of subsidiaries	(1,019)	(751)
Net income	$ 3,309	$ 3,107
Per share data:		
Net income – basic	$ 0.35	$ 0.34
Net income – diluted	$ 0.33	$ 0.33
Dividends declared	$ 0.215	$ 0.21
Based on weighted average number of shares outstanding:		
Basic	9,570,664	9,270,775
Diluted	9,977,713	9,508,593

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

Quaker Chemical Corporation

Condensed Consolidated Statement of Cash Flows

	Unaudited (Dollars in thousands)	
	For the Three Months Ended March 31,	
	2004	2003
Cash flows from operating activities		
Net income	$ 3,309	$ 3,107
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,981	1,646
Amortization	284	215
Equity in net income of associated companies	(149)	(86)
Minority interest in earnings of subsidiaries	1,019	751
Deferred compensation and other, net	208	241
Pension and other postretirement benefits	313	317
Increase (decrease) in cash from changes in current assets and current liabilities:		
Accounts receivable	(4,316)	(399)
Inventories	(1,867)	(1,389)
Prepaid expenses and other current assets	(2,768)	(1,342)
Accounts payable and accrued liabilities	329	(5,927)
Change in restructuring liabilities	(290)	(699)
Net cash (used in) operating activities	(1,947)	(3,565)
Cash flows from investing activities		
Investments in property, plant and equipment	(2,347)	(2,113)
Dividends and distributions from associated companies	233	1,800
Other, net	(57)	(40)
Net cash (used in) investing activities	(2,171)	(353)
Cash flows from financing activities		
Net increase in short-term borrowings	7,617	3,791
Repayment of long-term debt	(160)	(7)
Dividends paid	(2,020)	(1,961)
Stock options exercised, other	232	86
Distributions to minority shareholders	(245)	(213)
Net cash provided by financing activities	5,424	1,696
Effect of exchange rate changes on cash	(327)	409
Net increase (decrease) in cash and cash equivalents	979	(1,813)
Cash and cash equivalents at beginning of period	21,915	13,857
Cash and cash equivalents at end of period	$ 22,894	$ 12,044

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 except per share amounts)
(Unaudited)

Note 1 – Condensed Financial Information

The condensed consolidated financial statements included herein are unaudited and have been prepared in accordance with generally accepted accounting principles for interim financial reporting and Securities and Exchange Commission regulations. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. Certain prior year amounts have been reclassified to conform to the 2004 presentation. In the opinion of management, the financial statements reflect all adjustments (consisting only of normal recurring adjustments) which are necessary for a fair statement of the financial position, results of operations and cash flows for the interim periods. The results for the three months ended March 31, 2004 are not necessarily indicative of the results to be expected for the full year. These financial statements should be read in conjunction with the Annual Report filed on Form 10-K for the year ended December 31, 2003.

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 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 $8,797 and $7,287 for the three months ended March 31, 2004 and 2003, respectively.

Note 2 – Recently Issued Accounting Standards

In January 2003, the Financial Accounting Standards Board ("FASB"), issued FASB Interpretation No. 46 ("FIN 46"), "Consolidation of Certain Variable Interest Entities, ("VIEs"), which is an interpretation of Accounting Research Bulletin ("ARB") No. 51, "Consolidated Financial Statements." FIN 46 addresses the application of ARB No. 51 to VIEs, and generally would require 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. FIN 46, as revised by FIN 46 (revised December 2003), is effective for public entities that have interests in variable interest entities commonly referred to as special-purpose entities for periods ending December 15, 2003. Application for all other types of entities is required in financial statements for periods ending after March 15, 2004. The Company has determined that its real estate joint venture, which has always been accounted for under the equity method, is a VIE and that the Company is not 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 FIN 46.

On January 12, 2004 the FASB issued FSP No. FAS 106-1, which permits a sponsor of a postretirement health care plan that provides a prescription drug benefit to make a one-time election to defer accounting for the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act"). On December 8, 2003, President Bush signed the Act into law. The Act introduces a prescription drug benefit under Medicare (Medicare Part D) as well as a Federal subsidy to companies which sponsor retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. As permitted under FSP No. 106-1, the Company did not reflect the effects of this Act in its consolidated financial statements and accompanying notes. Specific authoritative guidance on the accounting for the Federal subsidy is pending and that guidance, when issued, could require the Company to change previously reported information. The Company is currently assessing the impact of the Act.

Note 3 – Stock-Based Compensation

In December 2002, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure." This standard amends the transition and disclosure requirements of SFAS No. 123, "Accounting for Stock-Based Compensation." As permitted by SFAS No. 148, the Company continues to account for stock option grants in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, no compensation expense has been recognized for stock options since all options granted had an exercise price equal to the market value of the underlying stock on the grant date. The following tables illustrate the effect on net earnings and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123.

Quaker Chemical Corporation
Notes to Condensed Consolidated Financial Statements—(Continued)
(Dollars in thousands except per share amounts)
(Unaudited)

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
Net Income – as reported	$3,309	$3,107
Add: Stock-based employee compensation expense included in net income, net of related tax effects	102	176
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of tax	(176)	(220)
Pro forma net income	$3,235	$3,063
Earnings per share:		
Basic – as reported	$ 0.35	$ 0.34
Basic – pro forma	$ 0.34	$ 0.33
Diluted – as reported	$ 0.33	$ 0.33
Diluted – pro forma	$ 0.32	$ 0.32

Note 4 – Earnings Per Share

The following table summarizes earnings per share (EPS) calculations:

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
Numerator for basic EPS and diluted EPS– net income	$3,309	$3,107
Denominator for basic EPS–weighted average shares	9,571	9,271
Effect of dilutive securities, primarily employee stock options	407	238
Denominator for diluted EPS–weighted average shares and assumed conversions	$9,978	$9,509
Basic EPS	$ 0.35	$ 0.34
Diluted EPS	$ 0.33	$ 0.33

Quaker Chemical Corporation
Notes to Condensed Consolidated Financial Statements—(Continued)
(Dollars in thousands except per share amounts)
(Unaudited)

Note 5 – Business Segments

The Company's reportable segments are as follows:

(1) Metalworking process chemicals – products used as lubricants for various heavy industrial and manufacturing applications.

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

(3) Other chemical products – other various chemical products.

Segmentdata includes direct segment costs as well as general operating costs.

The table below presents information about the reported segments:

	Three Months Ended March 31,	
	2004	2003
Metalworking Process Chemicals		
Net Sales	$91,615	$66,983
Operating Income	14,669	13,089
Coatings		
Net Sales	5,720	5,259
Operating Income	1,502	1,305
Other Chemical Products		
Net Sales	796	1,095
Operating Income	118	276
Total		
Net Sales	98,131	73,337
Operating Income	16,289	14,670
Non-operating expenses	(8,167)	(7,128)
Depreciation and amortization	(2,265)	(1,861)
Interest expense	(470)	(350)
Interest income	155	211
Other income, net	559	88
Consolidated income before taxes	$ 6,101	$ 5,630

Operating income comprises revenue less related costs and expenses. Non-operating items primarily consist of general corporate expenses identified as not being a cost of operation, interest expense, interest income, and license fees from non-consolidated associates.

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Quaker Chemical Corporation
Notes to Condensed Consolidated Financial Statements—(Continued)
(Dollars in thousands except per share amounts)
(Unaudited)

Note 6 – Comprehensive Income

The following table summarizes comprehensive income:

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
Net income	$ 3,309	$3,107
Foreign currency translation adjustments	(1,445)	2,595
Comprehensive income	$ 1,864	$5,702

Note 7 – Restructuring and Related Activities

In 2001, Quaker's management approved restructuring plans to realign the organization and reduce operating costs (2001 program). Quaker's restructuring plans included the decision to close and sell manufacturing facilities in the U.K. and France. In addition, Quaker consolidated certain functions within its global business units and reduced administrative functions, as well as expensed costs related to abandoned acquisitions. Included in the restructuring charges are provisions for severance of 53 employees. Restructuring and related charges of $5,854 were recognized in 2001. The charge comprised $2,807 related to employee separations, $2,450 related to facility rationalization charges, and $597 related to abandoned acquisitions. Employee separation benefits varied depending on local regulations within certain foreign countries and included severance and other benefits. As of March 31, 2004, Quaker had completed 52 of the planned 53 employee separations under the 2001 plan. In 2003, the Company reversed $216 of unused restructuring accruals related to the 2001 program.

In 2003, Quaker's management approved restructuring plans to further realign the organization (2003 program). Included in the 2003 restructuring charge are provisions for severance for 9 employees totaling $273.

Quaker expects to substantially complete the initiatives contemplated under the restructuring plans, including the sale of its former manufacturing facility in France during 2004.

Accrued restructuring balances, included in other current liabilities and assigned to the Metalworking segment, are as follows:

	Employee Separations	Facility Rationalization	Total
2001 Program:			
December 31, 2003 ending balance	$ 450	$ 525	$ 975
Payments	(158)	(46)	(204)
Currency translation and other	17	27	44
March 31, 2004 ending balance	309	506	815
2003 Program:			
December 31, 2003 ending balance	228	—	228
Payments	(86)	—	(86)
Currency translation and other	(1)	—	(1)
March 31, 2004 ending balance	141	—	141
Total restructuring March 31, 2004 ending balance	$ 450	$ 506	$ 956

Quaker Chemical Corporation
Notes to Condensed Consolidated Financial Statements—(Continued)
(Dollars in thousands except per share amounts)
(Unaudited)

Note 8 – Goodwill and Other Intangible Assets

The changes in carrying amount of goodwill for the three months ended March 31, 2004 are as follows:

	Metalworking process chemicals	Coatings	Total
Balance as of December 31, 2003	$ 26,032	$7,269	$33,301
Goodwill additions	224	—	224
Currency translation adjustments	(216)	—	(216)
Balance as of March 31, 2004	$ 26,040	$7,269	$33,309

Gross carrying amounts and accumulated amortization for definite-lived intangible assets as of March 31, 2004 and December 31, 2003 are as follows:

	Gross Carrying Amount		Accumulated Amortization	
	2004	2003	2004	2003
Amortized intangible assets				
Customer lists and rights to sell	$ 6,153	$ 6,181	$1,018	$ 865
Trademarks and patents	1,788	1,786	1,603	1,584
Formulations and product technology	3,278	3,276	537	435
Other	1,949	1,959	1,311	1,302
Total	$ 13,168	$ 13,202	$4,469	$4,186

The Company recorded $284 and $215 of amortization expense in the first quarter of 2004 and 2003, respectively. Estimated annual aggregate amortization expense for the current year and subsequent five years is as follows:

For the year ended December 31, 2004	$1,161
For the year ended December 31, 2005	$1,128
For the year ended December 31, 2006	$1,116
For the year ended December 31, 2007	$ 708
For the year ended December 31, 2008	$ 617
For the year ended December 31, 2009	$ 607

The Company has one indefinite-lived intangible asset of $600 for trademarks recorded in connection with the Company's 2002 acquisition of Epmar.

Note 9 – Debt

In April 2004, the Company entered into a $10.0 million uncommitted demand credit facility with a bank. At the Company's option, the interest rate for borrowings under this agreement may be based on the prime rate less a margin or a LIBOR rate plus a margin. This brings the Company's credit lines to a total of $60.0 million, $30.0 million committed and $30.0 million uncommitted.

Quaker Chemical Corporation
Notes to Condensed Consolidated Financial Statements—(Continued)
(Dollars in thousands except per share amounts)
(Unaudited)

Note 10 – Pension and Other Postretirement Benefits

The components of net periodic benefit cost, for the three months ended March 31, are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2004	2003	2004	2003
Service Cost	$ 876	$ 718	$ 11	$ 13
Interest cost and other	1,276	1,126	171	204
Expected return on plan assets	(1,120)	(940)	—	—
Other amortization, net	263	201	—	—
Net periodic benefit cost	$ 1,295	$1,105	$182	$217

Employer Contributions:

The Company previously disclosed in its financial statements for the year ended December 31, 2003, that it expected to make minimum cash contributions of $1,483 to its U.S. pension plan and $1,061 to its other postretirement benefit plan in 2004. As of March 31, 2004 $345 and $246 of contributions have been made, respectively.

Note 11 – Commitments and Contingencies

The Company is involved in environmental clean-up activities and litigation in connection with an existing plant location and former waste disposal sites operated by unaffiliated third parties. In April of 1992, the Company identified certain soil and groundwater contamination at AC Products, Inc. (“ACP”), a wholly owned subsidiary. Voluntarily in coordination with the Santa Ana California Regional Water Quality Board, ACP is remediating the contamination. The Company believes that the remaining potential-known liabilities associated with these matters ranges from approximately $900 to $1,500, 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.

Additionally, although there can be no assurance regarding the outcome of other environmental matters, the Company believes that it has made adequate accruals for costs associated with other environmental problems of which it is aware. Approximately $148 and $188 was accrued at March 31, 2004 and December 31, 2003, respectively, to provide for such anticipated future environmental assessments and remediation costs.

An inactive subsidiary of the Company that was acquired in 1978 sold certain products containing asbestos, primarily on an installed basis, and is among the defendants in numerous lawsuits alleging injury due to exposure to asbestos. The subsidiary discontinued operations in 1991 and has no remaining assets other than its existing insurance policies. To date, the overwhelming majority of these claims have been disposed of without payment and there have been no adverse judgments against the subsidiary. Based on a continued analysis of the existing and anticipated future claims against this subsidiary, it is currently projected that the subsidiary’s total liability over the next 50 years for these claims is approximately $10,000 (excluding costs of defense). Although the Company has also been named as a defendant in certain of these cases, no claims have been actively pursued against the Company and the Company has not contributed to the defense or settlement of any of these cases pursued against the subsidiary. These cases have been handled to date by the subsidiary’s primary and excess insurers who agreed to pay all defense costs and be responsible for all damages assessed against the subsidiary arising out of existing and future asbestos claims up to the aggregate limits of the policies. A significant portion of this primary insurance coverage was provided by an insurer that is now insolvent, and the other primary insurers have asserted that the aggregate limits of their policies have been exhausted. The subsidiary is challenging the applicability of these limits to the claims being brought against the subsidiary. The subsidiary has additional coverage under its excess policies. The Company believes, however, that if the coverage issues under the primary policies are resolved adversely to the subsidiary, the subsidiary’s insurance coverage will likely be exhausted within the next three to four years. As a result, liabilities in respect of claims not yet asserted may exceed coverage available to the subsidiary.

Quaker Chemical Corporation
Notes to Condensed Consolidated Financial Statements—(Continued)
(Dollars in thousands except per share amounts)
(Unaudited)

If the subsidiary's insurance coverage were to be exhausted, claimants of the subsidiary may actively pursue claims against the Company because of the parent subsidiary relationship. Although asbestos litigation is particularly difficult to predict, especially with respect to claims that are currently not being actively pursued against the Company, the Company does not believe that such claims would have merit or that the Company would be held to have liability for any unsatisfied obligations of the subsidiary as a result of such claims. After evaluating the nature of the claims filed against the subsidiary and the small number of such claims that have resulted in any payment, the potential availability of additional insurance coverage at the subsidiary level, the additional availability of the Company's own insurance and the Company's strong defenses to claims that it should be held responsible for the subsidiary's obligations because of the parent subsidiary relationship, the Company believes that the inactive subsidiary's liabilities will not have a material impact on the Company's financial condition, cash flows or results of operations.

The Company is party to other litigation which management currently believes will not have a material adverse effect on the Company's results of operations, cash flows or financial condition.

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

Executive Summary

Quaker Chemical Corporation is a worldwide developer, producer, and marketer of chemical specialty products and a provider of chemical management services for various heavy industrial and manufacturing applications around the globe, with significant sales to the steel and automotive industries. Our strategies and initiatives flow from three business imperatives: (1) sell customer solutions - value - not just fluids, (2) operate as a globally integrated whole, and (3) harness the power of our global knowledge and learning. Success factors critical to the Company's business include successfully differentiating ourselves from our competition, operating efficiently as a globally integrated whole, and increasing market share, customer penetration and profitability through internally developed programs and strategic acquisitions.

The Company operates in mature businesses, which are driven by demand for consumer durables and are, therefore, subject to the vulnerabilities of a cyclical economy. For the first quarter 2004, the Company saw signs of an improving global economy with sequential quarterly growth in all four of its regions with high growth in the South American and Asia/Pacific markets. The Company expects 2004 to be a strong revenue growth year in all business segments and in all regions due to its business initiatives as well as an improvement in the global economy.

The Company experienced significant revenue growth in the first quarter of 2004 versus the first quarter of 2003, driven by foreign exchange, acquisitions and its chemical management services (CMS). The revenue growth attributable to CMS was due to the award of new contracts in the North American automotive market, which were effective May 1, 2003. The profitability of this new business is dependent on the Company's ability to identify and implement cost reduction programs and to achieve product conversions. Since inception, the profit impact of these contracts has been immaterial. During 2004, the Company continues to expect to realize increased profitability from this business as cost reductions and product conversions are achieved.

Higher crude oil prices and higher expenses including pension, insurance, Sarbanes-Oxley compliance and ERP implementation negatively impacted the Company's first quarter results as compared to the prior year. Despite these trends, the Company's first quarter results were consistent with previous guidance and the Company's 2004 outlook continues to be for a slight improvement in year-over-year earnings. In addition, the Company recently increased its quarterly dividend, which will result in the 32nd consecutive year of annual dividend increases paid to shareholders.

Liquidity and Capital Resources

Quaker's cash and cash equivalents increased to $22.9 million at March 31, 2004 from $21.9 million at December 31, 2003. The increase resulted primarily from $1.9 million cash used in operating activities and $2.2 million cash used in investing activities, offset by $5.4 million cash provided by financing activities.

Net cash flows used in operating activities were $1.9 million in the first quarter of 2004 compared to $3.6 million in the same period of 2003. The difference is primarily caused by increased cash flows from accounts payable and accrued liabilities offset in part by a decrease to cash from higher accounts receivable balances. The increased cash flows from accounts payable and accrued liabilities was due to lower incentive compensation payments made in the first quarter 2004 versus 2003. The increase in accounts receivable was primarily due to the Company's new CMS contracts as well as increased sales volume.

Net cash flows used in investing activities were $2.2 million in the first quarter of 2004 compared to $0.4 million in the same period of 2004. The increased use of cash was caused by slightly higher capital expenditures as well as a lower level of priority distributions received from the Company's real estate joint venture compared to 2003. In the first quarter of 2004 capital expenditures were $2.3 million. Major projects included the Company's U.S. lab renovation, global ERP implementation, and capital expansion related to the Vulcan acquisition. The Company is near completion on both the Vulcan acquisition related capital expenditures and the U.S. lab renovation. The capital related to the Vulcan acquisition will allow the Company to move essentially all of the production from Vulcan to other facilities and save on external manufacturing costs. Also, capital expenditures related to the ERP implementation is expected to be considerably less in 2004 than over the past few years. Overall, the Company is expecting total 2004 capital expenditures to be slightly under $10.0 million, which would be a 20% reduction from the 2003 capital expenditure levels.

Net cash flows provided by financing activities were $5.4 million for the first quarter of 2004 compared to $1.7 million for the same period in the prior year. The net change was primarily due to $7.6 million of short-term borrowings incurred in the first quarter of 2004 used to finance the Company's capital expenditures and working capital needs.

In April 2004, the Company entered into a $10.0 million uncommitted demand credit facility with a bank. At the Company's option, the interest rate for borrowings under this agreement may be based on the prime rate less a margin or a LIBOR rate plus a margin. This brings the Company's credit lines to a total of $60.0 million, consisting of $30.0 million committed and $30.0 million uncommitted.

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The Company believes that its balance sheet remains strong with a net debt-to-total capital ratio of 28% compared to 25% at the end of 2003. The Company further believes it is capable of supporting its operating requirements, including pension plan contributions, payment of dividends to shareholders, possible acquisition and business opportunities, capital expenditures and possible resolution of contingencies, through internally generated funds supplemented with debt as needed.

Operations

Comparison of First Three Months 2004 with First Three Months 2003

Net income for the first quarter increased 7% to $3.3 million versus $3.1 million for the first quarter of 2003. Consistent with previous guidance, earnings per diluted share were $0.33 in the first quarters of both 2004 and 2003.

Net sales for the first quarter of 2004 were a record $98.1 million, up 34% from $73.3 million for the first quarter of 2003. Foreign exchange rate translation, the Company's 2003 acquisitions and the Company's chemical management services (CMS) contracts awarded since May, 2003 favorably impacted net sales by $6.5 million, $5.5 million and $10.1 million, respectively. The remaining net sales increase of approximately 4% is primarily due to double-digit growth in the Asia/Pacific and South American regions.

Gross margin as a percentage of sales declined from 38.7% for the first quarter of 2003 to 33.1% for the first quarter of 2004. As previously disclosed, the Company's new CMS contracts have caused different relationships between margins and revenue than in the past. At the majority of current CMS sites, the Company effectively acts as an agent and records revenue and costs from these sales on a net sales or "pass-through" basis. The new CMS contracts have a different structure, which results in the Company recognizing in reported revenue the gross revenue received from the CMS site customer, and in cost of goods sold the third party product purchases. The negative impact to gross margin for the first quarter related to the new CMS contracts is approximately 4.5 percentage points. The remaining decline in gross margin as a percentage of sales is due to increased raw material costs, as well as product and regional sales mix.

Selling, general and administrative expenses for the quarter increased $3.9 million compared to the first quarter of 2003. Foreign exchange rate translation and the Company's 2003 acquisitions accounted for approximately 60% of the increase over the prior year. The majority of the remaining increase was primarily due to higher expenses associated with the Company's ERP implementation, Sarbanes-Oxley compliance, as well as inflationary increases.

The increase in other income reflects a priority-return distribution from the Company's real estate joint venture in the first quarter of 2004 and foreign exchange gains in the first quarter of 2004 versus losses in the first quarter of 2003. The increase in net interest expense is primarily due to higher debt balances outstanding during the first quarter of 2004 versus the prior year.

The year-to-date 2004 effective tax rate is 31.5% compared to 33% in the prior year. The Company currently anticipates its effective tax rate will remain in the 30% to 32% range for the 2004 year. Of course, many external and internal factors can impact this rate and the Company will continue to refine this number, if necessary as the year progresses.

The increase in equity income for the first quarter 2004 is primarily due to stronger performances from our Japan and Mexico joint ventures. Minority interest was higher for the first quarter of 2004 compared with the same period last year driven by stronger performances from most of our minority interest affiliates.

The increase in diluted shares is primarily due to stock option exercises as well as the Company's higher stock price quarter over quarter, which impacts the diluted share calculation.

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) contains or may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements can be identified by the fact that they do not relate strictly to historical or current facts. We have based these forward-looking statements on our current expectations about future events. These forward-looking statements include statements with respect to our beliefs, plans, objectives, goals, expectations, anticipations, intentions, financial condition, results of operations, future performance and business, including:

- statements relating to our business strategy;
- our current and future results and plans; and
- statements that include the words "may," "could," "should," "would," "believe," "expect," "anticipate," "estimate," "intend," "plan" or similar expressions.

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

Any or all of the forward-looking statements in this Report 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 planning shutdowns. Other major risks and uncertainties include, but are not limited to, significant increases in raw material costs, worldwide economic and political conditions, foreign currency fluctuations, and terrorist attacks such as those that occurred on September 11, 2001. 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 below 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 3. ***Quantitative and Qualitative Disclosures About Market Risk.***

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

Interest Rate Risk. Quaker's exposure to market rate risk for changes in interest rates relates primarily to its short and long-term debt. Most of Quaker's 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. Accordingly, if interest rates rise significantly, the cost of short-term debt to Quaker will increase. This can have an adverse effect on Quaker, depending on the extent of Quaker's short-term borrowings. As of March 31, 2004, Quaker had $47.8 million in short-term borrowings.

Foreign Exchange Risk. A significant portion of Quaker's revenues and earnings is generated by its foreign operations. These foreign operations also hold a significant portion of Quaker's assets and liabilities. All such operations use the local currency as their functional currency. Accordingly, Quaker's financial results are affected by risks typical of global business such as currency fluctuations, particularly between the U.S. dollar, the Brazilian real, and the E.U. euro. As exchange rates vary, Quaker's results can be materially affected.

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 55% to 56% of the 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 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.

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 may be required. Downturns in the overall economic climate may also tend to exacerbate specific customer financial issues. A significant portion of Quaker's revenues is derived from sales to customers in the U.S. steel industry, where a number of bankruptcies occurred during recent years. Through 2003, Quaker recorded additional provisions for doubtful accounts primarily related to bankruptcies in the U.S. steel industry. 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 writedown 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.

Item 4. *Controls and Procedures.*

Evaluation of disclosure controls and procedures. The Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)), based on their evaluation of such controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q, are effective to reasonably assure that information required to be disclosed by the Company in the reports it files under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission.

Changes in internal controls. As previously disclosed, the Company is in the process of implementing a global ERP system. The Company completed its initial implementation of this system in The Netherlands during 2002. During 2003, the Company implemented this system in additional European subsidiaries, its primary U.S. Operations and several CMS sites. At the end of 2003, subsidiaries representing more than 50% of consolidated revenue are operational on the global ERP system. The Company continued to implement this system at other CMS sites during the first quarter of 2004. Additional subsidiaries and CMS sites are planned to be implemented during 2004 and 2005. The Company is taking the necessary steps to monitor and maintain the appropriate internal controls during this period of change.

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PART II. OTHER INFORMATION

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

Item 6: Exhibits and Reports on Form 8-K

(a) Exhibits.

31.1 – Certification of Chief Executive Officer of the Company pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934

31.2 – Certification of Chief Financial Officer of the Company pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934

32.1 – Certification of Ronald J. Naples Pursuant to 18 U.S. C. Section 1350

32.2 – Certification of Michael F. Barry Pursuant to 18 U.S. C. Section 1350

(b) Reports on Form 8-K.

1. On February 17, 2004 the Company furnished on Form 8-K its Fourth Quarter 2003 Press Release.

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

QUAKER CHEMICAL CORPORATION
(Registrant)

/s/ MICHAEL F. BARRY

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

Date: May 7, 2004

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER OF THE COMPANY PURSUANT TO RULE 13A-14(A) OF THE SECURITIES EXCHANGE ACT OF 1934

I, Ronald J. Naples, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Quaker Chemical Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2004

/s/ Ronald J. Naples

Ronald J. Naples
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER OF THE COMPANY PURSUANT TO RULE 13A-14(A) OF THE SECURITIES EXCHANGE ACT OF 1934

I, Michael F. Barry, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Quaker Chemical Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2004

/s/ Michael F. Barry

Michael F. Barry
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S. C. SECTION 1350

The undersigned hereby certifies that the Form 10-Q Quarterly Report of Quaker Chemical Corporation (the "Company") for the quarterly period ended March 31, 2004 filed with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 7, 2004

/s/ Ronald J. Naples

Ronald J. Naples
Chief Executive Officer of Quaker
Chemical Corporation

EXHIBIT 32.2

CERTIFICATION PURSUANT TO 18 U.S. C. SECTION 1350

The undersigned hereby certifies that the Form 10-Q Quarterly Report of Quaker Chemical Corporation (the "Company") for the quarterly period ended March 31, 2004 filed with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 7, 2004	/s/ Michael F. Barry
	Michael F. Barry Chief Financial Officer of Quaker Chemical Corporation