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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, 2002

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)

A Pennsylvania Corporation	No. 23-0993790
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

One Quaker Park, 901 Hector Street,
Conshohocken, Pennsylvania 19428
(Address of principal executive offices) (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
Stock Purchase Rights	New York Stock Exchange

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

None

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 and (2) has been subject to such filing requirements for the past 90 days. 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 an accelerated filer (as defined in Rule 12b-2 of the Act) Yes [X] No [_]

State 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 28, 2002): $210,589,726.

State the aggregate market value of the 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 March 14, 2003): $172,665,525.

Indicate the number of shares outstanding of each of the Registrant's classes of common stock as of the latest practicable date: 9,352,004 shares of Common Stock, $1.00 Par Value, as of March 14, 2003.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement dated March 31, 2003 in connection with the Annual Meeting of Shareholders to be held on May 14, 2003 are incorporated into Part III.

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PART I

As used in this Report, the terms "Quaker" and the "Company" 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 for various heavy industrial and manufacturing applications and, in addition, offers and markets chemical management services. Quaker's principal products and services include: (i) rolling lubricants (used by manufacturers of steel in the hot and cold rolling of steel and by manufacturers of aluminum in the cold 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); (v) forming compounds (used to facilitate the drawing and extrusion of metal products); (vi) hydraulic fluids (used by steel, metalworking, and other customers to operate hydraulically activated equipment); (vii) technology for the removal of hydrogen sulfide in various industrial applications; (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; and (x) 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:

	2002	2001	2000
Rolling lubricants.............	21.5%	22.9%	25.3%
Machining and grinding compounds	14.8%	15.2%	14.8%
Hydraulic fluids...............	12.7%	12.4%	11.6%
Corrosion preventitives.........	10.4%	10.5%	10.7%

A substantial portion of Quaker's sales worldwide are made directly through its own employees 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. Generally, separate manufacturing facilities of a single customer are served by different personnel. Sales are recorded when products are shipped to customers and services earned. As part of the Company's chemical management services, certain third party products are transferred to customers at no gross profit and, accordingly, these transactions have no effect on net sales. Third party products transferred under these arrangements totaled $28.3 million, $20.7 million, and $19.7 million for 2002, 2001, and 2000, respectively. License fees and royalties are recorded when earned and are included in other income.

The business of the Company and its operating results are subject to certain risks, of which the principal ones are referred to in the following subsections.

Competition

The chemical specialty industry is composed of 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 and significant global position (among a group in excess of 25 other suppliers) in the market for process fluids to produce sheet steel used in the production of hot and cold rolling of steel. Many competitors are in fewer and more specialized product classifications or provide different levels of technical services in terms of specific formulations for individual customers. Competition in the industry is based primarily on the ability to provide products that meet the needs of the customer and render technical services and laboratory assistance to customers and, to a lesser extent, on price.

Major Customers and Markets

During 2002, Quaker's five largest customers (each composed of multiple subsidiaries or divisions with semi-autonomous purchasing authority) accounted for approximately 18% of its consolidated net sales with the largest of these customers accounting for approximately 7% of consolidated net sales. A significant portion of Quaker's revenues are realized from the sale of process fluids 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 a steel mill of a significant customer can have a material adverse effect on Quaker's business.

Raw Materials

Quaker uses over 500 raw materials, including mineral oils, fats and fat derivatives, ethylene derivatives, solvents, surface active agents, chlorinated paraffinic compounds, and a wide variety of organic and inorganic compounds. In 2002, only one raw material (mineral oil) accounted for as much as 10% of the total cost of Quaker's raw material purchases. The price of mineral oil is directly affected by the price of crude oil. Accordingly, significant fluctuations in the price of crude oil can have a material effect upon the Company's business. Many of the raw materials used by Quaker are "commodity" chemicals, and, therefore, Quaker's earnings can be affected by market changes in raw material prices. Quaker has multiple sources of supply for most materials, and management believes that the failure of any single supplier would not have a material adverse effect upon its business. Reference is made to 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 marketing area. Quaker makes little use of advertising but relies heavily upon its reputation in the markets which it serves.

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 continuing modification and improvement of formulations to provide chemical specialties to satisfy customer requirements. Research and development costs are expensed as incurred. Research and development expenses during 2002, 2001, and 2000 were $9.1 million, $8.9 million, and $8.5 million, respectively.

Quaker maintains quality control laboratory facilities in each of its manufacturing locations. In addition, Quaker maintains in Conshohocken, Pennsylvania, and Uithoorn, The Netherlands, laboratory facilities that are devoted primarily to applied research and development.

Most of Quaker's subsidiaries and associated companies also have laboratory facilities. Although not as complete as the Conshohocken or Uithoorn laboratories, 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 may be referred to the laboratory staff in Conshohocken or Uithoorn.

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 environmental experts, as well as ongoing inspections by on-site personnel. Such inspections are addressed to operational matters, record keeping, reporting requirements, and capital improvements. In 2002, capital expenditures directed solely or primarily to regulatory compliance amounted to approximately $0.5 million compared to $1.3 million and $2.8 million in 2001 and 2000, respectively. In 2003, the Company expects to incur approximately $1.4 million for capital expenditures directed primarily to regulatory compliance.

Number of Employees

On December 31, 2002, Quaker's consolidated companies had 1,038 full-time employees of whom 462 were employed by the parent company and its U.S. subsidiaries and 576 were employed by its non-U.S. subsidiaries. Associated companies of Quaker (in which it owns 50% or less) employed 144 people on December 31, 2002.

Product Classification

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--primarily chemicals used in the manufacturing of paper in 2000 (pulp and paper division sold May 2000) as well as other various chemical products.

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, the E.U. euro, the Brazilian real, and other foreign currencies, and the impact of those currency fluctuations on the underlying economies. Reference is made to disclosure contained in Item 7A of this Report and in Note 11 of Notes to Consolidated Financial Statements included in Item 8 of this Report.

Quaker Chemical Corporation on the Internet

Financial results, news and other information about Quaker Chemical Corporation can be accessed from the Company's Web site at http://www.quakerchem.com. This site includes important information on products and services, financial reports, news releases, and career opportunities. The Company's periodic and current reports, including exhibits and supplemental schedules filed therewith, and amendments to those reports, filed with the Securities and Exchange Commission ("SEC") are available on this Web site, free of charge, as soon as reasonably practicable after they are electronically filed or furnished to the SEC.

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 Securities and Exchange Commission (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-Q and 8-K, press releases and other materials released to the public.

Any or all of the forward-looking statements in this report, in Quaker's Annual Report to Shareholders for 2002 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. The risks and uncertainties that could impact the Company's future operations and results include, but are not limited to, further downturns in our customers' businesses, significant increases in raw material costs, worldwide economic and political conditions, foreign currency fluctuations, the current conflict in Iraq, and future security alerts 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 could also adversely affect us. This discussion is provided as permitted by the Private Securities Litigation Reform Act of 1995.

Item 2. Properties.

Quaker's corporate headquarters and a laboratory facility are located in Conshohocken, Pennsylvania. Quaker's other principal facilities are located in Detroit, Michigan; Middletown, Ohio; Placentia, California; Uithoorn, The Netherlands; Santa Perpetua de Mogoda, Spain; Rio de Janeiro, Brazil; and Wuxi, China. With the exception of the Conshohocken site, which is owned by a real estate joint venture of which Quaker is a 50% partner (the "Venture"), and the Placentia site, which is leased, all of these principal facilities are owned by Quaker and as of December 31, 2002 were mortgage free. Quaker also leases sales, laboratory, manufacturing and warehouse facilities in other locations.

In January 2001, the Company contributed its Conshohocken, Pennsylvania, property and buildings (the "Site") to a real estate joint venture (the "Venture") in exchange for a 50% ownership in the Venture. The Venture did not assume any debt or other obligations of the Company. The Venture renovated certain of the existing buildings at the Site, as well as built new office space (the "Project"). In December 2000, the Company entered into an agreement with the Venture to lease approximately 38% of the Site's available office space for a 15-year period commencing February 2002, with multiple renewal options. The Company believes the terms of this lease are no less favorable than the terms it would have obtained from an unaffiliated third party. As of December 31, 2002, approximately 87% of the Site's office space was under lease and the Site (including improvements thereon) was subject to encumberances securing indebtedness of the Venture in the amount of $27.3 million.

During the fourth quarter of 2002, the Company completed the sale of its Woodchester, England manufacturing facility. As of December 31, 2001, Quaker closed this facility and transferred production to its facilities in Uithoorn, The Netherlands and Santa Perpetua de Mogoda, Spain. The administrative, warehousing, and laboratory activities previously conducted at the Woodchester site were transferred to a sales distribution office located in Stonehouse, England.

In addition, Quaker's Villeneuve, France site is currently for sale. Quaker ceased manufacturing operations at its facility in Villeneuve, France, effective March 31, 2002. Production was consolidated into its facilities in Uithoorn, The Netherlands and Santa Perpetua de Mogoda, Spain. Sales, warehousing, and laboratory activities will continue at the Villeneuve site pending its sale.

Quaker's aforementioned 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 which is implemented as management considers necessary or desirable. Most locations have various numbers of raw material storage tanks ranging from 7 to 66 each with a capacity ranging from 1,000 to 82,000 gallons and processing or manufacturing vessels ranging in capacity from 15 to 16,000 gallons.

Each of Quaker's 50% or less owned non-U.S. associated companies owns or leases a plant and/or sales facilities in various locations.

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. Incorporated herein by this reference is the information concerning pending asbestos-related litigation against an inactive subsidiary and amounts accrued associated with certain environmental investigatory and noncapital remediation costs in Note 14 of Notes to Consolidated Financial Statements which appears in Item 8 of this Report. 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 flow, or financial condition.

Item 4. Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of security holders during the last quarter of the period covered by this Report.

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

Set forth below are the executive officers of the Company. Each of the executive officers were elected to a one-year term.

Name, Age, and Present Position with the Company	Business Experience During Past Five Years and Period Served as an Officer
Ronald J. Naples, 57..................... Chairman of the Board and Chief Executive Officer, and Director	Mr. Naples was elected Chairman of the Board in May 1997 and Chief Executive Officer in October 1995. He also served as President of the Company from October 1995 until March 1998. Mr. Naples has been a Director of the Company since 1988.
Joseph W. Bauer, 60...................... President and Chief Operating Officer	Mr. Bauer was elected President and Chief Operating Officer of the Company in March 1998. Previously, Mr. Bauer was employed by M. A. Hanna and was President of M. A. Hanna Color Division from 1996 to 1998.

Name, Age, and Present Position with the Company	Business Experience During Past Five Years and Period Served as an Officer
Michael F. Barry, 44 .... Vice President, Chief Financial Officer and Treasurer	Mr. Barry was elected Vice President, Chief Financial Officer and Treasurer of the Company in November 1998. Previously, Mr. Barry was employed by Lyondell (formerly ARCO Chemical) where he held the position of Business Director for its Urethanes business throughout the Americas from 1997 to 1998.
D. Jeffry Benoliel, 44 .... Vice President, Secretary and General Counsel	Mr. Benoliel was elected Vice President and General Counsel in January 2001. He was elected an officer of the Company in May 1998, at which time he assumed the office of Corporate Secretary in addition to being Director, Corporate Legal Affairs, a position he held since May 1996. Mr. Benoliel is the son of Peter A. Benoliel, a Director of the Company.
Jose Luiz Bregolato, 57 .... Vice President and Managing Director--South America	Mr. Bregolato was elected to his current position in 1993.
Ian F. Clark, 58 .... Vice President and Global Industry Leader--Metalworking/ Chemical Management Services	Mr. Clark was elected an officer of the Company in March 1999. He assumed his current position in January 2001. Previously, he was Vice President and Global Industry Leader--Steel/Fluid Power from March 1999 to December 2000. Prior to joining the Company, he was employed by Ciba Specialty Chemicals Corporation where he was Vice President-Sales and Marketing, U.S. Pigments Division from 1990 to 1998 and, in addition, was General Manager for one of its global pigment segments from 1996 to 1998.
James A. Geier, 47 .... Vice President--Human Resources	Mr. Geier was elected to his current position in November 1997.
Mark Harris, 48 .... Vice President and Global Industry Leader--Steel/Fluid Power	Mr. Harris was elected to his current position in January 2001. From 1996 until he assumed his current position, Mr. Harris was Regional Industry Manager for the Company's Steel/Fluid Power business in Europe, the Middle East, and Africa.
Daniel S. Ma, 62 .... Vice President and Managing Director--Asia/Pacific	Mr. Ma was elected to his current position in 1993.
Wilbert Platzer, 41 .... Vice President--Worldwide Operations	Mr. Platzer was elected to his current position in January 2001. From March 1996 to June 1999, he was Managing Director of Quaker Chemical B.V., the Company's Dutch affiliate, and, from July 1999 until he assumed his current position, he was Director of Operations--Europe.
Irving H. Tyler, 44 .... Vice President--Information Services and Chief Information Officer	Mr. Tyler was elected Vice President--Information Services and Chief Information Officer of the Company in January 2001. Previously, he was the Company's Director of Information Services and Chief Information Officer from July 1999 to January 2001, European Controller from August 1997 to July 1999.
Mark A. Featherstone, 41 .... Global Controller	Mr. Featherstone joined the Company in May 2001 as Global Controller. Previously, he was Senior Vice President-Finance and Controller at Internet Partnership Group from April 2000 to March 2001, and Director of Financial Policies and Projects at Coty Inc. from May 1996 to March 2000.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

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 past two years, the range of high and low sales prices for the common stock as reported by the NYSE (amounts rounded to the nearest penny), and the quarterly dividends declared as indicated:

	Range of Quotations				Dividends Declared	
	2002		2001			
	High	Low	High	Low	2002	2001
First quarter.	$25.50	$19.84	$19.00	$16.12	$.21	$.205
Second quarter	24.90	20.51	20.99	17.17	.21	.205
Third quarter.	25.00	18.32	21.75	16.96	.21	.205
Fourth quarter	23.68	18.22	22.30	18.00	.21	.205

As of January 17, 2003 there were 872 shareholders of record of the Company's common stock, its only outstanding class of equity securities.

Reference is made to the "Equity Compensation Plan Information" incorporated by reference in Item 12 of this Report, which is incorporated herein by this reference.

Item 6. Selected Financial Data.

The following table sets forth selected financial information for the Company:

	2002	2001/(1)/	2000/(2)/	1999/(3)/	1998/(4)/
	(Dollars in thousands except per share amounts)				
Summary of Operations:					
Net sales	$274,521	$251,074	$267,570	$265,671	$264,453
Income before taxes, equity income and minority interest	24,318	14,430	26,486	27,151	16,797
Net income	14,297	7,665	17,163	15,651	10,650
Per share:					
Net income-basic	$ 1.56	$ .85	$ 1.94	$ 1.76	$ 1.21
Net income-diluted	1.51	.84	1.93	1.74	1.20
Dividends	.84	.82	.80	.77	.74
Financial Position:					
Working capital	$ 37,529	$ 47,424	$ 52,981	$ 51,584	$ 45,636
Total assets	213,858	179,666	188,239	182,213	191,403
Long-term debt	16,590	19,380	22,295	25,122	25,344
Shareholders' equity	88,055	80,899	84,907	81,199	83,735

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(1) The results of operations for 2001 include restructuring charges of $4,039 after-tax; an additional provision for doubtful accounts related to the poor financial condition of certain customers of $1,380 after-tax; an environmental charge of $345 after-tax; and organizational structure charges of $184 after-tax.

(2) The results of operations for 2000 include an additional provision for doubtful accounts related to the poor financial condition of certain customers of $1,154 after-tax; a net gain on exit of businesses of $1,016 after-tax; and an environmental charge of $1,035 after-tax.

(3) The results of operations for 1999 include a net restructuring credit of $188 after-tax.

(4) The results of operations for 1998 include net restructuring and integration charges of $2,882 after-tax and minority interest.

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

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, intangible assets, income taxes, financing operations, restructuring, accrued incentive compensation plans, 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. 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 reserves and 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. Downturns in the overall economic climate may also tend to exacerbate specific customer financial issues. 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 the U.S. steel industry, where a number of bankruptcies occurred during recent years. In 2000, 2001, and early 2002, 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. These matters 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.

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, 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 the range in accordance with generally accepted accounting principles. An inactive subsidiary of the Company is involved in asbestos litigation. If the Company ever concluded that it was probable it would be liable for any of the obligations of such subsidiary, then it would record the associated liabilities if they can be reasonably estimated. The Company will reassess this situation periodically in accordance with Statement of Financial Accounting Standards ("SFAS") No. 5, "Accounting for Contingencies." See Note 14 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 domestic and foreign companies, whereby it has the ability to influence, but not control, the operations of the entity and its future results. Quaker records an investment impairment charge when it believes an investment has experienced a decline in value that is other than temporary. Future adverse changes in market conditions, poor operating results of underlying investments, or devaluation of foreign currencies could result in losses or an inability to recover the carrying value of the investments that may not be reflected in an investment's current carrying value. These factors may result in an impairment charge in the future.

4. Tax exposures and valuation allowances--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, often 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 establishes reserves for potential tax audit and other exposures as transactions occur and reviews these reserves on a regular basis; however, actual exposures and audit adjustments may vary from these estimates. 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 ongoing prudent and feasible tax planning strategies in assessing the need for the 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 asset in the future, an adjustment to the deferred tax asset would be charged to income in the period such determination was made. 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 subsidiaries for working capital and expansion needs. 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.

5. Restructuring liabilities--Restructuring charges may consist of charges for employee severance, rationalization of manufacturing facilities and other items. Quaker has recorded restructuring and other exit costs, including involuntary termination of certain employees, in accordance with the Financial Accounting Standards Board's ("FASB") Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." Certain of these items, particularly those involving impairment charges for assets to be sold or closed, require significant estimates and assumptions in terms of estimated sale proceeds, date of sale, transaction costs and other matters, and these estimates can change based on market conditions and other factors. In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which nullified EITF Issue No. 94-3. The Company is required to adopt the provisions of SFAS No. 146 effective for exit or disposal activities initiated after December 31, 2002.

6. Goodwill and other intangible assets--Goodwill and other intangible assets are evaluated in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets." Intangible assets, which do not have indefinite lives, are recorded at fair value and amortized over a straight-line basis based on third party valuations of the assets. Goodwill and intangible assets, which have indefinite lives, are no longer amortized and required to be assessed at least annually for impairment. The Company compares the assets' fair value to its 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. The actual cash flows could differ from management's estimates due to changes in business conditions, operating performance, and economic conditions. The Company completed its annual impairment assessment as of the end of the third quarter 2002 and no impairment charge was warranted.

7. Postretirement benefits--The Company provides certain pension and other postretirement benefits to employees and retirees. Independent actuaries, in accordance with accounting principles generally accepted in the U.S., 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 may be required. For 2002, the Company incurred such a non-cash charge to equity of $4.3 million. The Company's pension plan year-end is November 30, which serves as the measurement date. As a result, the Company used a weighted average discount rate of 6.875%. Had the Company decreased its weighted average discount rate to 6.75%, the additional minimum pension liability would have increased approximately $0.6 million and pension expense would not have materially changed for 2002. Commencing in 2003, the Company lowered its long-term rate of return on plan assets from 9.25% to 8.75%.

Recently Issued Accounting Standards

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated retirement costs. This statement is effective for fiscal years beginning after June 15, 2002. Management has assessed the impact of the new standard and determined there is no material impact to the financial statements.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 62, Amendment of FASB Statement No. 13 and Technical Corrections." For most companies, SFAS No. 145 will require gains and losses on extinguishments of debt to be classified as income or loss from continuing operations rather than as extraordinary items as previously required under SFAS No. 4. Extraordinary treatment will be required for certain extinguishments as provided in Accounting Principles Board ("APB") Opinion No. 30. The statement also amended SFAS No. 13 for certain sales-leaseback and sublease accounting. The Company adopted this standard on January 1, 2003. Management has assessed the impact of the new standard and determined there is no material impact to the financial statements.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which nullified EITF Issue No. 94-3. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred, whereas EITF No. 94-3 had recognized the liability at the commitment date to an exit plan. The Company is required to adopt the provisions of SFAS No. 146 effective for exit or disposal activities initiated after December 31, 2002.

In December 2002, the FASB issued 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 accounts for stock option grants in accordance with APB 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 Company currently does not intend to transition to the use of a fair value method for accounting for stock-based compensation. See also Note 1 to Notes to the Consolidated Financial Statements.

In November 2002, the FASB issued FASB Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements No. 5, 57, and 107 and Rescission of FASB Interpretation No. 34". FIN 45 clarifies the requirements of FASB Statement No. 5, "Accounting for Contingencies," relating to the guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees. The disclosure provisions of the Interpretation are effective for financial statements issued after December 15, 2002. The provisions for initial recognition and measurements are effective on a prospective basis for guarantees that are issued or modified after December 31, 2002. Management has assessed the impact of the new standard and determined there to be no material impact to the financial statements.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Certain Variable Interest Entities" (VIEs), which is an interpretation of Accounting Research Bulletin (ARB) No. 51, "Consolidated Financial Statements." FIN No. 46 addresses the application of ARB No. 51 to VIEs, and generally would require that assets, liabilities, and results of the activity of a VIE be consolidated into the financial statements of the enterprise that is considered the primary beneficiary. FIN No. 46 is effective for interim periods beginning after June 15, 2003 to VIEs in which an enterprise holds a variable interest that it acquired before February 1, 2003. The Company is currently in the process of reviewing the provisions of FIN No. 46, particularly in relation to the Company's real estate joint venture to determine if the joint venture must be consolidated effective July 1, 2003. However, all disclosures required by FIN 46 are included in the accompanying Note 3 to Notes to the Consolidated Financial Statements. FIN 46 is effective immediately for any variable interests acquired subsequent to January 31, 2003. The Company has not acquired any variable interests subsequent to January 31, 2003.

Liquidity and Capital Resources

Quaker's cash and cash equivalents decreased to $13.9 million at December 31, 2002 from $20.5 million at December 31, 2001. The decrease resulted primarily from $24.4 million provided by operating activities, offset by $30.3 million and $1.3 million used in investing and financing activities, respectively. Quaker has also reduced working capital levels from $47.4 million to $37.5 million as of December 31, 2001 and 2002 respectively. As part of the Company's chemical management services' growth strategy, the Company has a number of proposals outstanding. If the Company is successful in the bid process, this could have a material impact to the Company's working capital requirements.

Net cash flow provided by operating activities amounted to $24.4 million in 2002 compared with $22.6 million in 2001. The increase primarily resulted from an increase in net income and pension liabilities over 2001 offset by increased severance payments in 2002.

Net cash used in investing activities increased to $30.3 million in 2002 from $8.0 million in 2001. This increase is primarily related to $21.3 million cash paid for the Company's 2002 acquisitions. Dividends from associated companies was lower in 2002 as a result of lower net income from our Japanese joint venture. Proceeds from disposition of assets was significantly higher in 2002 reflective of the sale of our U.K. manufacturing facility which was completed in the fourth quarter of 2002. Cash used for capital expenditures was $2.8 million higher in 2002 as compared to 2001.

Expenditures for property, plant, and equipment were $10.8 million in 2002 compared to $8.0 million in 2001. Capital expenditures in 2002, primarily included upgrades of manufacturing capabilities at various locations, with $0.5 million related to environmental and regulatory compliance in 2002 versus $1.3 million in 2001, approximately $4.5 million in 2002 for the Company's global transaction system, as well as $2.4 million in 2002 related to the Company's new corporate offices. The Company expects these initiatives to continue in 2003 with the Company's capital expenditures projected to be approximately $15 million in 2003.

In January 2001, the Company contributed its Conshohocken, Pennsylvania, property and buildings (the "Site") to a real estate joint venture (the "Venture") in exchange for a 50% ownership in the Venture. The Venture did not assume any debt or other obligations of the Company. The Venture credited the Company's capital account with the estimated fair value of the Site, which amount was in excess of the book value of the contribution. The Company recorded its investment in the Venture at book value, which totaled $4.7 million. At December 31, 2002, the Company's investment balance was approximately $4.0 million.

The Venture renovated certain of the existing buildings at the Site, as well as built new office space (the "Project"). In December 2000, the Company entered into an agreement with the Venture to lease approximately 38% of the Site's available office space for a 15-year period commencing February 2002, with multiple renewal options. The Company believes the terms of this lease are no less favorable than the terms it would have obtained from an unaffiliated third party. As of December 31, 2002, approximately 87% of the Site's office space was under lease.

The Venture funded the Project with a $21.0 million construction loan (the "Venture"), of which approximately $11.8 million was outstanding as of December 31, 2001. The Venture Loan was secured in part by a mortgage on the Site and certain guarantees executed by certain Venture partners other than the Company. In December 2002, $27.3 million of permanent financing, at a 5.95% interest rate secured by the Site (including the related improvements), was obtained (the "Financing"), which was used to pay off the Venture Loan in 2002. In March 2003, the Company received approximately $1.8 million of proceeds as a priority return, and expects to receive an estimated additional $2.2 million during 2003. After receiving the aforementioned priority distributions and if cash flows permit, the Company will be eligible to receive additional priority distributions of up to $2.3 million from the Venture.

In connection with the Financing, the guarantees from the Venture partners with respect to the Venture Loan expired. The Company has not guaranteed, nor is it obligated to pay any principal, interest or penalties on the Venture Loan or the Financing, even in the event of default by the Venture. At December 31, 2002, the Venture had property with a net book value of $27.8 million, total assets of $35.6 million, and total liabilities of $27.5 million, including $27.3 million due under the Financing.

Net cash flows used in financing activities were $1.3 million in 2002 compared with $9.6 million in 2001. The net change was primarily due to a net increase in short-term borrowings of $9.0 million incurred primarily to finance the Company's 2002 acquisitions. In addition, 2002 includes repayments of long-term debt of $2.9 million which was offset by $3.0 million of proceeds primarily related to shares issued upon exercise of stock options.

In April 2002, the Company entered into a $20.0 million committed revolving credit facility with a bank, which expires in April 2003. In March 2003, the Company reached agreement with this bank to extend the term of this facility by an additional year, with the available credit to be reduced to $15.0 million. At the Company's option, the interest rate for borrowings under this facility may be based on the lender's cost of funds plus a margin, LIBOR plus a margin, or on the lender's prime rate. There were no outstanding borrowings under this facility as of December 31, 2002. Further, in April 2002, the Company entered into a $10.0 million uncommitted demand credit facility. A total of $8.9 million in borrowings under this facility was outstanding as of December 31, 2002 at an average borrowing rate of approximately 2.4%. The provisions of the agreements require that the Company maintain certain financial ratios and covenants, all of which the Company was in compliance with as of December 31, 2002. Under its most restrictive covenants the Company can borrow an additional $69.0 million as of December 31, 2002.

The Company believes that in 2003, it is capable of funding its operating requirements including pension plan contributions, payments of dividends to shareholders, possible acquisition opportunities, and possible resolution of contingencies, through internally generated funds supplemented with debt as needed. In addition, in 2003, the Company expects to meet its cash contribution minimum to its defined benefit plans of approximately $1.5 million.

The following table summarizes the Company's contractual obligations at December 31, 2002, and the effect such obligations are expected to have on its liquidity and cash flow in future periods:

	Payments due by period (Dollars in thousands)						
Contractual Obligations	Total	2003	2004	2005	2006	2007	2008 and beyond
Long-term debt	$19,447	$ 2,857	$2,857	$2,857	$2,857	$2,857	$ 5,162
Short-term debt	9,348	9,348	--	--	--	--	--
Non-cancelable operating leases	27,639	4,327	3,657	2,802	2,450	2,350	12,053
Total contractual cash obligations	$56,434	$16,532	$6,514	$5,659	$5,307	$5,207	$17,215

Operations

Comparison of 2002 with 2001

Consolidated net sales increased to $274.5 million in 2002 from $251.1 million in 2001. The 9% increase was the net result of a 6% increase in volume and a 5% improvement in price/mix, offset by a 2% negative impact from foreign currency translation. The 6% increase in volume was primarily due to the inclusion of revenues from the acquisitions of United Lubricants Corporation and Epmar Corporation, as well as the purchase of a controlling interest in the Company's South African joint venture, which was included in the Company's consolidated results effective July 1, 2002. At constant exchange rates and excluding revenue from acquisitions, consolidated net sales increased 3%.

Gross profit as a percentage of sales was 40.6% in 2002 compared with 40.2% in 2001. This increase in gross margin percentage was attributable to higher volumes, and lower raw material prices with some product mix changes. While raw material price decreases and product mix changes have resulted in improved margins to date, the Company expects the 2003 gross margin to be relatively flat or slightly down. The Company is beginning to see upward pressure on raw material prices particularly in the first half of 2003. This pressure is expected to be somewhat offset by mix improvement and continued cost savings initiatives. However, the duration of higher crude oil prices currently being experienced may negatively impact raw material pricing for a longer period of time.

Selling, general, and administrative costs (SG&A) as reported for 2002 were $87.6 million compared to $80.5 million in 2001. Upon the January 1, 2002 adoption of SFAS No. 142, "Goodwill and Other Intangible Assets," the Company no longer amortizes goodwill. SG&A for 2001 included $1.0 million of goodwill amortization. Other significant costs in 2001 included: $2.0 million of additional provisions for doubtful accounts primarily attributable to U.S. steel customers that filed for bankruptcy protection under Chapter 11 and $0.3 million of organizational structure costs. The overall increase in 2002 SG&A was primarily related to the Company's current year acquisitions, which added approximately $4.9 million of expense, as well as higher administrative costs such as insurance, pension, incentive compensation, and expenses related to the Company's new global transaction system. In 2003, the Company expects higher costs for pension and insurance as well as for our global transaction system.

Operating income as reported was $24.0 million in 2002 compared to $14.2 million in 2001. In addition to the significant costs noted in 2001 SG&A, operating income for 2001 also included a restructuring charge of $5.9 million as well as an additional environmental provision of $0.5 million. The restructuring charge of $5.9 million related to plans to close and sell our manufacturing facilities in the U.K. and France, reduce administrative functions, as well as costs related to abandoned acquisitions. The overall increase in operating income in 2002 was primarily attributable to the 2001 significant costs noted above, as well as higher gross margin from the noted volume increases.

The Company's effective tax rate was 32% in 2002 versus 31% in 2001. The effective tax rate is dependent on many internal and external factors and is assessed by the Company on a regular basis. Currently the Company anticipates its effective tax rate for 2003 will be 33%. The Company had previously been assessed additional taxes based on an audit of certain subsidiaries for prior years, which has been resolved with no material impact to the Company's consolidated financial statements.

Equity in net income of associated companies for 2002 was approximately $0.3 million lower than 2001. This decrease was primarily attributable to the July 2002 purchase of a controlling interest in the Company's South African joint venture, as well as losses from the start-up of the Company's real estate joint venture.

Minority interest in net income of subsidiaries for 2002 was approximately $0.4 million lower than 2001. This decrease was substantially the result of lower U.S. dollar net income from the Company's joint venture in Brazil partially offset by an improved performance of the Company's China joint venture and the purchase of a controlling interest in our South African joint venture.

Comparison of 2001 with 2000

Consolidated net sales decreased from $267.6 million in 2000 to $251.1 million in 2001. The 6% decline was the net result of a 4% decrease in volume and a 3% improvement in price/mix, offset by a 4% negative impact from foreign currency translation. Also, the sale of the U.S. pulp and paper business in May 2000 unfavorably impacted the sales comparison by 1%. The shortfall for the year was mainly attributable to metalworking process chemicals sales declines in the U.S., Europe, and Asia/Pacific regions, primarily due to weak demand from the steel industry, as indicated by bankruptcy filings of two of the Company's major U.S. customers. Brazil sales increased in this segment on a local currency basis, but declined as well due to the weakening of the Brazilian real against the U.S. dollar. These declines were partially offset by higher coatings segment revenues despite weakening aircraft production in the fourth quarter of 2001. Sales from the Company's new joint venture ("Q2 Technologies") also helped offset the sales decline with its strong performance in sales of its sulfur removal technology to industrial customers.

Gross profit as a percentage of sales also declined (40.2% for 2001 compared to 41.9% for 2000) primarily as a result of lower sales volumes and higher raw material costs in addition to product mix changes.

SG&A costs as reported for 2001 were $80.5 million compared to $86.9 million in 2000. Both 2001 and 2000 SG&A included certain significant costs. These costs included additional provisions for doubtful accounts primarily attributable to U.S. steel customers that filed for bankruptcy protection under Chapter 11 of $2.0 million and $1.7 million in 2001 and 2000, respectively. SG&A for 2001 also included $0.3 million of organizational structure costs. The overall decline in SG&A is primarily due to continued cost containment efforts as well as foreign exchange impacts.

Operating income as reported was $14.2 million in 2001 compared to $25.1 million reported in 2000. In addition to the significant costs noted in SG&A, operating income for 2001 also included the following significant costs: a restructuring charge of $5.9 million, as well as an additional environmental provision of $0.5 million. The restructuring charge of $5.9 million, related to plans to close and sell our manufacturing facilities in the U.K. and France, reduce administrative functions, as well as costs related to abandoned acquisitions. Operating income for 2000 also included a gain of $1.5 million relating to the sale of our U.S. pulp and paper business offset by an additional environmental provision of $1.5 million. The overall decline in operating income was the result of the aforementioned significant costs as well as lower gross profit margin related to the overall sales decline in 2001.

Other income variance primarily reflects lower license fee revenue in 2001 in addition to gains on fixed asset disposals in 2000 versus losses in 2001. Net interest expense was lower in 2001 reflecting increased interest income and lower overall short-term borrowings in addition to lower interest rates in 2001. Equity income was lower in 2001 compared to 2000, reflecting lower income from the Company's joint ventures in Mexico, Japan, and Venezuela, as well as losses incurred by the Venture. Minority interest was higher in 2001, primarily due to higher net income from joint ventures in Brazil and Q2 Technologies.

The Company's effective tax rate was 31% in both 2001 and 2000.

Restructuring and Related Activities

In 2001, Quaker's management approved restructuring plans to realign the organization and reduce operating costs. Quaker's restructuring plans include 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 million were recognized in 2001. The charge comprised of $2.644 million related to employee separations, $2.613 million related to facility rationalization charges, and $0.597 million related to abandoned acquisitions. Employee separation benefits varied depending on local regulations within certain foreign countries and included severance and other benefits. As of December 31, 2002, Quaker had completed 50 of the planned 53 employee separations under the 2001 plan. During the fourth quarter of 2002, the Company completed the sale of its U.K. manufacturing facility. Quaker closed this facility at the end of 2001. Quaker expects to substantially complete the initiatives contemplated under the restructuring plans, including the sale of its manufacturing facility in France, by the end of 2003. Accrued restructuring balances, included in other current liabilities, as of December 31, 2002 are as follows:

(Dollars in thousands)

	Balance December 31, 2001	Payments	Currency Translation and Other	Balance December 31, 2002
Employee separations....	$2,534	$(1,374)	$114	$1,274
Facility rationalization	1,439	(752)	182	869
Total................	$3,973	$(2,126)	$296	$2,143

Environmental Clean-up Activities

The Company is involved in environmental clean-up activities in connection with an existing plant location. During the second quarter of 2000, it was discovered during an internal environmental audit that AC Products, Inc. (ACP), a wholly owned subsidiary, had failed to properly report its air emissions. In response, an internal investigation of all environmental, health, and safety matters at ACP was conducted. ACP voluntarily disclosed these matters to regulators and took steps to correct all environmental, health, and safety issues discovered. In addition, ACP is involved in certain soil and groundwater remediation activities identified in prior years. In connection with these activities, the Company recorded pre-tax charges totaling $0.5 million and $1.5 million in 2001 and 2000, respectively. The Company believes that the remaining potential-known liabilities associated with these matters range from approximately $1.2 million to $1.9 million, for which the Company has sufficient reserves. Notwithstanding the foregoing, the Company cannot be certain that liabilities in the form of remediation expenses, fines, penalties, and damages will not be incurred in excess of the amount reserved. See Note 14 of Notes to Consolidated Financial Statements which appears in Item 8 of this Report.

General

The Company generally does not use financial instruments that expose it to significant risk involving foreign currency transactions; however, the size of non-U.S. activities has a significant impact on reported operating results and the attendant net assets. During the past three years, sales by non-U.S. subsidiaries accounted for approximately 55% to 56% of the consolidated net annual sales (see Note 11 of Notes to Consolidated Financial Statements).

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 Securities and Exchange Commission (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-Q and 8-K, press releases and other materials released to the public.

Any or all of the forward-looking statements in this report, in Quaker's Annual Report to Shareholders for 2002 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. The risks and uncertainties that could impact the Company's future operations and results include, but are not limited to, further downturns in our customers' businesses, significant increases in raw material costs, worldwide economic and political conditions, foreign currency fluctuations, the current conflict in Iraq, and future security alerts 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 could also adversely affect us. 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 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 December 31, 2002, Quaker had $9.3 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.

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 immaterial.

Quaker was not in 2002 and is not currently a party to any derivative financial instruments. Therefore, adoption of SFAS No. 133, as amended by SFAS No. 138, did not have a material impact on Quaker's operating results or financial position as of December 31, 2002.

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. Quaker has not been, nor is it currently a party to, any derivative financial instrument relative to commodities.

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. In 2000, 2001, and early 2002, 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 8. Financial Statements and Supplementary Data.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and Board of Directors
of Quaker Chemical Corporation

In our opinion, the consolidated financial statements listed in the index appearing under Item 8 on page 17 and listed in the index appearing under Item 15(a)(1) on page 44, present fairly, in all material respects, the financial position of Quaker Chemical Corporation and its subsidiaries at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) on page 44 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 13 to the consolidated financial statements, effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets."

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Philadelphia, Pennsylvania
March 18, 2003

QUAKER CHEMICAL CORPORATION

CONSOLIDATED STATEMENT OF INCOME

	Year Ended December 31,		
	2002	2001	2000
	(Dollars in thousands except per share amounts)		
Net sales	$274,521	$251,074	$267,570
Costs and expenses:			
Cost of goods sold	162,944	150,045	155,530
Selling, general, and administrative expenses	87,604	80,484	86,865
Net gain on exit of businesses	--	--	(1,473)
Environmental charge	--	500	1,500
Restructuring charges	--	5,854	--
	250,548	236,883	242,422
Operating income	23,973	14,191	25,148
Other income, net	1,135	1,089	2,434
Interest expense	(1,774)	(1,880)	(2,030)
Interest income	984	1,030	934
Income before taxes, equity income and minority interest	24,318	14,430	26,486
Taxes on income	7,782	4,473	8,211
	16,536	9,957	18,275
Equity in net income of associated companies	295	613	1,424
Minority interest in net income of subsidiaries	(2,534)	(2,905)	(2,536)
Net income	$ 14,297	$ 7,665	$ 17,163
Per share data:			
Net income--basic	$ 1.56	$ .85	$ 1.94
Net income--diluted	$ 1.51	$ .84	$ 1.93
Dividends	$ .84	$ .82	$ .80
Weighted average shares outstanding:			
Basic	9,172	9,054	8,831
Diluted	9,474	9,114	8,896

See notes to consolidated financial statements.

QUAKER CHEMICAL CORPORATION

CONSOLIDATED BALANCE SHEET

	December 31, 2002	December 31, 2001
	(Dollars in thousands except per share amounts)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 13,857	$ 20,549
Accounts receivable, net	53,353	44,787
Inventories, net	23,636	18,785
Deferred income taxes	5,874	4,031
Prepaid expenses and other current assets	6,953	4,778
Total current assets	103,673	92,930
Property, plant, and equipment, net	48,512	38,244
Goodwill	21,927	14,960
Other intangible assets, net	5,852	1,442
Investments in associated companies	9,060	9,839
Deferred income taxes	10,609	9,085
Other assets	14,225	13,166
Total assets	$213,858	$179,666
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings and current portion of long-term debt	$ 12,205	$ 2,858
Accounts payable	27,461	18,323
Dividends payable	1,962	1,873
Accrued compensation	10,254	8,109
Other current liabilities	14,262	14,343
Total current liabilities	66,144	45,506
Long-term debt	16,590	19,380
Deferred income taxes	1,518	1,233
Accrued pension and postretirement benefits	28,723	19,239
Other non-current liabilities	5,166	4,973
Total liabilities	118,141	90,331
Minority interest in equity of subsidiaries	7,662	8,436
Commitments and contingencies	--	--
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	626	357
Retained earnings	110,448	103,953
Unearned compensation	(1,245)	(1,597)
Accumulated other comprehensive loss	(27,078)	(24,075)
	92,415	88,302
Treasury stock, shares held at cost; 2002-342,109, 2001-526,865	(4,360)	(7,403)
Total shareholders' equity	88,055	80,899
Total liabilities and shareholders' equity	$213,858	$179,666

See notes to consolidated financial statements.

QUAKER CHEMICAL CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31, 2002	2001	2000
	(Dollars in thousands)		
Cash flows from operating activities			
Net income	$ 14,297	$ 7,665	$17,163
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	5,432	4,913	5,404
Amortization	805	1,467	1,408
Equity in net income of associated companies	(295)	(613)	(1,424)
Minority interest in earnings of subsidiaries	2,534	2,905	2,536
Deferred income taxes	328	(627)	(1,821)
Deferred compensation and other postretirement benefits	35	201	1,218
Net gain on exit of businesses	--	--	(1,473)
Environmental charge	--	500	1,500
Restructuring charge	--	5,854	--
Pension and other, net	1,524	(695)	596
Increase (decrease) in cash from changes in current assets and current liabilities, net of acquisitions and divestitures:			
Accounts receivable, net	(657)	7,573	(2,187)
Inventories	(3,101)	2,762	(650)
Prepaid expenses and other current assets	(194)	39	(1,596)
Accounts payable and accrued liabilities	7,107	(6,603)	(1,805)
Change in restructuring liabilities	(2,156)	(1,123)	(328)
Estimated taxes on income	(1,261)	(1,614)	2,852
Net cash provided by operating activities	24,398	22,604	21,393
Cash flows from investing activities			
Capital expenditures	(10,837)	(8,036)	(6,126)
Dividends from associated companies	515	1,208	625
Investments in and advances to associated companies	--	95	--
Payments related to acquisitions	(21,285)	(1,718)	(3,500)
Proceeds from sale of business	--	--	5,200
Proceeds from disposition of assets	1,682	259	1,006
Other, net	(326)	165	(11)
Net cash used in investing activities	(30,251)	(8,027)	(2,806)
Cash flows from financing activities			
Dividends paid	(7,714)	(7,410)	(6,989)
Net increase (decrease) in short-term borrowings	9,026	(56)	(290)
Repayment of long-term debt	(2,853)	(2,891)	(28)
Treasury stock issued	2,951	2,902	810
Treasury stock repurchased	--	--	(1,961)
Distributions to minority shareholders	(2,673)	(2,335)	(1,533)
Other, net	--	234	--
Net cash used in financing activities	(1,263)	(9,556)	(9,991)
Effect of exchange rate changes on cash	424	(1,024)	(721)
Net (decrease) increase in cash and cash equivalents	(6,692)	3,997	7,875
Cash and cash equivalents at beginning of year	20,549	16,552	8,677
Cash and cash equivalents at end of year	$ 13,857	$20,549	$16,552
Supplemental cash flow disclosures			
Cash paid during the year for:			
Income taxes	$ 7,787	$ 7,550	$ 6,935
Interest	1,897	1,876	2,020
Noncash investing activities:			
Contribution of property, plant, and equipment to real estate joint venture	$ --	$ 4,358	$ --

See notes to consolidated financial statements.

QUAKER CHEMICAL CORPORATION

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

	Common stock	Capital in excess of par value	Retained earnings	Unearned compensation	Accumulated other comprehensive income (loss)	Treasury stock	Total
	(Dollars in thousands except per share amounts)						
Balance at December 31, 1999...	$9,664	$ 832	$ 93,655	$ --	$(11,378)	$(11,574)	$81,199
Net income..................	--	--	17,163	--	--	--	17,163
Currency translation adjustments...............	--	--	--	--	(5,546)	--	(5,546)
Minimum pension liability...	--	--	--	--	210	--	210
Comprehensive income......	--	--	--	--	--	--	11,827
Dividends ($.80 per share)..	--	--	(7,058)	--	--	--	(7,058)
Shares acquired under repurchase program........	--	--	--	--	--	(1,961)	(1,961)
Shares issued upon exercise of options................	--	(54)	--	--	--	613	559
Shares issued for employee stock purchase plan.......	--	(32)	--	--	--	373	341
Balance at December 31, 2000...	9,664	746	103,760	--	(16,714)	(12,549)	84,907
Net income..................	--	--	7,665	--	--	--	7,665
Currency translation adjustments...............	--	--	--	--	(5,566)	--	(5,566)
Minimum pension liability...	--	--	--	--	(1,524)	--	(1,524)
Unrealized (loss) on available-for-sale securities................	--	--	--	--	(271)	--	(271)
Comprehensive income......	--	--	--	--	--	--	304
Dividends ($.82 per share)..	--	--	(7,472)	--	--	--	(7,472)
Shares issued upon exercise of options................	--	(375)	--	--	--	3,106	2,731
Shares issued for employee stock purchase plan.......	--	8	--	--	--	244	252
Restricted stock............	--	(22)	--	(1,597)	--	1,796	177
Balance at December 31, 2001...	9,664	357	103,953	(1,597)	(24,075)	(7,403)	80,899
Net income..................	--	--	14,297	--	--		14,297
Currency translation adjustments...............	--	--	--	--	1,478	--	1,478
Minimum pension liability...	--	--	--	--	(4,322)	--	(4,322)
Unrealized (loss) on available-for-sale securities................	--	--	--	--	(159)	--	(159)
Comprehensive income......	--	--	--	--	--	--	11,294
Dividends ($.84 per share)..	--	--	(7,802)	--	--	--	(7,802)
Shares issued upon exercise of options................	--	250	--	--	--	2,548	2,798
Shares issued for employee stock purchase plan.......	--	80	--	--	--	144	224
Shares issued for long-term incentive awards..........	--	(61)	--	--	--	351	290
Restricted stock............	--	--	--	352	--	--	352
Balance at December 31, 2002	$9,664	$ 626	$110,448	$(1,245)	$(27,078)	$ (4,360)	$88,055

See notes to consolidated financial statements.

Note 1--Significant Accounting Policies

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

Effective July 1, 2002, the Company acquired a controlling interest of Quaker Chemical South Africa (Pty.) Ltd. (South Africa), a previously 50% owned joint venture. As a result, South Africa, previously reported using the equity method, is now a fully consolidated 51% owned subsidiary. The effect of this change was not material to the financial statements.

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 shareholders' equity and will be included in income only upon sale or liquidation of the underlying investment.

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. The majority of domestic inventories are valued using the last-in, first-out ("LIFO") method. Cost of non-U.S. subsidiaries and certain domestic inventories are determined using the first-in, first-out ("FIFO") method.

Long-lived assets: Property, plant, and equipment are stated at cost. Depreciation is computed using the straight-line method on an individual asset basis over the following estimated useful lives: buildings and improvements, 10 to 45 years; and machinery and equipment, 3 to 15 years. The carrying value of long-lived assets is periodically evaluated whenever changes in circumstances or current events indicate the carrying amount of such assets may not be recoverable. An estimate of undiscounted cash flows produced by the asset, or the appropriate group of assets, is compared with the carrying value to determine whether 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 undiscounted cash flows. Expenditures for renewals and betterments, which increase the estimated useful life or capacity of the assets, are capitalized; expenditures for repairs and maintenance are expensed when incurred.

Capitalized Software: The Company applies the Accounting Standards Executive Committee Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." This SOP requires the capitalization of certain costs incurred in connection with developing or obtaining software for internal use. In connection with the implementation of the Company's global transaction system, approximately $8,378 and $3,572 of costs were capitalized at December 31, 2002 and 2001, respectively. These costs are amortized over a period of five years once the assets are placed into service.

Goodwill and Other Intangible Assets: On January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets." The new standard requires that goodwill and indefinite-lived intangible assets no longer be amortized. In addition, goodwill and indefinite-lived intangible assets are tested for impairment at least annually. These tests will be performed more frequently if there are triggering events.

Impairment losses after initial adoption will be recorded as part of income from continuing operations. Definite-lived intangible assets are amortized over their estimated useful lives, generally for periods ranging from 5 to 20 years. The Company continually evaluates the reasonableness of the useful lives of these assets. See also Note 13 of the Consolidated Financial Statements.

Revenue recognition: Sales are generally recorded when products are shipped to customers and services earned. For products shipped on consignment, revenue is recorded upon usage by the customer. As part of the Company's chemical management services, certain third party products are transferred to customers. Where the Company acts as a principal, revenues are recognized on a gross reporting basis at the selling price negotiated with clients. 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 these arrangements and recorded net totaled $28,344, $20,654, and $19,733, for 2002, 2001, and 2000, respectively. License fees and royalties are recorded when earned and are included in other income.

Research and development costs: Research and development costs are expensed as incurred. Research and development expenses are included in selling, general and administrative expenses, and during 2002, 2001, and 2000 were $9,072, $8,851, and $8,496, 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 cash in money market securities and financial instruments having maturities typically within 90 days. The Company has not experienced losses from the aforementioned investments.

The Company sells its principal products to major steel, automotive, and related companies around the world. The Company maintains allowances for potential credit losses. As of December 31, 2002 and 2001, the allowance for doubtful accounts was $6,118 and $5,155, respectively. Historically, the Company has experienced some losses related to the poor financial condition of certain customers. Prior to 2000, such losses were not material. In 2002, 2001, and 2000, the Company provided allowances of $1,365, $2,472, and $1,971, respectively, primarily related to U.S. steel customers that filed for bankruptcy under Chapter 11.

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

Comprehensive income (loss): The Company presents comprehensive income (loss) in its Statement of Shareholders' Equity. The components of accumulated other comprehensive loss at December 31, 2002 include: accumulated foreign currency translation adjustments of $20,051, minimum pension liability of $6,597, and unrealized holding losses on available-for-sale securities of $430. The components of accumulated other comprehensive loss at December 31, 2001 include: accumulated foreign currency translation adjustments of $21,529 and minimum pension liability of $2,275 and unrealized holding losses on available-for-sale securities of $271.

Income Taxes: The provision for income taxes is determined using the asset and liability approach of accounting for income taxes. Under this approach, deferred taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. The provision for income taxes represents income taxes paid or payable for the current year plus the change in deferred taxes during the year. Deferred taxes result from differences between the financial and tax bases of the Company's assets and liabilities and are adjusted for changes in tax rates and tax laws when changes are enacted. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

Stock-based compensation: In December 2002, the Financial Accounting Standards Board (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 accounts 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 Company currently does not intend to transition to the use of a fair value method for accounting for stock-based compensation. 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 as well as the assumptions used in the calculation.

	Year Ended December 31,		
	2002	2001	2000
	(Dollars in thousands, except per share amounts)		
Net income--as reported	$14,297	$7,665	$17,163
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of tax	537	429	269
Pro forma net income	$13,760	$7,236	$16,894
Earnings per share:			
Basic--as reported	$ 1.56	$ 0.85	$ 1.94
Basic--pro forma	$ 1.50	$ 0.80	$ 1.91
Diluted--as reported	$ 1.51	$ 0.84	$ 1.93
Diluted--pro forma	$ 1.45	$ 0.79	$ 1.90

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2002	2001	2000
Dividend yield	3.9%	3.9%	3.9%
Expected volatility	23.9%	21.9%	20.4%
Risk-free interest rate	3.00%	3.38%	5.12%
Expected life (years)	5	7	7

Recently issued accounting standards: In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated retirement costs. This statement is effective for fiscal years beginning after June 15, 2002. Management has assessed the impact of the new standard and determined there is no material impact to the financial statements.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 62, Amendment of FASB Statement No. 13 and Technical Corrections." For most companies, SFAS No. 145 will require gains and losses on extinguishments of debt to be classified as income or loss from continuing operations rather than as extraordinary items as previously required under SFAS No. 4. Extraordinary treatment will be required for certain extinguishments as provided in APB Opinion No. 30. The statement also amended SFAS No. 13 for certain sales-leaseback and sublease accounting. The Company adopted this standard on January 1, 2003. Management has assessed the impact of the new standard and determined there is no material impact to the financial statements.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which nullified EITF Issue No. 94-3. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred, whereas EITF No. 94-3 had recognized the liability at the commitment date to an exit plan. The Company is required to adopt the provisions of SFAS No. 146 effective for exit or disposal activities initiated after December 31, 2002.

In November 2002, the FASB issued FASB Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements No. 5, 57, and 107 and Rescission of FASB Interpretation No. 34". FIN 45 clarifies the requirements of FASB Statement No. 5, "Accounting for Contingencies," relating to the guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees. The disclosure provisions of the Interpretation are effective for financial statements issued after December 15, 2002. However, the provisions for initial recognition and measurements are effective on a prospective basis for guarantees that are issued or modified after December 31, 2002. Management has assessed the impact of the new standard and determined there to be no material impact to the financial statements.

In January 2003, the FASB issued 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 activity of a VIE be consolidated into the financial statements of the enterprise that is considered the primary beneficiary. FIN 46 is effective for interim periods beginning after June 15, 2003 to VIEs in which an enterprise holds a variable interest that it acquired before February 1, 2003. The Company is currently in the process of reviewing the provisions of FIN 46, particularly in relation to the Company's real estate joint venture to determine if the joint venture must be consolidated effective July 1, 2003. However, all disclosures required by FIN 46 are included in the accompanying Note 3 to the Consolidated Financial Statements. FIN 46 is effective immediately for any variable interests acquired subsequent to January 31, 2003. The Company has not acquired any variable interests subsequent to January 31, 2003.

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.

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

Note 2--Restructuring and Related Activities

In 2001, Quaker's management approved restructuring plans to realign the organization and reduce operating costs. Quaker's restructuring plans include the decision to close and sell manufacturing facilities in the

(Dollars in thousands except per share amounts)

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 of $2,644 related to employee separations, $2,613 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 December 31, 2002, Quaker had completed 50 of the planned 53 employee separations under the 2001 plan. During the fourth quarter of 2002, the Company completed the sale of its U.K. manufacturing facility. Quaker closed this facility at the end of 2001. Quaker expects to substantially complete the initiatives contemplated under the restructuring plans, including the sale of its manufacturing facility in France, by the end of 2003. Accrued restructuring balances, included in other current liabilities, as of December 31, 2002 are as follows:

	Balance December 31, 2001	Payments	Currency translation and other	Balance December 31, 2002
Employee separations....	$2,534	$(1,374)	$114	$1,274
Facility rationalization	1,439	(752)	182	869
Total................	$3,973	$(2,126)	$296	$2,143

In the fourth quarter of 1998, the Company announced and implemented a restructuring and integration plan to better align its organizational structure with market demands, improve operational performance, and reduce costs. The components of the 1998 pre-tax restructuring and integration charge included severance and other benefit costs of $4,000 and early pension and postemployment benefits of $1,300. At the end of 1999, the Company had substantially implemented these initiatives and reversed approximately $314 of the original charge. The remaining restructuring and integration liability at December 31, 2000 of $244 was paid in January 2001.

Note 3--Investments in Associated Companies

Investments in associated (less than majority-owned) companies are accounted for under the equity method. See Exhibit 21 in Part IV of this Form 10-K for a listing of the associated companies and their relative ownership percentages.

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

	December 31, 2002	December 31, 2001
Current assets........	$26,868	$19,350
Noncurrent assets.....	33,337	24,416
Current liabilities...	10,003	11,863
Noncurrent liabilities	28,185	12,570

(Dollars in thousands except per share amounts)

	Year Ended December 31,		
	2002	2001	2000
Net sales.......	$39,612	$43,138	$57,460
Gross margin....	17,958	19,093	21,227
Operating income	4,691	4,263	5,226
Net income......	1,161	1,527	2,004

In January 2001, the Company contributed its Conshohocken, Pennsylvania, property and buildings (the "Site") to a real estate joint venture (the "Venture") in exchange for a 50% ownership in the Venture. The Venture did not assume any debt or other obligations of the Company. The Venture credited the Company's capital account with the estimated fair value of the Site, which amount was in excess of the book value of the contribution. The Company recorded its investment in the Venture at book value, which totaled $4,736. At December 31, 2002, the Company's investment balance was approximately $4,000.

The Venture renovated certain of the existing buildings at the Site, as well as built new office space (the "Project"). In December 2000, the Company entered into an agreement with the Venture to lease approximately 38% of the Site's available office space for a 15-year period commencing February 2002, with multiple renewal options. The Company believes the terms of this lease are no less favorable than the terms it would have obtained from an unaffiliated third party. As of December 31, 2002, approximately 87% of the Site's office space was under lease.

The Venture funded the Project with a $21,000 construction loan (the "Venture"), of which approximately $11,766 was outstanding as of December 31, 2001. The Venture Loan was secured in part by a mortgage on the Site and certain guarantees executed by certain Venture partners other than the Company. In December 2002, $27,250 of permanent financing, at a 5.95% interest rate secured by the Site (including the related improvements), was obtained (the "Financing"), which was used to pay off the Venture Loan in 2002. In March 2003, the Company received approximately $1,800 of proceeds as a priority return, and expects to receive an estimated additional $2,200 during 2003. After receiving the aforementioned priority distributions and if cash flows permit, the Company will be eligible to receive additional priority distributions up to $2,300 from the Venture.

In connection with the Financing, the guarantees from the Venture partners with respect to the Venture Loan expired. The Company has not guaranteed, nor is it obligated to pay any principal, interest or penalties on the Venture Loan or the Financing, even in the event of default by the Venture. At December 31, 2002, the Venture had property with a net book value of $27,844, total assets of $35,589, and total liabilities of $27,517, including $27,250 due under the Financing.

Note 4--Inventories

Total inventories comprise:

	December 31,	
	2002	2001
Raw materials and supplies........	$11,342	$ 9,673
Work in process and finished goods	12,294	9,112
	$23,636	$18,785

(Dollars in thousands except per share amounts)

Inventories valued under the LIFO method amounted to $5,715 and $5,636 at December 31, 2002 and 2001, respectively. The estimated replacement costs for these inventories using the FIFO method were approximately $5,350 and $5,196, respectively.

Note 5--Property, Plant, and Equipment

Property, plant, and equipment comprise:

	December 31, 2002	December 31, 2001
Land	$ 5,044	$ 4,328
Building and improvements	28,214	25,132
Machinery and equipment	75,551	61,881
Construction in progress	4,398	6,026
	113,207	97,367
Less accumulated depreciation	64,695	59,123
	$ 48,512	$38,244

Note 6--Taxes on Income

Taxes on income consist of the following:

	Year Ended December 31, 2002	2001	2000
Current:			
Federal	$ 533	$(1,066)	$ 2,411
State	7	5	145
Foreign	6,914	6,161	7,476
	7,454	5,100	10,032
Deferred:			
Federal	(904)	226	(1,337)
Foreign	1,232	(853)	(484)
Total	$7,782	$ 4,473	$ 8,211

The components of earnings before income taxes were as follows:

	2002	2001	2000
Domestic	$(1,401)	$(7,935)	$(1,448)
Foreign	25,719	22,365	27,934
Total	$24,318	$14,430	$26,486

(Dollars in thousands except per share amounts)

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

	2002 Current	2002 Non-current	2001 Current	2001 Non-current
Retirement benefits	$ 600	$ 3,409	$ 179	$ --
Allowance for doubtful accounts	1,469	--	706	--
FRS impairment	--	--	--	1,836
Insurance and litigation reserves	751	--	666	--
Postretirement benefits	--	3,127	--	3,111
Supplemental retirement benefits	--	1,058	--	900
Performance incentives	2,349	1,277	306	2,256
Alternative minimum tax carryforward	--	1,444	--	--
Restructuring charges	705	--	2,174	--
Vacation pay	--	268	--	261
Goodwill	--	26	--	564
Operating loss carryforward	--	897	--	903
Other	--	--	--	157
	5,874	11,506	4,031	9,988
Valuation allowance	--	(897)	--	(903)
Total deferred income tax assets--net	$5,874	$10,609	$4,031	$9,085
Depreciation		$ 1,257		$1,161
Other		261		72
Total deferred income tax liabilities		$ 1,518		$1,233

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:

	2002	2001	2000
Income tax provision at the Federal statutory tax rate	$ 8,511	$4,906	$ 9,005
State income tax provisions, net	5	3	96
Non-deductible entertainment and business meal expense	160	159	173
Foreign taxes on earnings at rates different from the Federal statutory rate	(1,126)	(321)	(1,239)
Miscellaneous items, net	232	(274)	176
Taxes on income	$ 7,782	$4,473	$ 8,211

At December 31, 2002, the Company has foreign net operating loss carryforwards of $2,530, of which $1,242 expire between 2003 and 2008. There is no time limit for the remaining net operating loss carryforwards of $1,288. Due to the uncertainty of the realization of these deferred tax assets, the Company has established a valuation allowance against these carryforward benefits.

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 subsidiaries for working capital and expansion needs. 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, 2002 was approximately $133,000. Any income tax liability which might result from ultimate remittance of these earnings is expected to be substantially offset by foreign tax credits.

(Dollars in thousands except per share amounts)

Note 7--Pension and Other Postretirement Benefits

The Company maintains various noncontributory retirement plans, the largest of which is in the U.S., covering substantially all of its employees in the U.S. and certain other countries. The plans of the Company's subsidiaries in the Netherlands and in the United Kingdom are subject to the provision of SFAS No. 87, "Employers' Accounting for Pensions." 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 SFAS No. 87.

The following table shows the components of pension costs for the periods indicated:

	2002	2001	2000
Service cost	$ 2,369	$ 2,172	$ 2,442
Interest cost	4,652	4,359	4,169
Expected return on plan assets	(4,304)	(4,569)	(4,583)
Other amortization, net	558	284	97
Pension curtailment (Note 2)	--	42	--
Net pension cost of plans subject to SFAS No. 87.	3,275	2,288	2,125
Pension costs of plans not subject to SFAS No. 87	62	46	69
Net pension costs	$ 3,337	$ 2,334	$ 2,194

The Company's pension plan year end is November 30, which serves as the measurement date. The assumed long-term rate of return on plan assets for December 21, 2002, 2001, and 2000 was 9.25%. Effective January 1, 2003, the Company lowered its assumed long-term rate of return on plan assets to 8.75%.

All other pension plans used assumptions in determining the actuarial present value of the projected benefit obligations which are consistent with (but not identical to) those of the U.S. plan.

The Company has postretirement benefit plans that provide medical and life insurance benefits for certain of its retired employees. Both the medical and life insurance plans are currently unfunded.

The following table shows the components of postretirement costs for the periods indicated:

	2002	2001	2000
Service cost	$112	$ 95	$105
Interest cost	715	696	714
Net periodic postretirement benefit cost	$827	$791	$819

(Dollars in thousands except per share amounts)

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

	Pension benefits		Other postretirement benefits	
	2002	2001	2002	2001
Change in benefit obligation				
Benefit obligation at beginning of year	$ 69,915	$ 65,824	$ 9,815	$ 9,841
Service cost	2,306	2,113	112	95
Interest cost	4,652	4,359	715	696
Amendments	104	--	--	--
Translation difference	3,558	(940)	--	--
Actuarial (gain) loss	2,169	2,491	960	(41)
Benefits paid	(3,917)	(3,971)	(1,058)	(776)
Other	32	39	--	--
Benefit obligation at end of year	$ 78,819	$ 69,915	$ 10,544	$ 9,815
Change in plan assets				
Fair value of plan assets at beginning of year	$ 53,553	$ 58,006	--	--
Actual return on plan assets	(1,446)	(2,108)	--	--
Employer contribution	1,535	2,301	1,058	777
Plan participants' contributions	51	59	--	--
Translation difference	3,044	(877)	--	--
Benefits paid	(3,838)	(3,828)	(1,058)	(777)
Fair value of plan assets at end of year	52,899	53,553	--	--
Funded status	(25,920)	(16,362)	(10,544)	(9,815)
Unrecognized transition asset	(882)	(848)	--	--
Unrecognized gain (loss)	19,501	10,930	937	(22)
Unrecognized prior service cost	3,780	3,946	--	--
Net amount recognized	$ (3,521)	$ (2,334)	$ (9,607)	$(9,837)
Amounts recognized in the balance sheet consist of:				
Prepaid benefit cost	$ 4,381	$ 3,737		
Accrued benefit obligation	(21,686)	(12,088)		
Intangible asset	3,777	3,742		
Accumulated other comprehensive income	10,007	2,275		
Net amount recognized	$ (3,521)	$ (2,334)		

The U.S. defined benefit pension plan is the largest plan. The significant assumptions for the U.S. plan were as follows:

	2002	2001	2000
Discount rate for projected benefit obligation	6.875%	7.25%	7.5%
Assumed long-term rate of compensation increases	4.5%	4.75%	5.5%

(Dollars in thousands except per share amounts)

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were $60,913, $55,761, and $34,204, respectively, as of December 31, 2002 and $55,284, $50,601, and $38,602, respectively, as of December 31, 2001.

The discount rate used in determining the accumulated postretirement benefit obligation was 6.875% in 2002 and 7.25% in 2001.

In valuing costs and liabilities, different health care cost trend rates were used for retirees under and over age 65. The average assumed rate for medical benefits for all retirees was 8.5% in 2002, gradually decreasing to 5% over eight years. A 1% increase in the health care cost trend rate would increase total service and interest cost for 2002 by $34 and the accumulated postretirement benefit obligation as of December 31, 2002 by $531.

A 1% decrease in the health care cost trend rate would decrease total service and interest cost for 2002 by $31 and the accumulated postretirement benefit obligation as of December 31, 2002 by $476.

The Company maintains a plan under which supplemental retirement benefits are provided to certain officers. Benefits payable under the plan are based on a combination of years of service and existing postretirement benefits. Included in total pension costs are charges of $780, $681, and $575 in 2002, 2001, and 2000, respectively, representing the annual accrued benefits under this plan.

Profit sharing plan: The Company had maintained a qualified profit sharing plan covering substantially all domestic employees other than those who are compensated on a commission basis. Contributions were $617 for 2000. In January 2001, this plan was replaced by an enhanced employer match on the Company's 401(k) plan. The Company's 401(k) matching contributions were $484 and $530 for 2002 and 2001, respectively.

Note 8--Debt

Debt consisted of the following:

	December 31, 2002	December 31, 2001
6.98% Senior unsecured notes due 2007	$14,286	$17,143
Industrial development authority monthly floating rate (1.4% at December 31, 2002) demand bonds maturing 2014	5,000	5,000
Other debt obligations, primarily an uncommitted demand credit facility	9,509	95
	28,795	22,238
Short-term debt	(9,348)	(1)
Current portion of long-term debt	(2,857)	(2,857)
	$16,590	$19,380

The long-term financing agreements require the maintenance of certain financial covenants with which the Company is in compliance.

During the next five years, payments on long-term debt are due as follows: $2,857 in 2003, 2004, 2005, 2006 and 2007.

At December 31, 2002 and 2001, the Company had outstanding short-term borrowings with banks under lines of credit in the aggregate of $9,300 and $1, respectively.

In April 2002, the Company entered into a $20.0 million committed revolving credit facility, with a bank, which expires in April 2003. In March 2003, the Company reached agreement with this bank to extend the term of this facility by an additional year, with the available credit to be reduced to $15.0 million. At the Company's option, the interest rate for borrowings under the agreement may be based on the lender's cost of funds plus a margin, LIBOR plus a margin, or on the lender's prime rate. There were no outstanding borrowings under this facility as of December 31, 2002. Further, in April 2002, the Company entered into a $10.0 million uncommitted demand credit facility with the same lender under similar terms. A total of $8.9 million in borrowings under this facility was outstanding at December 31, 2002 at a weighted average borrowing rate of approximately 2.4%. The provisions of the agreements require that the Company maintain certain financial ratios and covenants, all of which the Company was in compliance with as of December 31, 2002. Under its most restrictive covenants the Company can borrow an additional $69.0 million as of December 31, 2002.

These facilities replaced an uncommitted facility in the amount of $18.0 million, which was terminated in July 2002. There were no outstanding borrowings under that facility as of December 31, 2001.

As of December 31, 2002, the Company maintained a $5,135 stand-by letter of credit which guarantees payment of the industrial development authority bonds. This letter of credit is renewed annually.

At December 31, 2002 and 2001, the amounts at which the Company's short-term debt and its industrial development demand bonds are recorded are not materially different from their fair market value. The estimated fair value of the Company's long-term debt, based on quoted market prices for similar issues of the same remaining maturities was $15,623 at December 31, 2002. The estimated fair value of the Company's long-term debt at December 31, 2001 was not materially different from its carrying value.

Note 9--Shareholders' Equity

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

Treasury stock is held for use by the various Company plans which require the issuance of the Company's common stock.

The Company is authorized to issue 10,000,000 shares of preferred stock, $1.00 par value, subject to approval by the Board of Directors. The Board of Directors may designate one or more series of preferred stock and the number of shares, rights, preferences, and limitations of each series. No preferred stock has been issued.

Under provisions of a stock purchase plan which permits employees to purchase shares of stock at 85% of the market value, 10,224 shares, 13,463 shares, and 20,857 shares were issued from treasury in 2002, 2001, and 2000, respectively. The number of shares that may be purchased by an employee in any year is limited by factors dependent upon the market value of the stock and the employee's base salary. At December 31, 2002, 476,313 shares are available for purchase.

The Company has a long-term incentive program for key employees which provides for the granting of options to purchase stock at prices not less than market value on the date of the grant. Most options are exercisable between one and three years after the date of the grant for a period of time determined by the Company not to exceed seven years from the date of grant for options issued in 1999 or later and ten years for options issued in prior years.

(Dollars in thousands except per share amounts)

The table below summarizes transactions in the plan during 2002, 2001, and 2000:

	2002		2001		2000	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Options outstanding at January 1,..	1,053,984	$16.80	1,140,447	$16.60	1,082,947	$16.93
Options granted....................	245,500	20.21	214,700	17.83	140,700	14.69
Options exercised..................	(173,987)	16.38	(166,215)	15.73	(25,350)	16.27
Options expired....................	(250)	14.44	(134,948)	18.18	(57,850)	18.19
Options outstanding at December 31,	1,125,247	17.61	1,053,984	16.80	1,140,447	16.60
Options exercisable at December 31,	735,834	16.82	748,208	16.76	906,306	17.01

The following table summarizes information about stock options outstanding at December 31, 2002:

Options Outstanding				Options Exercisable	
Range of Exercise Prices	Number Outstanding at 12/31/02	Weighted Average Contractual Life	Weighted Average Exercise Price	Number Exercisable at 12/31/02	Weighted Average Exercise Price
$12.10--$14.52	169,700	4	$13.88	166,675	$13.87
14.53-- 16.94	217,600	4	15.35	192,062	15.43
16.95-- 19.36	421,447	4	17.98	306,597	18.02
19.37-- 21.78	236,500	6	20.09	500	19.85
21.79-- 24.20	80,000	3	22.45	70,000	22.36
	1,125,247	4	17.61	735,834	16.82

Options were exercised for cash, resulting in the issuance of 173,987 shares in 2002 and 166,215 shares in 2001. Options to purchase 752,500 shares were available at December 31, 2002 for future grants.

The program also provides for cash awards and commencing in 1999, common stock awards, the value of which is determined based on operating results over a three-year period for awards issued in 1999, and over a four-year period in prior years. The effect on operations of the change in the estimated value of incentive units during the year was $689, $25, and $921 in 2002, 2001, and 2000, respectively.

Shareholders of record on February 20, 1990 received two stock purchase rights for each three shares of common stock outstanding. These rights expired on February 20, 2000. On March 6, 2000, the Board of Directors approved a new Rights Plan and declared a dividend of one new right (the "Rights") for each outstanding share of common stock to shareholders of record on March 20, 2000.

The Rights become exercisable if a person or group acquires or announces a tender offer which would result in such person's acquisition of 20% or more of the Company's common stock.

Each Right, when exercisable, entitles the registered holder to purchase one one-hundredth of a share of a newly authorized Series B preferred stock at an exercise price of sixty-five dollars per share subject to certain anti-dilution adjustments. In addition, if a person or group acquires 20% or more of the outstanding shares of the Company's common stock, without first obtaining Board of Directors' approval, as required by the terms of the Rights Agreement, each Right will then entitle its holder (other than such person or members of any such group) to purchase, at the Right's then current exercise price, a number of one one-hundredth shares of Series B preferred stock having a total market value of twice the Right's exercise price.

(Dollars in thousands except per share amounts)

In addition, at any time after a person acquires 20% of the outstanding shares of common stock and prior to the acquisition by such person of 50% or more of the outstanding shares of common stock, the Company may exchange the Rights (other than the Rights which have become null and void), in whole or in part, at an exchange ratio of one share of common stock or equivalent share of preferred stock, per Right.

The Board of Directors can redeem the Rights for $.01 per Right at any time prior to the acquisition by a person or group of beneficial ownership of 20% or more of the Company's common stock. Until a Right is exercised, the holder thereof will have no rights as a shareholder of the Company, including without limitation, the right to vote or to receive dividends. Unless earlier redeemed or exchanged, the Rights will expire on March 20, 2010.

Restricted stock bonus: As part of the Company's 2001 Global Annual Incentive Plan ("Annual Plan"), approved by shareholders on May 9, 2001, a restricted stock bonus of 100,000 shares of the Company's stock was granted to an executive of the Company. The shares were issued in April 2001, in accordance with the terms of the Annual Plan, and registered in the executive's name. The shares will vest over a four-year period, with the first installment vesting at the end of 2001 on achieving certain performance targets and the three remaining installments vesting annually in January thereafter, subject to the executive's continued employment by the Company. In 2002, 20,000 shares were earned and $352 was charged to selling, general, and administrative expenses ("SG&A"). In 2001, 10,000 shares were earned and $177 was charged to SG&A. The compensation amount related to the remaining shares have been recorded as unearned compensation and will be charged to SG&A when earned.

Note 10--Earnings Per Share

The following table summarizes earnings per share ("EPS") calculations for the years ended December 31, 2002, 2001, and 2000:

	December 31,		
	2002	2001	2000
Numerator for basic EPS and diluted EPS--net income	$14,297	$7,665	$17,163
Denominator for basic EPS--weighted average shares	9,172	9,054	8,831
Effect of dilutive securities, primarily employee stock options	302	60	65
Denominator for diluted EPS--weighted average shares and assumed conversions	9,474	9,114	8,896
Basic EPS	$ 1.56	$ .85	$ 1.94
Diluted EPS	$ 1.51	$ .84	$ 1.93

The following number of stock options are not included in dilutive earnings per share since in each case the exercise price is greater than the market price: 0, 79, and 190, in 2002, 2001, and 2000, respectively.

(Dollars in thousands except per share amounts)

Note 11--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--primarily chemicals used in the manufacturing of paper in 2000, 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. Inter-segment transactions are immaterial.

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

	Metalworking Process Chemicals	Coatings	Other Chemical Products	Total
2002				
Net sales	$249,469	$20,554	$4,498	$274,521
Operating income	52,446	5,391	1,188	59,025
Depreciation	4,800	395	87	5,282
2001				
Net sales	$228,527	$18,464	$4,083	$251,074
Operating income	47,580	5,161	1,211	53,952
Depreciation	4,580	155	82	4,817
2000				
Net sales	$245,279	$17,560	$4,731	$267,570
Operating income (loss)	55,743	4,216	(580)	59,379
Depreciation	5,122	122	125	5,369

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 years ended December 31, 2002, 2001, and 2000 is as follows:

	2002	2001	2000
Total operating income for reportable segments	$ 59,025	$ 53,952	$ 59,379
Restructuring charges	--	(5,854)	--
Nonoperating charges	(34,097)	(31,844)	(32,761)
Depreciation and amortization	(955)	(1,563)	(1,443)
Net gain on exit of businesses	--	--	1,473
Environmental charge	--	(500)	(1,500)
Interest expense	(1,774)	(1,880)	(2,030)
Interest income	984	1,030	934
Other income, net	1,135	1,089	2,434
Consolidated income before taxes	$ 24,318	$ 14,430	$ 26,486

(Dollars in thousands except per share amounts)

The following sales and long-lived asset information is by geographic area as of and for the years ended December 31:

	2002	2001	2000
Net sales			
United States....	$124,831	$109,969	$117,106
Europe...........	96,920	88,370	92,151
Asia/Pacific.....	28,193	26,994	28,621
South America....	21,974	25,741	29,692
South Africa.....	2,603	--	--
Consolidated.....	$274,521	$251,074	$267,570

	2002	2001	2000
Long-lived assets			
United States....	$ 57,732	$ 37,558	$ 32,467
Europe...........	29,479	23,340	23,011
Asia/Pacific.....	5,051	5,222	5,420
South America....	7,300	11,531	14,168
South Africa.....	14	--	--
Consolidated.....	$ 99,576	$ 77,651	$ 75,066

Note 12--Business Acquisitions and Divestitures

On March 1, 2002, the Company acquired certain assets and liabilities of United Lubricants Corporation ("ULC"), a North American manufacturer and distributor of specialty lubricant products and chemical management services, for approximately $14,038. The acquisition of ULC strategically strengthens the Company's global leadership supply position to the steel industry.

The following table shows the preliminary allocation of purchase price of assets and liabilities recorded for the acquisition:

Receivables..................................	$ 4,456
Inventories..................................	828
Property, plant, and equipment................	4,105
Goodwill.....................................	5,487
Intangible assets............................	2,350
Other assets.................................	74
	17,300
Accounts payable.............................	2,148
Accrued expenses and other current liabilities	265
Other current liabilities....................	849
	3,262
Cash paid....................................	$14,038

(Dollars in thousands except per share amounts)

The $5,487 of goodwill was assigned to the Metalworking process chemicals segment, and the entire amount is expected to be deductible for income tax purposes.

The $2,350 of intangible assets comprised $1,400 of the branded customer lists, $700 of formulations, $200 of trademarks and $50 in noncompete agreements. These intangibles are being amortized over a five-year period.

The results of operations of ULC are included in the consolidated statement of income beginning March 1, 2002. Proforma results of operations have not been provided because the effects are not material.

On April 22, 2002, the Company acquired 100% of the outstanding stock of Epmar Corporation ("Epmar"), a North American manufacturer of polymeric coatings, sealants, adhesives, and various other compounds, for approximately $7,611 and the assumption of $400 of debt. The acquisition of Epmar provides technological capability that is directly related to the Company's coatings business.

The following table shows the preliminary allocation of purchase price of assets and liabilities recorded for the acquisition:

Receivables	$ 848
Inventories	422
Property, plant, and equipment	938
Goodwill	3,390
Intangible assets	2,920
Other assets	39
	8,557
Accounts payable	406
Accrued expenses and other current liabilities	140
Other current liabilities	400
	946
Cash paid	$7,611

The $3,390 of goodwill was assigned to the Coatings segment, and the entire amount is expected to be deductible for income tax purposes.

The $2,920 of intangible assets comprised: $1,600 of customer lists to be amortized over 20 years, $720 of product line technology to be amortized over 10 years, and $600 of trademarks which have indefinite lives and will not be amortized.

The results of operations of Epmar are included in the consolidated statement of income beginning April 22, 2002. Proforma results of operations have not been provided because the effects are not material.

On March 30, 2001, the Company acquired from its Canadian licensee, H. L. Blachford, Ltd., rights to market to, sell to, and service all Canadian integrated steel makers and certain accounts in the Canadian metalworking market. The purchase price totaling approximately $1,450, together with a five-year earn-out provision of five percent on net sales to certain accounts purchased, resulted in intangible assets of $1,364.

(Dollars in thousands except per share amounts)

On May 31, 2000, the Company completed the sale of its U.S. pulp and paper business for $5,200. The Company recorded a pre-tax gain on the sale of $2,370.

On June 25, 1998, the Company completed formation of a majority-owned joint venture in Brazil and small businesses in Italy and Venezuela for approximately $9,350, of which goodwill comprised $5,500. The agreement provided for an earn-out provision if certain performance targets were met. Those targets were met and $3,500 was paid in 2000, resulting in additional goodwill.

Note 13--Goodwill and Other Intangible Assets

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 established new guidelines for accounting for goodwill and other intangible assets. Upon adoption, goodwill is no longer amortized, but instead assessed for impairment at least on an annual basis. Accordingly, on January 1, 2002, the Company ceased amortizing its goodwill. The Company completed the impairment assessment of its goodwill and did not incur an impairment charge related to the adoption of SFAS No. 142. Further, the Company completed its annual impairment assessment as of the end of the third quarter 2002 and no impairment charge was warranted.

The following is a reconciliation of previously reported financial information to proforma amounts exclusive of goodwill amortization for the twelve months ended December 31:

	2001	2000
Net income	$7,665	$17,163
Goodwill amortization expense, net of tax	693	696
Pro-forma net income	$8,358	17,859
Earnings per share:		
Basic	$ .85	$ 1.94
Diluted	.84	1.93
Goodwill Amortization Expense, net of tax		
Basic	$ .08	$ .08
Diluted	.08	.08
Pro-forma earnings per share		
Basic	$ .93	$ 2.02
Diluted	.92	2.01

The changes in carrying amount of goodwill for the twelve months ended December 31, 2002 are as follows:

	Metalworking process chemicals	Coatings	Total
Balance as of January 1, 2002	$11,081	$3,879	$14,960
Goodwill additions	5,661	3,390	9,051
Currency translation adjustments	(2,084)	--	(2,084)
Balance as of December 31, 2002	$14,658	$7,269	$21,927

The goodwill additions in 2002 are preliminary and they are subject to post-closing adjustments.

(Dollars in thousands except per share amounts)

Gross carrying amounts and accumulated amortization for intangible assets as of December 31, 2002, are as follows:

	Gross carrying Amount	Accumulated Amortization
Amortized intangible assets		
Customer lists and rights to sell..	$3,850	$ 393
Trademarks and patents............	2,300	1,533
Formulations and product technology	1,420	165
Other..............................	1,494	1,121
Total..............................	$9,064	$3,212

Estimated annual aggregate amortization expense for the subsequent five years is as follows:

For the year ended December 31, 2003	$842
For the year ended December 31, 2004	$692
For the year ended December 31, 2005	$684
For the year ended December 31, 2006	$684
For the year ended December 31, 2007	$277

Note 14--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. The Company identified certain soil and groundwater contamination at AC Products, Inc. ("ACP"), a wholly owned subsidiary. In coordination with the Santa Ana California Regional Water Quality Board, ACP is remediating the contamination. During the second quarter of 2000, it was discovered during an internal environmental audit that ACP had failed to properly report its air emissions. In response, an internal investigation of all environmental, health, and safety matters at ACP was conducted. ACP has voluntarily disclosed these matters to regulators and has taken steps to correct all environmental, health, and safety issues discovered. In connection with these activities the Company recorded pre-tax charges totaling $500 and $1,500 in 2001 and 2000, respectively. The Company believes that the remaining potential-known liabilities associated with these matters ranges from approximately $1,200 to $1,900, for which the Company has sufficient reserves. Notwithstanding the foregoing, the Company cannot be certain that liabilities in the form of remediation expenses, fines, penalties, 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 $199 and $260 was accrued at December 31, 2002 and December 31, 2001, 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 judgements against the subsidiary. Based on an initial 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 $15 million (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 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 recently 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 five years. As a result, liabilities in respect of claims not yet asserted may exceed coverage available to the subsidiary.

(Dollars in thousands except per share amounts)

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.

The Company leases certain manufacturing and office facilities and equipment under non-cancelable operating leases with various terms from one to 25 years expiring in 2020. Rent expense for 2002, 2001, and 2000 was $4,415, $3,359, and $2,299, respectively. The Company's minimum rental commitments under non-cancelable operating leases at December 31, 2002, were approximately $4,327 in 2003, $3,657 in 2004, $2,802 in 2005, $2,450 in 2006, $2,350 in 2007, and $12,053 thereafter.

Note 15--Quarterly Results (unaudited)

	First	Second	Third	Fourth
2002				
Net sales	$59,927	$69,457	$73,268	$71,869
Gross profit	24,357	28,962	29,399	28,859
Operating income	4,333	5,683	6,702	7,255
Net income	2,358	3,236	4,289	4,414
Net income per share--basic	$ .26	$ .35	$ .47	$ .48
Net income per share--diluted	$ .26	$ .35	$ .45	$ .46
2001				
Net sales	$64,215	$65,073	$63,514	$58,272
Gross profit	25,822	27,085	25,143	22,979
Operating income (loss)	6,099	6,959	2,853	(1,720)
Net income (loss)	4,013	4,114	1,116	(1,578)
Net income (loss) per share--basic and diluted	$ .45	$ .45	$ .12	$ (.17)

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

None.

PART III

Item 10. Directors and Executive Officers of the Registrant.

Incorporated by reference is the information beginning immediately following the caption "Item 1--Election of Directors and Nominee Biographies" in the Registrant's definitive Proxy Statement to be filed with the SEC no later than 120 days after the close of its fiscal year ended December 31, 2002 (the "2003 Proxy Statement") to, but not including, the caption "Compensation of Directors," the information in the 2003 Proxy Statement beginning immediately following the caption "Board Committees and Meeting Attendance" to, but not including, the caption "Item 2--Approval of 2003 Director Stock Ownership Plan" and the information appearing in Item 4(a).

Section 16(a) Beneficial Ownership Reporting Compliance.

Based solely on the Company's review of certain reports filed with the SEC pursuant to Section 16(a) of the Securities Exchange Act of 1934 (the "1934 Act"), as amended, and written representations of the Company's officers and directors, the Company believes that, with the exception of one late filing on Form 4 by Mr. Ian F. Clark and one late filing on Form 5 by Mr. James A. Geier each involving the late reporting of one transaction, all reports required to be filed pursuant to Section 16(a) of the 1934 Act with respect to transactions in the Company's Common Stock through December 31, 2002 were filed on a timely basis.

Item 11. Executive Compensation.

Incorporated by reference is the information beginning immediately following the caption "Compensation of Directors" to, but not including, the caption "Board Committees and Meeting Attendance" in the 2003 Proxy Statement, the information beginning immediately following the caption "Executive Compensation" to, but not including, the caption "Report of the Compensation/Management Development Committee on Executive Compensation" and the information immediately following the caption "Compensation Committee Interlocks and Insider Participation" to, but not including, the caption "Report to the Audit Committee" contained in the 2003 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

Incorporated by reference is the information beginning immediately following the caption "Stock Ownership of Certain Beneficial Owners and Management" to, but not including, the subcaption "Section 16(a) Beneficial Ownership Reporting Compliance" and the information under the caption "Item 2--Approval of 2003 Director Stock Ownership Plan" beginning immediately following the subcaption "Equity Compensation Plan Information" to, but not including the subcaption "Vote Required for Approval of the Plan" contained in the 2003 Proxy Statement.

Item 13. Certain Relationships and Related Transactions.

No information is required to be provided in response to this Item 13.

Item 14. 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-14(c)), based on their evaluation of such controls and procedures conducted within 90 days prior to the date hereof, are effective to ensure 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. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect these controls, including any corrective actions with regard to significant deficiencies or material weaknesses, subsequent to the date of our most recent evaluation. As previously disclosed, the Company is in the process of implementing a global transaction system. The Company is taking the necessary steps to monitor and maintain the appropriate internal controls during this period of change.

PART IV

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

(a) Exhibits and Financial Statement Schedules

1. Financial Statements and Supplementary Data.

2. Financial Statement Schedules

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

Financial statements of 50% or less owned companies have been omitted because none of the companies meets the criteria requiring inclusion of such statements.

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

3(a) -- Amended and Restated Articles of Incorporation dated July 16, 1990. Incorporated by reference to Exhibit 3(a) as filed by Registrant with Form 10-K for the year 1996.

3(b) -- By-laws as amended through May 6, 1998. Incorporated by reference to Exhibit 3(b) as filed by Registrant with Form 10-K for the year 1998.

4 -- Shareholder Rights Plan dated March 6, 2000. Incorporated by reference to Form 8-K as filed by the Registrant on March 7, 2000.

10(a) -- Long-Term Performance Incentive Plan as approved May 5, 1993. Incorporated by reference to Exhibit 10(a) as filed by the Registrant with Form 10-K for the year 1993.*

10(i) -- Employment Agreement by and between the Registrant and Ronald J. Naples dated August 14, 1995. Incorporated by reference to Exhibit 10(i) as filed by Registrant with Form 10-Q for the quarter ended September 30, 1995.*

10(j) -- Amendment to the Stock Option Agreement dated October 2, 1995 by and between the Registrant and Ronald J. Naples. Incorporated by reference to Exhibit 10(j) as filed by Registrant with Form 10-Q for the quarter ended September 30, 1995.*

10(k) -- Employment Agreement by and between Registrant and Jose Luiz Bregolato dated June 14, 1993. Incorporated by reference to Exhibit 10(k) as filed by Registrant with Form 10-K for the year 1995.*

10(l) -- Employment Agreement by and between Registrant and Daniel S. Ma dated May 18, 1993. Incorporated by reference to Exhibit 10(l) as filed by Registrant with Form 10-K for the year 1995.*

10(o) -- Amendment No. 1 to Employment Agreement dated January 1, 1997 by and between Registrant and Ronald J. Naples. Incorporated by reference to Exhibit 10(o) as filed by Registrant with Form 10-K for the year 1997.*

10(p) -- Amendment No. 1 to 1995 Naples Restricted Stock Plan and Agreement dated January 21, 1998 by and between Registrant and Ronald J. Naples. Incorporated by reference to Exhibit 10(p) as filed by Registrant with Form 10-K for the year 1997.*

10(r) -- Employment Agreement by and between Registrant and James A. Geier dated November 5, 1997. Incorporated by reference to Exhibit 10(r) as filed by Registrant with Form 10-K for the year 1997.*

10(s) -- Employment Agreement by and between Registrant and Joseph W. Bauer dated March 9, 1998. Incorporated by reference to Exhibit 10(s) as filed by Registrant with Form 10-K for the year 1997.*

10(t) -- Employment Agreement by and between Registrant and Ronald J. Naples dated March 11, 1999. Incorporated by reference to Exhibit 10(t) as filed by Registrant with Form 10-K for the year 1998.*

10(u) -- Employment Agreement by and between Registrant and Michael F. Barry dated November 30, 1998. Incorporated by reference to Exhibit 10(u) as filed by Registrant with Form 10-K for the year 1998.*

10(v) -- Employment Agreement by and between Registrant and Ian F. Clark dated March 15, 1999. Incorporated by reference to Exhibit 10(v) as filed by Registrant with Form 10-K for the year 1998.*

10(w) -- Change in Control Agreement by and between Registrant and Joseph W. Bauer dated February 1, 1999. Incorporated by reference to Exhibit 10(w) as filed by Registrant with Form 10-K for the year 1998.*

10(x) -- Change in Control Agreement by and between Registrant and Michael F. Barry dated November 30, 1998. Incorporated by reference to Exhibit 10(x) as filed by Registrant with Form 10-K for the year 1998.*

10(y) -- Change in Control Agreement by and between Registrant and Jose Luiz Bregolato dated January 6, 1999. Incorporated by reference to Exhibit 10(y) as filed by Registrant with Form 10-K for the year 1998.*

10(z) -- Change in Control Agreement by and between Registrant and James A. Geier dated January 15, 1999. Incorporated by reference to Exhibit 10(z) as filed by Registrant with Form 10-K for the year 1998.*

10(aa) -- Change in Control Agreement by and between Registrant and Daniel S. Ma dated January 15, 1999. Incorporated by reference to Exhibit 10(aa) as filed by Registrant with Form 10-K for the year 1998.*

10(dd) -- 1999 Long-Term Performance Incentive Plan as approved May 12, 1999, effective January 1, 1999. Incorporated by reference to Exhibit 10(dd) as filed by Registrant with Form 10-K for the year 1999.*

10(ff) -- Deferred Compensation Plan as adopted by the Registrant dated December 17, 1999, effective July 1, 1997. Incorporated by reference to Exhibit 10(ff) as filed by Registrant with Form 10-K for the year 1999.*

10(gg) -- Supplemental Retirement Income Program adopted by the Registrant on November 6, 1984, as amended November 8, 1989. Incorporated by reference to Exhibit 10(gg) as filed by Registrant with Form 10-K for the year 1999.*

10(hh) -- 2001 Global Annual Incentive Plan as approved May 9, 2001, effective January 1, 2001. Incorporated by reference to Exhibit 10(hh) as filed by Registrant with Form 10-K for the year 2001.*

10(ii) -- 2001 Long-Term Performance Incentive Plan as approved May 9, 2001, effective January 1, 2001. Incorporated by reference to Exhibit 10(ii) as filed by Registrant with Form 10-K for the year 2001.*

10(jj) -- Agreement of Lease between Quaker Park Associates, L.P. and Quaker Chemical Corporation dated December 19, 2000. Incorporated by reference to Exhibit 10(jj) as filed by Registrant with Form 10-K for the year 2001.

10(kk) -- Asset Purchase Agreement between United Lubricants Corporation and ULC Acquisition Corp. dated January 23, 2002, as amended by Amendment to Purchase Asset Agreement dated February 28, 2002. Incorporated by reference to Exhibit 10(kk) as filed by Registrant with Form 10-K for the year 2001.

10(mm) -- Credit Agreement between Registrant and ABN AMRO Bank N.V. in the amount of $20,000,000, dated April 12, 2002. Incorporated by reference to Exhibit 10(mm) as filed by the Registrant with Form 10-Q for the quarter ended June 30, 2002.

10(nn) -- Promissory Note in the amount of $10,000,000 in favor of ABN AMRO Bank N.V., dated April 15, 2002. Incorporated by reference to Exhibit 10(nn) as filed by the Registrant with Form 10-Q for the quarter ended June 30, 2002.

10(oo) -- Stock Purchase Agreement between Epmar Corporation and Quaker Chemical Corporation dated April 22, 2002.

21 -- Subsidiaries and Affiliates of the Registrant

23 -- Consent of Independent Auditors

99.1 -- Certification of CEO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.2 -- Certification of CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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

(b) Reports on Form 8-K.

No reports on Form 8-K were filed by the Registrant during the last quarter of the period covered by this Report.

(c) The exhibits required by Item 601 of Regulation S-K filed as part of this Report or incorporated herein by reference are listed in subparagraph (a)(3) of this Item 14.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

QUAKER CHEMICAL CORPORATION
Registrant

By: /s/ RONALD J. NAPLES

Ronald J. Naples
Chairman of the Board and
Chief Executive Officer

Date: March 28, 2003

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

Signatures	Capacity	Date
/s/ RONALD J. NAPLES Ronald J. Naples Chairman of the Board and Chief Executive Officer	Principal Executive Officer and Director	March 28, 2003
/s/ MICHAEL F. BARRY Michael F. Barry Vice President, Chief Financial Officer and Treasurer	Principal Financial Officer	March 28, 2003
/s/ MARK A. FEATHERSTONE Mark A. Featherstone Global Controller	Principal Accounting Officer	March 28, 2003
/s/ JOSEPH B. ANDERSON, JR. Joseph B. Anderson, Jr.	Director	March 28, 2003
/s/ Patricia C. Barron	Director	March , 2003
/s/ PETER A. BENOLIEL Peter A. Benoliel	Director	March 28, 2003
/s/ DONALD R. CALDWELL Donald R. Caldwell	Director	March 28, 2003
/s/ ROBERT E. CHAPPELL Robert E. Chappell	Director	March 28, 2003
/s/ WILLIAM R. COOK William R. Cook	Director	March 28, 2003
/s/ EDWIN J. DELATTRE Edwin J. Delattre	Director	March 28, 2003
/s/ ROBERT P. HAUPTFUHRER Robert P. Hauptfuhrer	Director	March 28, 2003
/s/ ROBERT H. ROCK Robert H. Rock	Director	March 28, 2003

CERTIFICATION

I, Ronald J. Naples, the Chief Executive Officer of Quaker Chemical Corporation, certify that:

1. I have reviewed this Annual Report on Form 10-K of Quaker Chemical Corporation;

2. Based on my knowledge, this Annual 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 this Annual Report;

3. Based on my knowledge, the financial statements, and other financial information included in this Annual 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 Annual Report;

4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13(a)-14 and 15(d)-14) for the Registrant and have:

   a) designed such disclosure controls and procedures 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 Annual Report is being prepared;

   b) evaluated the effectiveness of the Registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this Annual Report (the "Evaluation Date"); and

   c) presented in this Annual Report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls; and

6. The Registrant's other certifying officers and I have indicated in this Annual Report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 28, 2003

Signed: /s/ RONALD J. NAPLES

Name: Ronald J. Naples
Title: Chief Executive Officer
Quaker Chemical Corporation

CERTIFICATION

I, Michael F. Barry, the Chief Financial Officer of Quaker Chemical Corporation, certify that:

1. I have reviewed this Annual Report on Form 10-K of Quaker Chemical Corporation;

2. Based on my knowledge, this Annual 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 this Annual Report;

3. Based on my knowledge, the financial statements, and other financial information included in this Annual 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 Annual Report;

4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13(a)-14 and 15(d)-14) for the Registrant and have:

   a) designed such disclosure controls and procedures 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 Annual Report is being prepared;

   b) evaluated the effectiveness of the Registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this Annual Report (the "Evaluation Date"); and

   c) presented in this Annual Report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls; and

6. The Registrant's other certifying officers and I have indicated in this Annual Report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 28, 2003

Signed: /s/ MICHAEL F. BARRY
Name: Michael F. Barry
Title: Chief Financial Officer
Quaker Chemical Corporation

QUAKER CHEMICAL CORPORATION

SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS

	Balance at Beginning of Period	Charged to Costs and Expenses	Write-Offs Charged to Allowance	Effect of Exchange Rate Changes	Balance at End of Period
	(Dollars in thousands)				
ALLOWANCE FOR DOUBTFUL ACCOUNTS					
Year ended December 31, 2002...	$5,155	$1,365	$(493)	$ 91	$6,118
Year ended December 31, 2001...	$2,960	$2,472	$(218)	$(59)	$5,155
Year ended December 31, 2000...	$1,133	$1,971	$(106)	$(38)	$2,960

STOCK PURCHASE AGREEMENT

THIS STOCK PURCHASE AGREEMENT (this "Agreement") is made as of April 22, 2002, among Epmar Corporation, a California corporation (the "Company"), Quaker Chemical Corporation, a Delaware corporation (the "Purchaser"), Georg and Christel Krause, husband and wife, ("Krause"), Frank E. and Marjorie Ramirez, husband and wife, ("Ramirez"), and the Krause Trust dated July 26, 1988 and restated July 3, 1990 (the "Krause Trust") and the Ramirez Trust dated October 27, 1986 and restated March 2, 2000 (the "Ramirez Trust") (each a "Selling Stockholder" and collectively, the "Selling Stockholders").

W I T N E S S E T H :

WHEREAS, each Selling Stockholder owns the number of shares of Common Stock, no par value per share ("Common Stock") of the Company (collectively "Shares"), set forth in Section 3.2 of the Disclosure Schedule;

WHEREAS, the Shares collectively represent all of the issued and outstanding shares of capital stock of the Company; and

WHEREAS, the Selling Stockholders desire to sell, and Purchaser desires to purchase, the Shares on the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the mutual promises, covenants, representations and warranties made herein, Purchaser, the Company and the Selling Stockholders agree as follows:

ARTICLE 1

SALE AND TRANSFER; CLOSING

1.1 Sale and Transfer of the Shares. Subject to the terms and conditions set forth in this Agreement, at the Closing, as defined in Section 1.3 below, Purchaser will acquire from each such Selling Stockholder, the number of Shares set forth opposite each such Selling Stockholder's name on Section 3.2 of the Disclosure Schedule.

1.2 Consideration For Shares. In consideration for the transfer of the Shares to Purchaser, upon the terms and subject to the conditions set forth herein:

(a) Purchaser shall, at the Closing, pay the Selling Stockholders a total of seven million, five hundred thousand dollars ($7,500,000) (the "Purchase Price"), payable by certified or cashier's check, or by wire transfer to an account or accounts designated by the Selling Shareholders, to the Selling Stockholders in proportion to their stock ownership in the Company, as set forth in Section 3.2 of the Disclosure Schedule, five hundred thousand dollars ($500,000) of which shall be placed in Escrow, as provided for in Sections 7.2 (m) and 8.4 herein, and after utilizing any moneys for the benefit of Purchaser, as required therein, the balance shall be payable to the Selling Stockholders, in the proportions described above.

(b) Concurrently with the Closing, the Purchaser shall cause the Company to repay in full the Company's outstanding shareholder loans in the aggregate amount of $400,000 to Kraus and Ramirez.

1.3 The Closing. The consummation of the transactions contemplated by this Agreement (the "Closing") shall take place as of April 22, 2002, (the "Closing Date") at 12:01 a.m. local time, or at some other time as is mutually agreed to by the parties.

ARTICLE 2

REPRESENTATIONS AND WARRANTIES OF

SELLING STOCKHOLDERS

2.1 Representations of Selling Stockholders. Each Selling Stockholder represents and warrants to Purchaser, severally, and not jointly, as follows:

(a) such Selling Stockholder has complete and absolute beneficial ownership of and record title to such Selling Stockholder's Shares in the amounts listed opposite such Selling Stockholder's name on Section 3.2 of the Disclosure Schedule, free and clear of any and all pledges, adverse claims, liens, encumbrances, charges, options or restrictions against transfer (other than restrictions arising under applicable securities laws);

(b) such Selling Stockholder has full power and authority to sell, transfer and deliver such Shares and to execute and deliver this Agreement and to consummate the transactions contemplated hereby;

(c) upon consummation of the transactions contemplated by this Agreement, Purchaser will receive complete and absolute title to the Shares owned by such Selling Stockholder, free and clear of any and all pledges, adverse claims, liens, encumbrances, charges, options or restrictions against transfer;

(d) there are no options, calls or commitments of any character to purchase or acquire any Shares owned by such Selling Stockholder;

(e) this Agreement, when executed and delivered, will constitute a valid and legally binding agreement of such Selling Stockholder, enforceable against such Selling Stockholder in accordance with its terms;

(f) neither the execution and delivery of this Agreement nor the consummation by such Selling Stockholder of the transactions contemplated hereby:

(i) violates or will violate any statute or law or any rule, regulation, or order of any court or any Governmental Authority (as such term is defined in Section 10.5 below), or

(ii) violates or will violate, or conflicts with or will conflict with, or constitutes a default under or will constitute a default under, any contract, commitment, agreement, understanding, arrangement, or restriction of any kind to which such Selling Stockholder is a party or by which such Selling Stockholder is bound;

(g) except as described in Section 3.3 of this Agreement, no consent of any Person is necessary for the consummation by such Selling Stockholder of the transactions contemplated hereby;

(h) there are no agreements, written or oral, to which such Selling Stockholder is a party with respect to the voting of Shares on any matter; and

(i) such Selling Stockholder has not retained any investment banker, broker or finder, except for RSM EquiCo Capital Markets LLC, ("EquiCo"), nor incurred any liability for any brokerage, finders' or bankers' fees or commissions, except to such EquiCo, (all of which shall be paid by the Selling Stockholders), or any other person or entity, in connection with the transactions contemplated by this Agreement, for which the Company or Purchaser will be liable.

ARTICLE 3

REPRESENTATIONS AND WARRANTIES OF THE COMPANY AND THE SELLING STOCKHOLDERS.

Except as otherwise set forth in written information (the "Disclosure Schedule") attached hereto, the Company, Krause, Ramirez, and each Selling Stockholder, jointly and severally, represent and warrant to Purchaser as follows:

3.1 Organization. The Company is a corporation duly organized, validly existing and in good standing under the laws of California, and is duly qualified to do business and is in good standing in the states set forth in Section 3.1 of the Disclosure Schedule, if any, and is not required to be qualified in any other jurisdiction, and has all requisite power and authority to own, lease and operate its properties, and to carry on its business as now being conducted. The Company has heretofore delivered to Purchaser, or, prior to the Closing will deliver to Purchaser, true and complete copies of the Company's corporate charter and bylaws as currently in effect.

3.2 Capital Structure. The authorized capital stock of the Company consists of 5,000 shares of Common Stock, no par value, of which 1,000 shares are issued and outstanding. Section 3.2 of the Disclosure Schedule sets forth a true and complete list of holders of the capital stock of the Company, showing the class and number of shares held by each such stockholder.

All of the outstanding Common Stock has been issued in compliance with applicable federal and state securities laws. All of the outstanding shares of Common Stock are duly authorized, validly issued, fully paid and non assessable, and not subject to preemptive rights created by statute, the Company's Articles of Incorporation, as amended, or Bylaws, or any agreement to which the Company, or any Selling Stockholder, or beneficiary, is a party or is bound.

3.3 Obligations With Respect to Capital Stock. Except as set forth in Section 3.3 of the Disclosure Schedule, there are no options, warrants, calls, rights, commitments or agreements of any character to which the Company is a party or by which it is bound obligating the Company to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of capital stock of the Company or obligating the Company to grant, extend or enter into any such option, warrant, call, right, commitment or agreement. There are no voting trusts, proxies or other agreements or understandings with respect to the shares of capital stock of the Company, except for a Stock Purchase Agreement dated April 15, 1997, between Krause, Ramirez and the Company, which for purposes of this Agreement and the sale of the Stock, is hereby, or will be, as of the Closing, waived by the parties, including Christel Krause and Marjorie Ramirez, who previously consented to the said Stock Purchase Agreement.

3.4 Equity Investments. The Company does not own any equity interest, directly or indirectly, in any corporation, partnership, joint venture, firm or other entity, and has no subsidiary.

3.5 Authority. The Company has all requisite corporate power and authority to enter into this Agreement and, subject to satisfaction of the conditions set forth herein, to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of the Company. This Agreement has been duly executed and delivered by the Company and constitutes a valid and binding obligation of the Company, enforceable in accordance with its terms, subject to the effect of applicable bankruptcy, solvency, reorganization, moratorium or other similar federal or state laws affecting the rights of creditors and the effect or availability of rules of law governing specific performance, injunctive relief or other equitable remedies (regardless of whether any such remedy is considered in proceeding at law or in equity). Provided the conditions set forth in Article 7 are satisfied, the execution and delivery of this Agreement does not or will not, and the consummation of the transactions contemplated hereby will not, conflict with, or result in any violation of or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, cancellation or acceleration of any obligation or to loss of a benefit under (a) any provision of the corporate charter or (b) any agreement or instrument, permit, franchise, license, judgment or order, applicable to the Company or its properties or assets. Section 3.5 of the Disclosure Schedule sets forth a full and complete list of all necessary consents, waivers and approvals ("Consents") of third parties applicable to the operations of the Company, that are required to be obtained by the Company in connection with the execution and delivery of this Agreement by the Company and the Selling Stockholders and the performance of their respective obligations hereunder. Prior to the time of the Closing, the Company will use its best efforts to obtain all such Consents.

No consent, approval, order or authorization of, or registration, declaration or filing with, any Governmental Authority is required by or with respect to the Company in connection with the execution and delivery of this Agreement by the Company or the consummation by the Company and the Selling Stockholders of the transactions contemplated hereby.

3.6 Financial Statements. The Company has furnished to Purchaser its audited Statements of Financial Condition as of November 30, 2001 (the "Company Balance Sheet"), November 30, 2000 and November 30, 1999 and the related statements of operations, and cash flows, for the fiscal years then ended. The Company has furnished Purchaser with unaudited financial statements at and for each monthly period beginning with the monthly period ending December 31, 2001 through March 31, 2002. The financial statements for the years ended November 30, 2001, 2000 and 1999 and for the four month period ended March 31, 2002 are attached hereto as Exhibit H. All such financial statements are hereinafter referred to collectively as the "Company Financial Statements." The Company Financial Statements have been and will be complete, true and accurate in all material respects and prepared in accordance with generally accepted accounting principles ("GAAP") applied on a consistent basis during the periods involved, except as noted in the Notes to the Financial Statements, and are and will be in accordance with the Company's books and records, and fairly present the financial position of the Company and the results of its operations as of the date and for the periods indicated thereon. The reserves reflected in the Company Financial Statements for incurred but not yet reported claims make sufficient provision for such liabilities and have been established in accordance with GAAP consistently applied. At the date of the Company Balance Sheet (the "Company Balance Sheet Date") and as of the time of the Closing, the Company had and will have no liabilities or obligations, secured or unsecured (whether accrued, absolute, contingent or otherwise) not reflected on the Company Balance Sheet or the accompanying Notes thereto, except for liabilities and obligations as may have arisen in the ordinary course of business prior to the date of said Balance Sheet and which, in accordance with GAAP consistently applied, would not have been required to be reflected on such Balance Sheet, and except for liabilities incurred in the ordinary course of business since the date of said Balance Sheet which are usual and normal in amount in relation to the Company's past experience. The accruals for taxes reflected on the Company's financial statements for the years ended November 30, 2001, 2000 and 1999 and the interim balance sheet for the period ended March 31, 2002, as delivered to Purchaser, are sufficient to provide for all applicable tax liabilities of the Company for such periods.

3.7 Business Changes. Since the Company Balance Sheet Date, except as otherwise contemplated by this Agreement or disclosed in Section 3.7 of the Disclosure Schedule, the Company has conducted its business only in the ordinary and usual course and, without limiting the generality of the foregoing:

(a) There have been no changes in the condition (financial or otherwise), business, net worth, assets, prospects, properties, employees, operations, obligations or liabilities of the Company which, in the aggregate, have had or reasonably could be expected to have, a material adverse effect on the condition, business, net worth, assets, prospects, properties or operations of the Company.

(b) The Company has not issued, nor authorized for issuance, nor entered into any commitment to issue, any equity security, bond, note or other security of the Company.

(c) The Company has not incurred additional debt for borrowed money, nor incurred any obligation or liability except in the ordinary and usual course of business and in any event not in excess of $10,000 for any single occurrence.

(d) The Company has not paid any obligation or liability, nor discharged, settled or satisfied any claim, lien or encumbrance, except for current liabilities in the ordinary and usual course of business, and in any event not in excess of $10,000 for any single occurrence.

(e) The Company has not declared or made any dividend, payment or other distribution on, or with respect to, any share of capital stock of the Company, except as set forth in Section 5.2 of the Disclosure Schedule.

(f) The Company has not purchased, redeemed or otherwise acquired or committed itself to acquire, directly or indirectly, any share or shares of capital stock of the Company.

(g) The Company has not mortgaged, pledged, or otherwise, voluntarily or involuntarily, encumbered any of its assets or properties, except for liens, for current taxes which are not yet delinquent and purchase-money liens arising out of the purchase or sale of services or products made in the ordinary and usual course of business and in any event not in excess of $5,000 for any single item or $10,000 in the aggregate.

(h) The Company has not disposed of, or agreed to dispose of, by sale, lease, license or otherwise, any asset or property, tangible or intangible except in the ordinary course of business.

(i) The Company has not purchased or agreed to purchase or otherwise acquire any securities of any corporation, partnership, joint venture, firm or other entity. The Company has not made any expenditure or commitment for the purchase, acquisition, construction or improvement of a capital asset, except in the ordinary and usual course of business and in any event not in excess of $5,000 for any single item or $10,000 in the aggregate.

(j) The Company has not entered into any transaction or contract involving more than $5,000, or made any commitment to do the same, except in the ordinary and usual course of business.

(k) The Company has not sold, assigned, transferred or conveyed, or committed itself to sell, assign, transfer or convey, any Proprietary Rights (as defined in Section 3.16 herein).

(l) The Company has not adopted or amended any bonus, incentive, profit-sharing, stock option, stock purchase, pension, retirement, deferred-compensation, severance, life insurance, medical or other benefit plan, agreement, trust, fund or arrangement for the benefit of employees of any kind whatsoever, nor entered into or amended any agreement relating to employment, services as an independent contractor or consultant, or severance or termination pay, nor agreed to do any of the foregoing.

(m) The Company has not effected or agreed to effect any change in its directors, officers or key employees.

(n) The Company has not effected or committed itself to effect any amendment or modification in its corporate charter, as amended, or its bylaws.

(o) To the knowledge of Krause and Ramirez, no statute has been enacted nor has any rule or regulation been adopted by any Governmental Authority, whose laws apply to the business of the Company which could have an adverse effect on the condition (financial or otherwise), operations, obligations or liabilities of the Company which has not yet been reflected in the operating results of the Company.

3.8 Properties.

(a) The Company owns no real property. The Company Balance Sheet reflects all of the real and personal property used by the Company in its business or otherwise held by the Company, except for (x) property acquired or disposed of in the ordinary and usual course of the business of the Company since the date of such Balance Sheet, and (y) real and personal property not required under GAAP to be reflected thereon. Except as reflected in the Notes to the Company Balance Sheet, the Company has good and marketable title to all assets and properties listed on the Company Balance Sheet and thereafter acquired, free and clear of any imperfections of title, lien, claim, encumbrance, restriction, charge or equity of any nature whatsoever, except for the lien of current taxes, not yet delinquent, and imperfections, liens, etc. that are immaterial in amount. All of the fixed assets and properties reflected on the Company Balance Sheet or thereafter acquired, are in good working condition and repair for the requirements of the business as presently conducted by the Company, ordinary wear and tear excepted. Attached as Exhibit B is a schedule of all equipment or other capital leases of which the Company is a party.

(b) The Company is, and at all times has been, in material compliance with all local, state and federal statutes, orders, rules, ordinances and regulations relating to pollution or protection of the environment, including, without limitation, laws relating to exposures, emissions, discharges, releases or threatened releases of Hazardous Substances into or on land, ambient air, surface water, groundwater, personal property or structures (including the protection, cleanup, removal, remediation or damage thereof), or otherwise related to manufacture, processing, distribution, use, treatment, storage, disposal, transport, discharge or handling of Hazardous Substances. "Hazardous Substances" shall mean any pollutant, contaminant, or waste regulated, restricted or prohibited by any law, regulation or ordinance or designated by any Governmental Authority to be hazardous, toxic, radioactive, bio-hazardous or otherwise a danger to health or the environment.

(c) To the Selling Stockholders' knowledge there are no Hazardous Substances in, under or on the soil, surface water or groundwater on, under or around any properties at any time owned, leased or occupied by the Company. Except as set forth in Section 3 (b) (c) of the Disclosure Schedule, the Company has not discharged any Hazardous Substances on or about such property; and the Company has not discharged any materials at any site being investigated or remediated for contamination or possible contamination of the environment. Based on its own actions, and based on its knowledge, in regard to the action of others: the said properties (i) do not contain and have not previously contained underground storage tanks, (ii) have never been used for the generation, treatment, storage or disposal of any Hazardous Substances in violation of any applicable current or past laws, except as set forth in Section 3.8 (c) of the Disclosure Schedule, (iii) have not had any release of any Hazardous Substances from, on, in, or upon, them, and do not face any risk of contamination of any Hazardous Substance from any nearby property, and (iv) have never been the subject of an environmental audit or assessment, remedial action, or a lien or encumbrance for any environmental problem.

(d) To the Selling Stockholders' knowledge, there have been no judicial or administrative proceedings or other investigations and there are no judicial or administrative proceedings or other investigations pending or threatened alleging violation by the Company of any local, state or federal laws respecting land use, pollution or protection of the environment including, without limitation, laws regulating the use, storage, transportation or disposal of Hazardous Substances; and the Company has not received any notice of any investigation, claim or proceeding against the Company by any individual or Governmental Authority relating to Hazardous Substances and the Company is not aware of any fact or circumstance which would likely involve the Company in any environmental litigation, proceeding, investigation or claim or impose any environmental liability upon the Company.

(e) Section 3.8 (e) of the Disclosure Schedule sets forth a complete list of all real property leased by the Company or under option to purchase by the Company. All such property leased by the Company is held under valid, subsisting and enforceable leases, and the operations of the Company thereon do not violate any applicable building code, zoning requirement or classification, or pollution control ordinance or stature relating to the property or to such operations, and such non-violation is not dependent, in any instance, on so-called, non-conforming use exemption.

(f) Section 3.8 (f) of the Disclosure Schedule sets forth a complete list of all permits, consents and approvals which the Company is required to have under local, state or federal laws respecting land use, pollution or protection of the environment for the construction of their facilities and/or for the operation of its business. The Company has obtained each and every one of such permits, consents and approvals and is, and at all times have been, in substantial compliance, particularly with respect to correcting conditions set forth in any citations or written warnings, with each and every one of the terms and conditions thereof. Further, all of the listed permits, consents and approvals are in full force and effect, none have been modified, and, to the Selling Stockholders' knowledge, there is no proceeding pending which may result in the reversal, rescission, termination, modification or suspension of any such permit, consent or approval.

(g) The Company has kept all records and made all filings required by all applicable local, state and federal laws relating to land use, all exposures, emissions, discharges and releases into the environment and the proper use, storage, transportation and disposal of all Hazardous Substances.

3.9 Receivables. All of the accounts receivable of the Company shown on the Company Balance Sheet or reflected on the accounting records of the Company as of the time of Closing represent or will represent valid and legally enforceable obligations arising from sales actually made in the ordinary and usual course of business and are current and collectible net of the respective reserves shown on the Company Balance Sheet or on the accounting records of the Company as of the time of Closing (which reserves are adequate and calculated consistent with past practice, and in the case of the reserves as of the time of Closing, will not represent a greater percentage of accounts receivable reflected therein). Subject to such reserves, each of the foregoing accounts receivable either has been collected in full or will be collected in full, without any setoff, within 90 days from invoice date. If such receivables are not timely so collected, Article 8 shall be applicable, and upon being reimbursed for the amount of such receivables, the Company will assign such unpaid receivables to the Selling Stockholders.

3.10 Taxes. The Company has duly filed with the appropriate United States, state, local and foreign governmental agencies all tax returns and reports required to be filed (subject to permitted extensions applicable to such filings), which returns are accurate and complete, in all material respects, and have paid or accrued in full all taxes, duties, charges, withholding obligations and other governmental liabilities as well as any interest, penalties, assessments or deficiencies, if any, due to, or claimed, at any time, to be due by, any Governmental Authority with respect to tax periods ending prior to or on the Closing Date. (All such items are collectively referred to herein as "Taxes"). The Company Balance Sheet fully accrues or reserves all current and deferred Taxes. The Company is not a party to any pending action or proceeding, nor is any such action or proceeding threatened by any Governmental Authority for the assessment or collection of Taxes. Since November 30, 2001, no liability for Taxes has been incurred other than in the ordinary course of business. There are no liens for Taxes except for liens for property taxes not yet delinquent. The Company is not a party to any Tax sharing, Tax allocation, Tax indemnity or statute of limitations extension or waiver agreement and in the past five (5) years has not been included on any consolidated, combined or unitary return with any entity.

3.11 Increases in Compensation. Except as set forth in Section 3.11 of the Disclosure Schedule, since November 30, 2001 the Company has not paid or committed itself to pay to or for the benefit of any of its directors, officers, employees or stockholders any compensation of any kind other than wages, salaries and benefits at times and rates in effect on November 30, 2001, subject to wage increases of less than four percent paid or payable to employees other than officers and directors, nor has the Company effected or agreed to effect any amendment or supplement to any employee profit sharing, stock option, stock purchase, pension, bonus, incentive, retirement, medical reimbursement, life insurance, deferred compensation or any other employee benefit plan or arrangement.

3.12 Compliance with Law. All licenses, franchises, permits, clearances, consents, certificates and other evidences of authority of the Company which are necessary to the conduct of the business of the Company, the absence of which would have a material adverse effect on the operations of the Company ("Permits") are in full force and effect and the Company is not in violation of any Permit. Except as set forth in Section 3.12 of the Disclosure Schedule, the business of the Company has been conducted in all material respects in accordance with all applicable laws, regulations, orders and other requirements of any Governmental Authority.

3.13 Litigation. Except as set forth in Schedule 3.13 of the Disclosure Schedule, there is no claim, dispute, action, proceeding, notice, order, suit, appeal or investigation, at law or in equity, pending against the Company, or involving any of its assets or properties, before any court, agency, authority, arbitration panel or other tribunal (other than those, if any, with respect to which service of process or similar notice has not yet been made on the Company), and none have been threatened in writing. There are no facts known to the Selling Stockholders, which, if known to stockholders, customers, or any Governmental Authority or any other Person, would result in any such claim, dispute, action, proceeding, suit or appeal or investigation, which would have an adverse effect on the condition (financial or otherwise), business, net worth, assets, prospects, properties or operations of the Company. The Company is not subject to any order, writ, injunction or decree of any court, agency, authority, arbitration panel or other tribunal, nor is the Company in default with respect to any notice, order, writ, injunction or decree.

3.14 Executory Contracts. Section 3.14 of the Disclosure Schedule sets forth a complete list of each executory contract and agreement (copies of which have been provided to Purchaser) in the following categories to which the Company is a party, or by which it is bound in any respect, (a) agreements for the purchase, sale, lease or other disposition of equipment, goods, materials, research and development, supplies, studies or capital assets, or for the performance of services, in any case involving more than $5,000 in any twelve month period; (b) contracts or agreements for the joint performance of work or services, and all other joint venture agreements; (c) management or employment contracts, consulting contracts, collective bargaining contracts, termination and severance agreements; (d) notes, mortgages, deeds of trust, loan agreements, security agreements, guarantees, debentures, indentures, credit agreements and other evidences of indebtedness; (e) stock option, stock purchase, warrant, repurchase or other contracts or agreements relating to any share; (f) contracts or agreements with agents, brokers, consignees, sale representatives or distributors; (g) contracts or agreements with any director, officer, employee, consultant or stockholder; (h) powers of attorney or similar authorizations granted by the Company to third parties; (i) licenses, sublicenses, royalty agreements and other contracts or agreements to which the Company is a party, or otherwise subject, relating to technical assistance or to Proprietary Rights as defined below; and (j) all non disclosure agreements of which the Company is a party, or beneficiary.

The Company has not entered into any contract or agreement containing covenants limiting its right to compete in any business or with any Person. As used in this Agreement, the terms "contract" and "agreement" include every contract, agreement, commitment, understanding and promise, whether written or oral.

3.15 No Default.

(a) Each of the contracts, agreements or other instruments referred to in Section 3.14 of the Disclosure Schedule is a legal, binding and enforceable obligation against the Company in accordance with its terms, and to the knowledge of the Selling Stockholders, is a legal, binding enforceable obligation of applicable third parties, subject to the effect of applicable bankruptcy, insolvency, reorganization, moratorium or other similar federal or state laws affecting the rights of creditors and the effect or availability of rules of law governing specific performance, injunctive relief or other equitable remedies (regardless of whether any such remedy is considered in a proceeding at law or in equity). To the Selling Stockholders' knowledge, no party with whom the Company has an agreement or contract is in default thereunder or has breached any terms or provisions thereof, which default or breach would materially adversely affect the benefits to be received by the Company, thereunder.

(b) The Company has performed, or is now performing, the obligations of, and the Company is not in default (or would by the lapse of time and/or the giving of notice be in default) in respect of, any contract, agreement, commitment, understanding or arrangement (written or oral) binding upon it or its assets or properties, which default would materially adversely affect the Company. No third party has raised any claim, dispute or controversy with respect to any of the executory contracts of the Company, nor has the Company received notice or warning of alleged nonperformance, delay in delivery or other noncompliance by the Company with respect to its obligation under any of those contracts, nor are there any facts which exist indicating that any of those contracts may be totally or partially terminated or suspended by the other parties thereto.

3.16 Proprietary Rights.

(a) Section 3.16 of the Disclosure Schedule sets forth a complete list of all patents and applications for patents, trademarks, trade names, service marks, and copyrights, and applications therefor, owned or used by the Company or in which the Company has any rights or licenses, or for which the Company has assigned any of the aforesaid rights to any third persons. The Company is the sole owner of, has the sole and exclusive right to use, has the right and power to sell, and has taken all reasonable measures to maintain and protect, such patents, trademarks, trade names, service marks, and copyrights. Section 3.16 of the Disclosure Schedule sets forth a complete and accurate description of all agreements of the Company with each officer, employee or consultant of the Company, providing the Company with title and ownership to patents, patent applications, trade secrets and inventions developed or used by the Company in it business. All of such agreements so described are valid, enforceable, and legally binding against the Company, and, to the knowledge of the Selling Stockholders, against applicable third parties, subject to the effect or availability of rules of law governing specific performance, injunctive relief or other equitable remedies (regardless of whether any such remedy is considered in a proceeding at law or in equity).

(b) The Company owns or possesses licenses or other rights to use all patents, patent applications, trademarks, trademark application, trade secrets, service marks, trade names, copyrights, inventions, drawings designs, proprietary computer programs and software, algorithms, formulae, proprietary know-how or information, or other rights with respect thereto (collectively referred to as "Proprietary Rights"), used in and are necessary to conduct the business of the Company.

(c) The operations of the Company do not conflict with or infringe, and no one has asserted to the Company that such operations conflict with or infringe, any Proprietary Rights owned, possessed or used by any third party. There are no claims, disputes, actions, proceedings, suits or appeals pending against the Company with respect to any Proprietary Rights, and none has been threatened against the Company. To the knowledge of the Selling Stockholders, except as set forth in Schedule 3.16 (c), there are no facts or alleged facts, which would serve as a basis for any claim that the Company does not have the right to use, free of any rights or claims of others, all Proprietary Rights in the development, manufacture, use, sale or other disposition of any or all products or services presently being used, furnished or sold in the conduct of the business of the Company as it has been and is now being conducted.

(d) The Company has delivered to Purchaser, a list of any inter party proceedings before any patent or trademark authority to which the Company is a party, a description of the subject matter of each proceeding and the current status of each proceeding, including, without limitation, interferences, priority contests, oppositions, and protests. To the extent not otherwise included in the foregoing list, the Company will also include in such list any pending applications for reissue or reexamination of a patent.

(e) The Company has taken reasonable measures to maintain the confidentiality of the processes and formulae, research and development results, computer programs and software and other know-how the value of which to the Company is contingent upon maintenance of the confidentiality thereof.

(f) With respect to the Proprietary Rights the Company has delivered to Purchaser its best available list of patent applications, trademark applications, and copyright applications specifying as of the date hereof as to each, as applicable:

(i) the title of the patent, trademark or copyright constituting such Proprietary Right.

(ii) The jurisdictions by or in which such Proprietary Right has been issued or registered or in which an application for such issuance or registration has been filed, including the respective registration or application numbers; and

(iii) material licenses, sublicenses, collaboration, joint development and similar agreements as which the Company or any affiliate is a party.

The Proprietary Rights on such list are free of any unresolved ownership disputes with respect to any third party and there is no unauthorized use, infringement or misappropriation of any such Proprietary Rights by any third party, including any employee or former employee of the Company.

3.17 Insurance. Section 3.17 of the Disclosure Schedule sets forth a complete list of all policies of insurance to which the Company is a party or is a beneficiary or named insured. The Company has in full force and effect, with all premiums due thereon paid, the policies of insurance set forth therein. For the period since November 30, 2001, except as set forth in Section 3.17 of the Disclosure Schedule, there were no claims in excess of $5,000 asserted under any of the insurance policies of the Company, including without limitation, the motor vehicle, general liability, professional liability, products liability, and worker's compensation insurance policies of the Company.

3.18 Bank Accounts. Section 3.18 of the Disclosure Schedule sets forth, and at the time of Closing the Company will update, a true and correct list setting forth the names and addresses of all banks, other institutions and state governmental departments at which the Company has accounts, deposits or safety deposit boxes, or special deposits required to be held by such state governmental departments the nature of such account and the names of all persons authorized to draw on or give instructions with respect to such accounts or deposits, or to have access thereto, and the names and addresses of all persons, if any, holding a power-of-attorney on behalf of the Company. All cash in such accounts is held in demand deposits and is not subject to any restriction or limitation as to withdrawal.

3.19 Brokers or Finders. Except as set forth in Section 3.19 of the Disclosure Schedule, or as described in Section 2.1 (i) above, neither the Company, nor any of the Selling Stockholders has dealt with any broker or finder in connection with the transactions contemplated by this Agreement. The Company has not incurred, and shall not incur, directly or indirectly, any liability for any brokerage or finders' fees or agents' commissions or any similar charges in connection with this Agreement or any transaction contemplated hereby.

3.20 Certain Advances. There are no receivables of the Company owing from directors, officers, employees, consultants or stockholders of the Company, or owing by any Affiliate of any director or officer of the Company, other than advances in the ordinary and usual course of business to officers and employees for reimbursable business expenses which are not in excess of $1,000 for any one individual, or $5,000 in the aggregate.

3.21 Related Parties. Except as set forth in Section 3.21 of the Disclosure Schedule, no officer or director of the Company, or any Affiliate of any such person, has, either, directly or indirectly, (a) an interest in any corporation, partnership, firm or other Person or entity which competes, or potentially will compete, directly or indirectly, with the Company, or (b) a beneficial interest in any contract or agreement to which the Company is a party or by which the Company may be bound. For purposes of this Section 3.21, there shall be disregarded any interest which arose solely from the ownership of less than a five percent (5%) equity interest in a corporation whose stock is regularly traded on any national securities exchange or in the over-the-counter market.

3.22 Employees and Union Activities. The Company has complied, in all material respects, with all applicable state and federal laws related to employment. None of the employees of the Company are represented by any union or are parties to any collective bargaining arrangement, and, to the Selling Stockholders' knowledge, no attempts are being made to organize or unionize any of the employees of the Company.

3.23 Employee Benefit Plans.

(a) Except for the plans and agreements listed in Section 3.23 (a) of the Disclosure Schedule (collectively, the "Plans"), the Company does not maintain or participate in, is not a party to, does not contribute to and is not obligated to contribute to, and has not adopted (whether as sponsor or as a participating company) any legally enforceable benefit plans, program, agreements, policies, commitments or other arrangements (whether or not set forth in a written document) within the following categories:

(i) Any employee pension benefit plan, as defined in Section 3 (2) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), including (without limitation) any multi-employer plan, as defined in Section 3. (37) of ERISA;

(ii) Any employee welfare benefit plan, as defined in Section 3 (1) of ERISA;

(iii) Any bonus, deferred compensation, incentive, restricted stock, stock purchase, stock option, stock appreciation right, phantom stock, debenture, supplemental pension, profit-sharing, royalty pool, commission or similar plan or arrangement;

(iv) Any plan, program, agreement, policy, commitment or other arrangement relating to severance or termination pay, whether or not published or generally known;

(v) Any plan, program, agreement, policy, commitment or other arrangement relating to the provision of any benefit described in Section 3 (1) of ERISA to former employees or directors or to their survivors, other than procedures intended to comply with the continuation coverage provisions of the Consolidated Omnibus Budget Reconciliation act of 1984 ("COBRA");

(vi) Any plan, program, agreement, policy, commitment or other arrangement relating to loans or other extensions of credit, loan guarantees, relocation assistance or similar benefits;

(vii) Any plan, program, agreement, policy, commitment or other arrangement relating to loans or other extensions of credit, loan guarantees, relocation assistance or similar benefits;

(viii) Any employment, consulting or termination agreement; or

(ix) Any other plan, program, agreement, procedure, policy, commitment, understanding or other arrangement relating to employee benefits, executive compensation, fringe benefits, severance pay, terms of employment or services as an independent contractor.

(b) The Company has provided to Purchaser complete, accurate and current copies of each of the following:

(i) The text (including amendments) of each of the Plans, to the extent reduced to writing;

(ii) A description of all material elements of each of the Plans, to the extent not previously reduced to writing;

(iii) With respect to each Plan that is an employee benefit plan (as defined in Section 3 (3) of ERISA) the following:

(A) The most recent summary plan, description, as described in Section 102 of ERISA;

(B) Any summary of material modifications that has been distributed to participants or filed with the U.S. Department of Labor but that has not been incorporated in an updated summary plan description furnished under Subparagraph (A) above; and

(C) The annual reports, as described in Section 103 of ERISA, for the most recent three (3) plan years for which an annual report has been prepared (including all schedules and attachments).

(iv) Where applicable, the actuarial reports for the two most recent reporting periods for which such a report has been prepared;

(v) With respect to each Plan that is intended to qualify under Section 401 (a) of the Code, the most recent determination letter concerning the plan's qualification under Section 401 (a) of the Code, as issued by the Internal Revenue Service and the most recent request for such a determination letter; and

(vi) Any handbook, manual, policy statement or similar written guidelines furnished to employees of the Company, excluding any such item that has been superseded by any subsequent handbook, manual, policy statement or similar written guidelines.

(c) With respect to each plan that is an employee benefit plan (as defined in Section 3 (3) of ERISA) and that is subject to the reporting, disclosure and record retention requirements set forth in Part I of Subtitle B of Title I of ERISA and the regulations thereunder, each of such requirements has been fully met on a timely basis.

(d) With respect to each Plan that is an employee benefit plan (as defined in Section 3 (3) of ERISA)and that is subject to Part 4 of Subtitle B of Title I of ERISA, none of the following now exists or has existed within the six (6) year period ending on the date hereof:

(i) Any act or omission constituting a violation of section 402, 403, 404 or 405 of ERISA; or

(ii) Any act or omission that constitutes a violation of Sections 406 and 407 of ERISA and is not exempted by Section 408 of ERISA or that constitutes a violation of Section 4975 (c) of the Code and is not exempted by Section 4975 (d) of the Code.

(e) Each Plan that is intended to qualify under Section 401 (a) of the Code meets all requirements for qualification under Section 401 (a) of the Code and the regulations thereunder, except to the extent that such requirements may be satisfied by adopting retroactive amendments under Section 401 (b) of the Code and the regulations thereunder. Each such Plan has been administered in accordance with its terms and the applicable provisions of ERISA and the Code and the regulations thereunder.

(f) No Plan that is subject to Section 412 of the Code has incurred any accumulated funding deficiency (as defined in Section 412 of the Code), whether or not waived, as of the last day of the most recent fiscal year of such Plan. No amendment to any such Plan is precluded by any waiver, extension or prior amendment described in Section 412 (f) (1) of the Code, and no such waiver has been requested.

(g) The Company has no liability to the Pension Benefit Guaranty Corporation, to any multi employer plan (as defined in Section 4001 (a) (3) of ERISA) or to any trustee under subtitles D or E of ERISA. No event has occurred that, with the giving to notice under Sections 4063 and 4219 of ERISA, would result in such liability.

(h) All contributions, premiums or other payments due from the Company to (or under) any Plan have been fully paid or adequately provided for on the Company Balance Sheet. All accruals (including, where appropriate, proportional accruals for partial periods) have been made in accordance with prior practices.

(i) Each Plan complies with all applicable requirements of (A) the Age Discrimination in Employment Act of 1967, as amended, and the regulations thereunder, (B) Title VII of the Civil Rights Act of 1964, as amended, and the regulations thereunder, (C) the health care continuation provisions of COBRA and (D) any other applicable law.

(j) There is no pending or threatened litigation relating to any Plan.

(k) No payment, benefit, right or entitlement under any Plan or any arrangement with any current or former officer, employee or independent consultant of the Company, for which the Company established or become accelerated, vested or payable by reason of any transaction contemplated under this Agreement (either alone or in combination with the occurrence of any additional acts or events).

(l) No payment made to any employee, officer, director or independent contractor of the Company (the "Recipient") pursuant to any employment contract, severance agreement or other arrangement (the "Golden Parachute Payment") will be nondeductible by the Company because of the application of Sections 280G and 4999 of the Code to the Golden Parachute Payment, nor will the Company be required to compensate any Recipient because of the imposition of an excise tax (including any interest of penalties related thereto) on the Recipient by reason of Sections 280G and 4999 of the Code.

(m) The Company has provided Purchaser with its best estimate of the unfunded liability for retiree life and medical benefits for current or former employees of the Company, together with a description of the assumptions used in estimating such liability. The Company has the right to modify or terminate such benefits at any time and in any respect, with regard to both former employees and active employees.

(n) Except as disclosed in Section 3.23 (n) of the Disclosure Schedule, the Company has made no commitment, plan or agreement ,whether legally binding or not, to create any additional benefit plan or to modify or change any existing benefit plan, unless required by applicable law.

(o) Except as set forth in Section 3.23 (o) of the Disclosure Schedule, no former employee or dependent of a former employee of the Company is receiving or is entitled to elect receive continued health care coverage under COBRA.

3.24 Employees.

(a) Section 3.24 (a) of the Disclosure Schedule sets forth the following information for each employee, officer or director of the Company, including, without limitation, each employee on leave of absence or layoff status: name; job title; date of hire; current compensation paid or payable and showing any change in compensation since November 30, 2001; and vacation accrued at November 30, 2001. To the Selling Stockholders' knowledge, no employee, officer or director of the Company is a party to, or is otherwise bound by, any agreement or arrangement, including, without limitation, any confidentiality, non competition or proprietary rights agreement between such employee, officer or director and any other entity or Person ("Proprietary Rights Agreement") which in any way adversely affected, affects or will affect, (a) the performance of his duties as an employee or director of the Company or (b) the Company or (c) the ability of the Company to conduct its business. Except as disclosed in Section 3.24 (a) of the Disclosure Schedule, to the best knowledge of the Company no director, officer or other key employee of the Company intends to terminate his employment with the Company. The Company has no obligation to make any payments to, or confer any other benefits, employees, officers or directors of the Company as a result of the transactions contemplated hereby.

(b) Section 3.24 (b) of the Disclosure Schedule sets forth the following for each retired employee or director (or their dependents or beneficiaries) of the Company receiving benefits or scheduled to receive benefits in the future: name, pension benefit, pension option election, retiree medical insurance coverage, retiree life insurance coverage and other benefits.

3.25 Inventory. The inventory of the Company is of good, usable and merchantable quality. Except as set forth in Section 3.25 (a) of the Disclosure Schedule, such inventory does not include obsolete or discontinued items except to the extent reserved against on the Company Balance Sheet, and, in the opinion of the Company, such reserve is reasonable in amount and is established in a manner and in an amount consistent with previous reserves provided for in the Company's previous financial statements. Except as set forth in Section 3.25 (b) of the Disclosure Schedule, on the basis of the Company's experience, such inventory does not include supplies of finished goods, raw materials or promotional materials in excess of the requirements for one year. The products manufactured by the Company, as finished goods, and included in inventory, as of the Closing Date, are free of defects materially affecting their principal functions and economic value.

3.26 Underlying Documents. Copies of any underlying documents listed or described as having been disclosed to Purchaser pursuant to this Agreement, or have been requested by Purchaser as part of its due diligence, including those set forth in Exhibit J, have been furnished to Purchaser. All such documents furnished to Purchaser are true and correct copies, and there are no amendments or modifications thereto that have not been disclosed to Purchaser. The minute books of the Company contain complete and accurate records of all meetings and other corporate actions taken by the directors and stockholders of the Company.

3.27 Full Disclosure. Any information contained in the Disclosure Schedule referred to in this Agreement, at any time prior to the time of the Closing, and all information furnished to Purchaser under Exhibit J, does not and will not contain any untrue statement of a material fact and does not and will not omit to state any material fact, necessary to make any statement, in light of the circumstances under which such statement is made, not misleading.

ARTICLE 4

REPRESENTATIONS AND WARRANTIES OF PURCHASER

Purchaser represents and warrants to the Company and each Selling Stockholder as follows:

4.1 Organization. Purchaser is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware.

4.2 Authority. Purchaser has all requisite corporate power and authority toenter into this agreement and, subject to satisfaction of the conditions set forth herein, to consummate the transactions contemplated hereby and thereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Purchaser. This Agreement has been duly executed and delivered by Purchaser and constitutes a valid and binding obligation of Purchaser, enforceable in accordance with its terms, subject to the effect of applicable bankruptcy, insolvency, reorganization, moratorium or other similar federal or state laws affecting the rights of creditors and the effect or availability of rules of law governing specific performance, injunctive relief or other equitable remedies (regardless of whether any such remedy is considered in a proceeding at law or in equity).

4.3 No Conflicts. Provided the conditions set forth in Article 7 are satisfied, the execution and delivery of this Agreement does not or will not, and the consummation of the transactions contemplated hereby will not, conflict with, or result in any violation of or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, cancellation or acceleration of any obligation or to loss of a benefit under (a) any provision of the corporate charter or (b) any agreement or instrument, permit, franchise, license, judgment or order appplicable to the Purchaser.

ARTICLE 5

COVENANTS RELATING TO CONDUCT OF BUSINESS

During the period from the date of this Agreement and continuing until the Closing, the Company agrees (except as expressly contemplated by this Agreement or to the extent that Purchaser shall otherwise consent in writing) that:

5.1 Ordinary Course. The Company shall carry on its business in the usual, regular and ordinary course, including the payment of all state and federal taxes, in substantially the same manner as heretofore conducted and, to the extent consistent with such business, will use its best efforts to preserve intact its present business organization, will use its best efforts to keep available the services of its present officers and key employees, and will preserve its relationship with present and potential customers, providers and others having business dealings with them to the end that its goodwill and ongoing business shall be unimpaired at the time of the Closing.

5.2 Dividends; Changes in Stock. The Company shall not, and shall not propose to, (a) declare or pay any dividends on or make other distributions in respect of any of its capital stock, if such dividend or distributions would cause the Company to violate the Company Balance Sheet requirements set forth in Section 7.2 (l) hereof, and unless such dividend or distribution is set forth in Section 5.2 of the Disclosure Schedule, (b) split, combine or reclassify any of its securities in respect of, in lieu of, or in substitution for, shares of capital stock of the Company or (c) repurchase or otherwise acquire any shares of its capital stock or rights to acquire any shares of its capital stock.

5.3 Issuance of Securities. The Company shall not issue, deliver or sell or authorize or propose the issuance, delivery or sale of, or purchase or propose the purchase of, any shares of its capital stock of any class or securities convertible into, or rights, warrants or options to acquire, any such shares or other convertible securities.

5.4 Governing Documents. The Company shall not amend its corporate charter or bylaws.

5.5 No Other Bids. Neither the Selling Stockholders, Krause, Ramirez, the Company, nor any of its directors, officers or agents, will, directly or indirectly, solicit or initiate or encourage any discussions or negotiations with, , or participate in any negotiations with, or provide any information to or otherwise cooperate in any other way with, any corporation, partnership, Person or other entity or group (other than Purchaser) concerning any merger, sale of substantial assets, sale of shares of capital stock, of the Company or any division of the Company or control thereof. Purchaser shall be promptly notified in writing by the Company, Krause, Ramirez, or a Selling Stockholder, of any of the events referred to in this Section 5.5, including a summary of the terms of any other bid received by the Company or by any Selling Stockholder.

5.6 No Acquisitions. The Company shall not (a) acquire or agree to acquire by merging or consolidating with, or by purchasing a substantial portion of the assets of, or by any other manner, any business or any corporation, partnership, association or other business organization or division thereof or (b) otherwise acquire or agree to acquire any assets which are material, individually or in the aggregate, to the Company, except in the ordinary course of business consistent with prior practice.

5.7 No Dispositions. The Company shall not lease or otherwise dispose of any of its assets, individually or in the aggregate, except in the ordinary course of business consistent with prior practice.

5.8 Indebtedness. The Company shall not incur any indebtedness for borrowed money.

5.9 Benefit Plans, Etc. The Company shall not adopt or amend in any material respect any collective bargaining bonus, incentive, profit-sharing, stock option, stock purchase, pension, retirement, deferred-compensation, severance, life insurance, medical or other benefit plan, agreement, trust, fund or arrangement for the benefit of employees of any kind whatsoever, nor enter into or amend any agreement relating to employment, services as an independent contractor or consultant, or severance or termination pay, nor agree to do any of the foregoing, other than as provided in this Agreement.

ARTICLE 6

ADDITIONAL AGREEMENTS

6.1 Access to Information. The Company shall afford to Purchaser and shall cause its independent accountants to afford to Purchaser and Purchaser's accountants, counsel and other representatives, reasonable access during normal business hours during the period prior to the time of the Closing Date to the Company's properties, books, including minute book and stock ledger book, contracts, commitments and records, and to Purchaser's independent accountants reasonable access to the audit work papers and other records of the Company's accountants. During such period the Company shall use reasonable efforts to furnish promptly to Purchaser a copy of all information concerning the business, properties and personnel of the Company as Purchaser may request. If the transactions contemplated by this Agreement are not consummated, each party will return or destroy as much of such information to the extent it is written, as may reasonably be requested. At the Closing, and thereafter, the Company shall furnish Purchaser, or its designated representatives, with details regarding all formulae, formulation information, processes and technology used by the Company in the conduct of its business.

6.2 Legal Conditions to the Transactions. Each party will take all reasonable actions necessary to comply promptly with all legal requirements which may be imposed on such party with respect to the transactions contemplated hereby, and will promptly cooperate with and furnish information to the other party in connection with any such requirements imposed upon such other party in connection with such transactions. Each party will take all reasonable actions to obtain (and to cooperate with the other party in obtaining) any consent, authorization, order or approval of, or any exemption by, any Governmental Authority, or other third party, required to be obtained or made by such party or its subsidiaries (or by the other party) in connection with the taking of any action contemplated thereby or by this Agreement.

6.3 Communications. Between the date hereof and the time of the Closing, no party will furnish any communication to the public generally if the subject matter thereof relates to the other party or to the transactions contemplated by this Agreement, without the prior approval of the other party as to the content thereof, which approval shall not be unreasonably withheld, and subject to each party's compliance with applicable law or stock exchange requirements.

6.4 Agreements Regarding Company Stock. In consideration for the execution of this Agreement by Purchaser each of the Selling Stockholders hereby agrees not to sell, assign, pledge, hypothecate, make gifts of or in any manner whatsoever dispose of or encumber any of such Selling Stockholder's shares of Common Stock.

6.5 Update to Disclosures. Without limiting Purchaser's right to rely on the and warranties as of the date of this Agreement, the Company shall provide Purchaser with updates to the disclosures provided or made available to Purchaser as to facts which arise between the date of this Agreement and the time of the Closing and which, if they had occurred and been known prior to the date of this Agreement, would have been required to have been disclosed in order to make the representations and warranties contained in Article 3 true and correct as of the date of this Agreement.

6.6 Good Faith. Each party shall act in good faith in an attempt to cause to be satisfied all the conditions precedent to its obligations and those of the other parties to this Agreement over which it has control or influence Each party will act in good faith and take all reasonable action within its capability necessary to render accurate as of the time of the Closing its representations and warranties.

6.7 Representations. The Company, Krause, Ramirez, and the Selling Stockholders shall not be deemed to have made to Purchaser any representation or warranty other than as expressly made in Articles 2 and 3 hereof. Without limiting the generality of the foregoing, and notwithstanding any other representations or warranties set forth in Articles 2 and 3, the Company, Krause, Ramirez and the Selling Stockholders make no representation or warranty to Purchaser with respect to:

(a) any projections, estimate or budgets heretofore delivered or made available to Purchaser of future revenues, expenses or expenditures, (including, without limitation, those contained in any Confidential Information Memorandum circulated in connection with the Seller's solicitation of indications of interest in acquiring the Company (the "Confidential Memorandum");

(b) any other information or documents made available to Purchaser or its counsel, accountants or advisors with respect to the Company (including the Confidential Memorandum), except as expressly covered by a representation and warranty contained in Articles 2 and 3 hereof.

ARTICLE 7

CONDITIONS PRECEDENT

7.1 Conditions to Obligations of the Selling Stockholders, etc. The obligations of each Selling Stockholder, Krause, Ramirez and the Company to effect the transactions contemplated to occur at the Closing shall be subject to the satisfaction on or prior to the time of such Closing of the following conditions, unless waived in writing by each Selling Stockholder:

(a) Representations and Warranties. The representations and warranties of Purchaser set forth in this Agreement shall be true and correct as of the date of this Agreement, and as if made at and as of the time of the Closing, except as otherwise contemplated by this Agreement, and at the time of the Closing the Company shall have received a certificate signed by an officer of Purchaser to such effect.

(b) Performance of Obligations of Purchaser. Purchaser shall have performed all obligations required to be performed by it under this Agreement prior to the time of such Closing, and the Company shall have received a certificate signed by an officer of Purchaser to such effect.

(c) No Proceeding or Litigation. No order actually restraining, preventing or changing this Agreement or the transactions contemplated hereby shall have been entered by any court or Governmental Authority.

7.2 Conditions to Obligations of Purchaser. The obligations of Purchaser (but no other party to this Agreement) to effect the transactions contemplated to occur at the Closing are subject to the satisfaction on or prior to the time of such Closing of the following conditions, unless waived in writing by Purchaser:

(a) Representations and Warranties. The representations and warranties of the Company, Krause, Ramirez, and the Selling Stockholders set forth in this Agreement shall be true and correct as of the date of this Agreement and as if made at and as of the time of such Closing, except as otherwise contemplated by this Agreement, and Purchaser shall have received a certificate or certificates signed by the chief executive officer and chief financial officer of the Company to such effect, with respect to the representations and warranties of the Company.

(b) Performance of Obligations of the Company and Selling Stockholders. Each Selling Stockholder, Krause, Ramirez, and the Company shall have performed all obligations required to be performed by it under this Agreement prior to the time of the Closing, and, at the time of the Closing, Purchaser shall have received a certificate signed by the chief executive officer and chief financial officer of the Company to such effect, with respect to the obligations of the Company, together with the stock certificates previously issued to the Selling Stockholders, together with assignments executed by each of the Selling Stockholders in blank.

(c) Opinion of Counsel. Purchaser shall have received an opinion, dated the Closing Date, of counsel to the Company, in a form acceptable to Purchaser.

(d) No Adverse Change. Since the date of this Agreement there shall have been no changes in the condition (financial or otherwise), business, prospects, employees, operations, obligations or liabilities of the Company which, in the aggregate, have had or could be expected to have an adverse effect on the financial condition, business, or operations of the Company.

(e) No Proceeding or Litigation. No order actually restraining, preventing or changing this Agreement or the transactions contemplated hereby, shall have been entered by any court or Governmental Authority.

(f) Non-Compete Agreements. Krause and Ramirez shall have executed and delivered to Purchaser a Covenant Not To Compete in the forms attached hereto as Exhibits D and E, respectively.

(g) Consulting Agreements. Krause and Ramirez shall have executed and delivered to Purchaser a Consulting Agreement in the forms attached hereto as Exhibits F and G, respectively.

(h) Resignations. The Selling Stockholders shall have caused to be delivered to Purchaser and the Company the written resignation of all officers and directors of the Company.

(i) Consents; Customer Agreements. All Consents shall have been obtained and be in form and substance satisfactory to Purchaser. The Purchaser shall have met with all of the Company's top four (4) customers and received satisfactory assurance that such customers intend to continue to purchase products of the Company after the Closing. Set forth in Exhibit D is a list of such customers.

(j) Closing Certificates. Purchaser shall have received from the Company a certificate of the Secretary of the Company and other customary closing documents all in form reasonably satisfactory to Purchaser.

(k) Landlord Assurances. The Landlord to all of the Company's leased real property, as described in Section 3.8 (e) of the Disclosure Schedule, shall have given the necessary consent to the proposed sale of the Shares, or agreed to enter into new leases with the Company, so that the leases of the leased property will not be in default, and shall have given Purchaser satisfactory assurances that the Landlord will not unreasonably withhold consent to any future assignments or subleasing of the said real property, by the Company. However, Purchaser has furnished Selling Stockholders with a letter, a copy of which is attached as Exhibit A, setting forth Purchaser's intentions with regard to a possible relocation of the business and Purchaser's commitment thereunder shall survive the Closing.

(l) Company Balance Sheet Requirements. The Company Balance Sheet, as adjusted, based on generally accepted accounting practices, as of the Closing, shall show the following:

(i) An estimated "Net Worth ", or "Stockholders' Equity", of $800,000 or greater.

(ii) Estimated Working Capital of not less than $893,000. "Working Capital" shall mean cash, securities, receivables, Company deposits, inventory and other liquid current assets, less current liabilities, such as accounts payable, accrued liabilities, including taxes that will become due as a result of the Company's conduct of business for the tax period ending as of the Closing Date, customer deposits and deferred billings.

(iii) Loans from officers not exceeding $400,000.

(iv) the Company has no long term liabilities.

(v) The asset/liability described as "Investment in Partnership" shall have been assigned by the Company to the Selling Stockholders.

(m) Escrow Agreement. On or before Closing, the Selling Stockholders, Krause, Ramirez, the Company, the proposed Escrow Agent, as defined below, and the Purchaser shall execute an Escrow Agreement, substantially in the form attached hereto as Exhibit I, under which five hundred thousand dollars, ($500,000) of the Purchase Price (the "Escrow Funds") shall be delivered to a mutually acceptable escrow agent (the "Escrow Agent") to hold for fifteen (15) months, from the date of Closing to be applied to any claims asserted by Purchaser, pursuant to the Indemnification provisions of Article 8 hereof. All money held in such Escrow Arrangement shall bear 6% interest per annum, payable, to the extent that funds shall not earn 6/% interest, by Purchaser, and the balance of funds, including interest, not applied to claims of Purchaser shall be delivered in the manner set forth in Section 1.2 (a), to the Selling Stockholders within fifteen (15) months of the date of Closing.

(n) Employment Agreements. Purchaser will have entered into employment agreements or other arrangements with all key employees of the Company that Purchaser requires for the continuation of the business of the Company after Closing.

(o) Epmar Lease. As of the Closing, the Company will have given written evidence that it purchased for one dollar ($1) and received good title to all assets set forth in Exhibit J hereto, which were previously leased to the Company by Epmar Lease, a partnership of the Selling Stockholders, and the Company will not have any liability to a partnership related to the Selling Stockholders, as described in the Financial Statement of the Company.

(p) Documents. As of the Closing, the Purchaser shall have received from the Company the following documents:

(i) a certificate of existence and good standing of the Company, from the Secretary of State of California and a certificate of tax good standing of the Company from the Franchise Tax Board of the State of California.

(ii) a true and complete copy of the articles of incorporation of the Company and all amendments thereto certified by the State of California;

(iii) a true and complete copy of the bylaws of the Company certified by the President of the Company;

(iv) a certificate from the President of the Company that the articles of incorporation of the Company have not been amended since the date of the certificate described in subsection (ii) above, and that nothing has occurred since the date of issuance of the articles of existence specified in subsection (i) above, that would adversely affect such entity's corporate existence or good standing.

(v) a true and complete copy of the resolutions of the Board of Directors of the Company authorizing the execution, delivery and performance of this Agreement, and all instruments and documents to be delivered in connection herewith, and the transactions contemplated hereby by the Company and the Selling Stockholders, certified by the President of the Company and

(vi) a certificate from the President of the Company as to the incumbency and signatures of the Company's officers who will execute documents at the Closing or who have executed this Agreement; and

(vii) a waiver by Georg Krause, Frank E. Ramirez, Christel Krause and Marjorie Krause of the terms of the Stock Purchase Agreement dated April 15, 1997.

(q) U.C.C.Filings. The Purchaser shall have received from the Company or the Selling Stockholders the results of a search of all filings made against the Company under the Uniform Commercial Code as in effect in California, indicating that the Company's assets are free and clear of any liens or encumbrances or as set forth in the Company Balance Sheet, or in Section 7.2 of the Disclosure Schedule.

ARTICLE 8

INDEMNIFICATION

8.1 Indemnification by the Company, Krause, Ramirez, and the Selling Stockholders. Each Selling Stockholder, Krause, Ramirez, and the Company (the latter only in the event the transactions contemplated hereby do not close), agree to defend and indemnify Purchaser (and, after the time of the Closing, the Company), and their respective Affiliates, directors, officers, stockholders, employees, agents, successors and assigns (collectively, "Purchaser's Indemnified Persons"), against and hold each of them harmless from any and all losses, liabilities, claims, suits, proceedings, demands, judgments, damages, expenses and costs, including, without limitation, reasonable counsel fees, costs and expenses incurred in the investigation, defense or settlement of any claims covered by this indemnity ("Indemnifiable Damages") which any of the Purchaser's Indemnified Persons may suffer or incur by reason of any of the following: (i) the inaccuracy or breach of any of the representations, warranties and covenants of the Company or such Selling Stockholder contained in this Agreement or any document, certificate or agreement delivered pursuant hereto; and (ii) any claim made by any Person (including any Governmental Authority) relating to or arising out of transactions, events, acts or omissions of or by the Company prior to the Closing that is not adequately accrued or otherwise reflected on the Company Balance Sheet, other than liabilities, and obligations as may have arisen prior to the date of said Balance Sheet and which under GAAP would not have been required to be reflected on such Balance Sheet, and other than liabilities of the Company which are incurred after the date of such Company Balance Sheet in the ordinary course of its business, which are usual and normal in amount, in relation to the Company's past experience.

8.2 Indemnification by Purchaser. Purchaser shall, as to those representations warranties, covenants and agreements, which are herein made or agreed to by Purchaser, indemnify and hold harmless each Selling Stockholder, Krause and Ramirez, and (prior to the time of the Closing), the Company and its respective Affiliates, directors, officers, employees, agents, successors and assigns (collectively, the "Company's Indemnified Persons"), against and hold each of them harmless from any and all Indemnifiable Damages which any of the Company's Indemnified Persons may suffer or incur by reason of the inaccuracy or breach of any of the representations, warranties or covenants of Purchaser contained in this Agreement.

8.3 Notice and Defense of Third Party Claims. If any action, claim or proceeding shall be brought or asserted under this Section 8.3 against an indemnified party or any successor thereto (the "Indemnified Person), the Indemnified Person shall give prompt written notice of such action or claim to the Indemnifying Person who shall assume the defense thereof, including the employment of counsel reasonably satisfactory to the Indemnified Person and the payment of all expenses; except that any delay or failure to so notify the Indemnifying Person shall relieve the Indemnifying Person of its obligations hereunder only to the extent, if at all, that it is prejudiced by reason of such delay or failure. The Indemnified Person shall have the right to employ separate counsel in any of the foregoing actions, claims or proceedings and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of the Indemnified Person, unless both the Indemnified Person and the Indemnifying Person are named parties and the Indemnified Person shall in good faith determine that the representation by the same counsel is inappropriate. In the event that the Indemnifying Person, within ten days after notice of any such action or claim, fails to assume the defense thereof, the Indemnified Person shall have the right to undertake the defense, compromise or settlement of such action, claim or proceeding for the account of the Indemnifying Person. Anything in this Article 8 to the contrary notwithstanding, the Indemnifying Person shall not, without the Indemnified Person's prior written consent, settle or compromise any action or claim or consent to the entry of any judgment with respect to any action, claim or proceeding for anything other than money damages paid by the Indemnifying Person. The Indemnifying Person may, without the Indemnified Person's prior written consent, settle or compromise any such action, claim or proceeding or consent to entry of any judgment with respect to any such action or claim that requires solely the payment of money damages by the Indemnifying Person and that includes, as an unconditional term thereof, the release by the claimant or the plaintiff, of the Indemnified Person from all liability in respect of such action, claim or proceeding.

8.4 Escrow Funds. In the event that the Indemnifying Person becomes liable to the Purchaser, as an Indemnified Person, pursuant to this Article 8 and, within ten (10) days from the date that the Indemnifying Person receives notice from the Purchaser, as the Indemnified Person, of an action or claim, including any claim under Sections 8.1 or 8.3, the Indemnifying Person fails to provide for or satisfy such liability, the Purchaser, shall, subject to the terms of the Escrow Agreement, be entitled to have the Escrow Agent pay from, or otherwise apply all or some of, the Escrow Funds held by such Escrow Agent pursuant to the Escrow Agreement and, upon exhaustion of such Escrow Funds, held by the Escrow Agent, the Indemnified Person, including Purchaser, shall be entitled to proceed against the Indemnifying Person, as provided in this Article 8.

8.5 Payment by Indemnifying Party. Any payment made by Selling Stockholders, Krause or Ramirez, with respect to their indemnification obligations hereunder, whether paid directly or out of escrow funds, shall conclusively be deemed a reduction of the Purchase Price.

8.6 Indemnification is Exclusive Remedy. The parties agree that following the Closing, Purchaser's exclusive remedy with respect to any and all claims relating to the subject matter of this Agreement, except for fraud or intentional misrepresentations, shall be pursuant to the indemnification provisions set forth in this Article 8.

8.7 Restrictions. Notwithstanding anything in this Article 8 to the contrary, the Selling Stockholders' obligations to provide indemnification to an Indemnified Person, shall, in all cases, except for any and all tax liabilities that may be imposed upon the Company relating to operations through the Closing Date, terminate three (3) years from the Date of Closing, shall not exceed two million dollars ($2,000,000) and shall not be due and payable unless and until Purchaser shall have accumulated aggregate claims of $25,000, at which time all claims subject to the above restrictions shall be payable.

ARTICLE 9

Post Closing Actions

9.1 Tax Reporting. Immediately after the Closing, the Company shall close its books as of the Closing Date; shall, within the period prescribed by law, prepare and file State and Federal tax returns for the tax period from December 1, 2001 to Closing (the "Stub Period"); and shall elect to switch its tax reporting from a fiscal year ending November 30, to a calendar year end. The Selling Stockholders shall pay, in a timely manner, any tax due for the Stub Period as shown on such return. The Selling Stockholders on the one hand and the Company or the Purchaser on the other hand shall each pay one half of the professional fees and costs of preparing and filing the return for the Stub Period. Following the end of the 2002 calendar year, the Company shall prepare and file, in a timely manner, State and Federal tax returns for the calendar tax year beginning the day after the Closing (the "Subsequent Period"). Any taxes due for such Subsequent Period shall be the responsibility of the Company and not of Krause, Ramirez or the Selling Stockholders. If it shall be determined upon completion of an audit by the Internal Revenue Service or any applicable state taxing authority (and the expiration of any applicable appeal period), or following the dispute resolution procedures set forth in the Escrow Agreement, to the extent that such Agreement is still in effect, that the taxes actually due for any tax period, up to and including the Stub Period, exceeds the taxes paid or provided for, an amount equal to such excess tax liability (the "Excess Tax Liability") shall be returned to Purchaser from the Escrow Funds held by the Escrow Agent, pursuant to Section 7.2 (m). If the Escrow Funds shall be exhausted, then Purchaser shall proceed as provided in Article 8 hereof. If any tax refund is due with respect to any such period, such refund shall be paid to the Selling Stockholders. Any amounts payable to or payable by the Selling Stockholders under this Section 9.1 shall be allocated between them in proportion to their ownership of the Shares (55% to the Krause Trust and 45% to the Ramirez Trust) (provided that Krause, Ramirez and each Selling Stockholder shall, notwithstanding the foregoing provision, continue to be jointly and severally liable for the Company's Excess Tax Liability for any period up to and including the Stub Period and for the representations and warranties set forth in Section 3 hereof).

ARTICLE 10

GENERAL

10.1 Survival of Representations. All representations, warranties and agreements made by any party to this agreement or pursuant hereto shall survive the Closing and any investigation at any time made by or on behalf of any party hereto.

10.2 Further Assurances. From time to time (whether at or after the time of the Closing), at the request of Purchaser, and without further consideration, and at their own expense, the Company, Krause, Ramirez and the Selling Stockholders will execute and deliver to Purchaser such other documents, and take such other action, as Purchaser may reasonably request in order to consummate the transactions contemplated hereby.

10.3 Assignment. This Agreement and all the provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns, but neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the parties hereto without the prior written consent of the other parties.

10.4 Specific Performance. Each party's obligation under this Agreement is unique. If any party should default in its obligations under this Agreement, the parties each acknowledge that it would be extremely impracticable to measure the resulting damages; accordingly, the nondefaulting party, in addition to any other available rights or remedies, may sue in equity for specific performance and the parties each expressly waive the defense that a remedy in damages will be adequate and expressly waive any requirement in an action for specific performance for the posting of a bond by the adverse party or parties.

10.5 Definitions.

a) "Affiliate" means a Person that directly, or indirectly through one or more intermediaries controls, is controlled by, or is under common control with, the Person specified.

(b) "Claims" means any and all actions ,causes of action, suits, debts, dues, sums of money, accounts, reckonings, bonds, notes, bills, specialties, covenants, contracts, controversies, variances, trespasses, damages, judgments, executions, claims (including without limitation, claims for indemnity, contribution, costs or attorneys' fees), demands and any and all proceedings whatsoever, whether in law, equity or otherwise.

(c) "Company Entities" means the Company and its Affiliates and their respective officers, directors, employees, attorneys and agents, in their capacities as such.

(d) "Person" means any individual, corporation, partnership, firm, joint venture, association, joint-stock company trust, estate, unincorporated organization, Governmental Authority or other entity.

(e) "Governmental Authority" means any domestic or foreign national, state, municipal or other local government or multi-national body, and subdivision, agency, commission or authority thereof, or any quasi-governmental or private body exercising any regulatory or taxing authority thereunder.

Other capitalized terms used herein and not defined in this Section 11.5 have the meanings ascribed to them elsewhere in this Agreement.

10.6 Notices. Any notice, request, instruction or other document to be given hereunder by any party to the other shall be in writing and delivered personally or sent by certified mail, postage prepaid, by fax, or by courier service, to the addresses listed in Annex A hereto or to such other persons as may be designated in writing by the parties, by a notice given as aforesaid.

10.7 Headings. The headings of the several sections of this Agreement are inserted for convenience of reference only and are not intended to affect the meaning or interpretation of this Agreement.

10.8 Counterparts. This Agreement may be executed in counterparts, and when so executed each counterpart shall be deemed to be an original, and said counterparts together shall constitute one and the same instrument.

10.9 Binding Nature. This Agreement shall be binding upon and inure to the benefit of the parties hereto. No party may assign or transfer any rights under this Agreement.

10.10 Merger of Documents. This Agreement and all agreements and documents contemplated hereby constitute one agreement and are interdependent upon each other in all respects.

10.11 Incorporation of Exhibits and the Disclosure Schedule. All Exhibits and the Disclosure Schedule attached hereto are by this reference incorporated herein and made a part hereof for all purposes as if fully set forth herein.

10.12 Governing Law; Venue; Service.

(a) This Agreement shall be governed by and construed under the laws of the State of California (irrespective of its choice of law principles).

(b) This Agreement shall be deemed to have been made in the State of California. As part of the consideration for signing this Agreement, the parties to this Agreement (including each of the Selling Stockholders) agree that all actions or proceedings arising directly or indirectly from this Agreement shall be litigated only in courts having situs within the State of California and the parties consent to be subject to personal jurisdiction in any local, state or federal court located in the State of California.

(This portion of the page is intentionally left blank).

10.13 Entire Agreement. This Agreement (including the Schedules and Exhibits hereto) embodies the entire agreement and understanding between the parties relating to the subject matter hereof and supersedes all prior agreements, understandings and communications relating to such subject matter. There are no representations, agreements, arrangements or understandings, oral or written, between the parties relating to the subject matter hereof which are not expressly set forth herein or therein, and no party has been induced to enter into this Agreement except by the agreements expressly contained herein and therein.

IN WITNESS WHEREOF, Purchaser and the Company have caused this Agreement to be signed by their respective officers thereunto duly authorized, each of the Selling Stockholders has signed this Agreement by its respective, authorized representatives, and Krause and Ramirez have signed this Agreement, all as of the date first above written.

THE COMPANY

EPMAR CORPORATION
A California corporation

By /s/ Georg Krause

Georg Krause, President

THE PURCHASER

QUAKER CHEMICAL CORPORATION,
a Delaware corporation.

By /s/ Michael F. Barry

Michael F.Barry, President

SELLING STOCKHOLDERS

The Krause Trust dated July 26, 1988,
and restated July 3, 1990

By /s/ Georg Krause

Georg Krause,Trustee

By /s/ Christel Krause

Christel Krause, Trustee

The Ramirez Trust dated
October 27, 1986, and restated
March 2, 2000

By /s/ Frank E. Ramirez

Frank E. Ramirez, Trustee

By /s/ Marjorie Ramirez

Marjorie Ramirez, Trustee

/s/ Georg Krause

Georg Krause

/s/ Christel Krause

Christel Krause

/s/ Frank E. Ramirez

Frank E. Ramirez

/s/ Marjorie Ramirez

Marjorie Ramirez

ANNEX A: NOTICE

To the Purchaser:

Quaker Chemical Corporation
Elm and Lee Streets
Conshohocken, PA 19428-0809
Fax No. (610) 832-4494
Attention: Robert T. Traub, Esq.

With a copy to:

A C Products, Inc.
172 East La Jolla Street
Placentia, CA 92670
Fax No. (714) 666-8031
Attention: Joseph Matrange, President

To the Company:

Epmar Corporation
13210 Barton Circle
Santa Fe Springs, CA 90670
Fax No. (562) 944-9958

Attention: Joseph Matrange, President

To the Selling Stockholders:

Georg and Christel Krause, Trustees
137 Newcastle Dr.
Whittier, California 90605
Fax No. (562) 947-9421

Frank E. and Marjorie Ramirez, Trustees
8712 La Entrada
Whittier, California, 90605
Fax No.

To George and Christel Krause:

137 Newcastle Dr.
Whittier, California 90605
Fax No.(562) 947-9421

To Frank E. and Marjorie Ramirez:

8712 La Entrada
Whittier, California 90605
Fax No.

EXHIBIT 21

SUBSIDIARIES AND AFFILIATES OF THE REGISTRANT

Name	Jurisdiction of Incorporation	Percentage of voting securities owned directly or indirectly by Quaker
*Quaker Chemical Corporation	Delaware, U.S.A.	100%
+*Quaker Chemical Management Inc.	Delaware, U.S.A.	100%
+SB Decking, Inc. (formerly Selby, Battersby & Co.)	Delaware, U.S.A.	100%
*AC Products, Inc.	California, U.S.A.	100%
*Epmar Corporation	California, U.S.A.	100%
+*Quaker QP, Inc.	Pennsylvania, U.S.A.	100%
*Quaker Chemical Europe B.V.	Holland	100%
*Quaker Chemical B.V.	Holland	100%
*Quaker Chemical Canada Limited	Ontario, Canada	100%
+*Quaker Chemical Holdings UK Limited	United Kingdom	100%
*Quaker Chemical Limited	United Kingdom	100%
*Quaker Chemical S.A.	France	100%
*Quaker Chemical, S.A.	Spain	100%
+*Quaker Denmark ApS	Denmark	100%
*Quaker Chemical S.A.	Argentina	100%
+*Quaker Chemical Participacoes, Ltda.	Brazil	100%
*Quaker Chemical Limited	Hong Kong	100%
*United Lubricants Corporation	Delaware, U.S.A.	100%
*Q2 Technologies, LLC	Nevada, U.S.A.	70%
*Quaker Chemical Industria e Comercio S.A.	Brazil	60%
*Quaker Chemical Operacoes, Ltda.	Brazil	60%
*Wuxi Quaker Chemical Co., Ltd.	China	60%
*Quaker Chemical India Limited	India	55%
*Quaker Chemical (Australasia) Pty. Limited	New South Wales, Australia	51%
*Quaker Chemical South Africa (Pty.) Limited	Republic of South Africa	51%
**Quaker Park Associates, LP	Pennsylvania, U.S.A.	50%
**Nippon Quaker Chemical, Ltd.	Japan	50%
**Kelko Quaker Chemical, S.A.	Venezuela	50%
*Scrubber Solutions, LLC	Nevada, U.S.A.	49%
**TecniQuimia Mexicana S.A. de C.V.	Mexico	40%

+ A non-operating company.
* Included in the consolidated financial statements.

** Accounted for in the consolidated financial statements under the equity method.

Exhibit 23

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 333-19957) and on Form S-8 (No.2-57924, No.33-54158, No.33-51655, No. 333-26793, No. 333-88229, No. 333-48130, No. 333-58676, and No. 333-65400) of Quaker Chemical Corporation of our report dated March 18, 2003 relating to the financial statements and financial statement schedule, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
March 27, 2003

EXHIBIT 99.1

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

The undersigned hereby certifies that the Form 10-K Annual Report of Quaker Chemical Corporation (the "Company") for the year ended December 31, 2002 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.

Date: March 28, 2003

Signed: /s/ Ronald J. Naples

Name: Ronald J. Naples

Title: Chief Executive Officer

Quaker Chemical Corporation

EXHIBIT 99.2

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

The undersigned hereby certifies that the Form 10-K Annual Report of Quaker Chemical Corporation (the "Company") for the year ended December 31, 2002 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.

Date: March 28, 2003

Signed: /s/ Michael F. Barry

Name: Michael F. Barry
Title: Chief Financial Officer
Quaker Chemical Corporation