

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2003

OR

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

Commission file number 0-7154

QUAKER CHEMICAL CORPORATION

(Exact name of Registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction of
incorporation or organization)

23-0993790
(I.R.S. Employer
Identification No.)

**One Quaker Park, 901 Hector Street,
Conshohocken, Pennsylvania**
(Address of principal executive offices)

19428 – 0809
(Zip Code)

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

Not Applicable

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

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

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

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

**Number of Shares of Common Stock
Outstanding on July 31, 2003**

9,459,380

QUAKER CHEMICAL CORPORATION AND CONSOLIDATED SUBSIDIARIES

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

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Quaker Chemical Corporation
Condensed Consolidated Balance Sheet

| | Unaudited (dollars in thousands, except par value) | |
|---|--|------------------------|
| | June 30, 2003 | December 31, 2002 * |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 15,098 | \$ 13,857 |
| Accounts receivable, net | 67,964 | 53,353 |
| Inventories | | |
| Raw materials and supplies | 13,352 | 11,342 |
| Work-in-process and finished goods | 14,739 | 12,294 |
| Prepaid expenses and other current assets | 12,298 | 12,827 |
| Total current assets | 123,451 | 103,673 |
| Property, plant and equipment, at cost | 123,125 | 113,207 |
| Less accumulated depreciation | 70,540 | 64,695 |
| Net property, plant and equipment | 52,585 | 48,512 |
| Goodwill | 24,155 | 21,927 |
| Other intangible assets | 5,771 | 5,852 |
| Investments in associated companies | 5,420 | 9,060 |
| Deferred income taxes | 10,566 | 10,609 |
| Other assets | 15,093 | 14,225 |
| Total Assets | \$237,041 | \$ 213,858 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities | | |
| Short-term borrowings and current portion of long-term debt | \$ 19,987 | \$ 12,205 |
| Accounts and other payables | 33,828 | 29,423 |
| Accrued compensation | 6,192 | 10,254 |
| Other current liabilities | 13,471 | 14,262 |
| Total current liabilities | 73,478 | 66,144 |
| Long-term debt | 16,620 | 16,590 |
| Deferred income taxes | 1,700 | 1,518 |
| Other noncurrent liabilities | 36,006 | 33,889 |
| Total liabilities | 127,804 | 118,141 |
| Minority interest in equity of subsidiaries | 9,585 | 7,662 |
| 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 | 1,174 | 626 |
| Retained earnings | 113,083 | 110,448 |
| Unearned compensation | (931) | (1,245) |
| Accumulated other comprehensive (loss) | (20,410) | (27,078) |
| Treasury stock, shares held at cost; 2003 - 213,566, 2002 - 324,109 | (2,928) | (4,360) |
| Total shareholders' equity | 99,652 | 88,055 |
| | \$237,041 | \$ 213,858 |

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

* Condensed from audited financial statements.

Quaker Chemical Corporation

Condensed Consolidated Statement of Income

| | Unaudited (dollars in thousands, except per share data) | | | |
|---|--|-----------|---------------------------|------------|
| | Three months ended June 30, | | Six Months ended June 30, | |
| | 2003 | 2002 | 2003 | 2002 |
| Net sales | \$ 83,453 | \$ 69,457 | \$ 156,790 | \$ 129,384 |
| Cost of goods sold | 54,506 | 40,495 | 99,477 | 76,065 |
| Gross margin | 28,947 | 28,962 | 57,313 | 53,319 |
| Selling, general and administrative expenses | 23,223 | 23,279 | 45,908 | 43,303 |
| Operating income | 5,724 | 5,683 | 11,405 | 10,016 |
| Other income (expense), net | 447 | (28) | 535 | 252 |
| Interest expense | (387) | (407) | (737) | (826) |
| Interest income | 152 | 295 | 363 | 548 |
| Income before taxes | 5,936 | 5,543 | 11,566 | 9,990 |
| Taxes on income | 1,843 | 1,774 | 3,701 | 3,197 |
| | 4,093 | 3,769 | 7,865 | 6,793 |
| Equity in net income of associated companies | 169 | 201 | 255 | 184 |
| Minority interest in net income of subsidiaries | (787) | (734) | (1,538) | (1,383) |
| Net income | \$ 3,475 | \$ 3,236 | \$ 6,582 | \$ 5,594 |
| Per share data: | | | | |
| Net income – basic | \$ 0.37 | \$ 0.35 | \$ 0.71 | \$ 0.61 |
| Net income – diluted | \$ 0.36 | \$ 0.35 | \$ 0.69 | \$ 0.60 |
| Dividends declared | \$ 0.21 | \$ 0.21 | \$ 0.42 | \$ 0.42 |
| Based on weighted average number of shares outstanding: | | | | |
| Basic | 9,323,895 | 9,249,925 | 9,297,482 | 9,202,378 |
| Diluted | 9,671,578 | 9,308,678 | 9,593,466 | 9,262,025 |

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

Quaker Chemical Corporation

Condensed Consolidated Statement of Cash Flows

For the Six Months Ended June 30,

| | Unaudited (dollars in thousands) | |
|---|-------------------------------------|-----------|
| | 2003 | 2002 |
| Cash flows from operating activities | | |
| Net income | \$ 6,582 | \$ 5,594 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 3,394 | 2,327 |
| Amortization | 438 | 325 |
| Equity in net income of associated companies | (255) | (184) |
| Minority interest in earnings of subsidiaries | 1,538 | 1,383 |
| Deferred compensation and other postretirement benefits | (382) | (329) |
| Pension and other, net | 2,798 | 1,096 |
| Increase (decrease) in cash from changes in current assets and current liabilities: | | |
| Accounts receivable, net | (11,380) | (4,532) |
| Inventories | (2,789) | (798) |
| Prepaid expenses and other current assets | 1,204 | (2,293) |
| Accounts payable and accrued liabilities | (2,467) | 2,750 |
| Change in restructuring liabilities | (866) | (1,167) |
| Net cash (used in) provided by operating activities | (2,185) | 4,172 |
| Cash flows from investing activities | | |
| Investments in property, plant and equipment | (4,859) | (5,060) |
| Dividends and distributions from associated companies | 3,890 | 307 |
| Payments related to acquisitions | (1,105) | (21,576) |
| Other, net | 53 | (9) |
| Net cash (used in) investing activities | (2,021) | (26,338) |
| Cash flows from financing activities | | |
| Net increase in short-term borrowings | 7,747 | 22,009 |
| Dividends paid | (3,924) | (3,802) |
| Treasury stock issued | 1,697 | 2,404 |
| Distributions to minority shareholders | (609) | (1,335) |
| Other, net | 3 | 85 |
| Net cash provided by financing activities | 4,914 | 19,361 |
| Effect of exchange rate changes on cash | 533 | 572 |
| Net increase (decrease) in cash and cash equivalents | 1,241 | (2,233) |
| Cash and cash equivalents at beginning of period | 13,857 | 20,549 |
| Cash and cash equivalents at end of period | \$ 15,098 | \$ 18,316 |

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

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

Note 1 – Condensed Financial Information

The condensed consolidated financial statements included herein are unaudited and have been prepared in accordance with generally accepted accounting principles for interim financial reporting and Securities and Exchange Commission regulations. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. Certain prior year amounts have been reclassified to conform to the 2003 presentation. In the opinion of management, the financial statements reflect all adjustments (consisting only of normal recurring adjustments) which are necessary for a fair statement of the financial position, results of operations and cash flows for the interim periods. The results for the three and six months ended June 30, 2003 are not necessarily indicative of the results to be expected for the full year. These financial statements should be read in conjunction with the Annual Report filed on Form 10-K for the year ended December 31, 2002.

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 customers. Where the Company acts as an agent, such revenue is recorded using net reporting as service revenues, at the amount of the administrative fee earned by the Company for ordering the goods. Third party products transferred where the Company acts as an agent and revenue is recorded net totaled \$13,440 and \$14,187 for the six months ended June 30, 2003 and 2002, respectively.

Note 2 – Recently Issued Accounting Standards

In January 2003, the Financial Accounting Standards Board ("FASB"), issued FASB Interpretation No. 46 ("FIN 46"), "Consolidation of Certain Variable Interest Entities, ("VIEs"), which is an interpretation of Accounting Research Bulletin ("ARB") No. 51, "Consolidated Financial Statements." FIN 46 addresses the application of ARB No. 51 to VIEs, and generally would require that assets, liabilities and results of the activities of a VIE be consolidated into the financial statements of the enterprise that is considered the primary beneficiary. FIN 46 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 has preliminarily determined that its real estate joint venture is a VIE and that the Company is not the primary beneficiary.

In January 2001, the Company contributed its Conshohocken, Pennsylvania property and buildings (the "Site") to this real estate joint venture (the "Venture") in exchange for a 50% interest 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. As of June 30, 2003, approximately 93% of the Site's office space was under lease and the Site (including improvements thereon) was subject to encumbrances securing indebtedness of the Venture in the amount of \$27,045. The Company has not guaranteed nor is it obligated to pay any principal, interest or penalties on the indebtedness of the Venture, even in the event of default by the Venture. At June 30, 2003, the Venture had property with a net book value of \$26,412, total assets of \$29,024, and total liabilities of \$27,362.

In April 2003, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." This standard amends and clarifies financial accounting and reporting for derivative instruments and hedging activities, primarily as a result of decisions made by the FASB Derivatives Implementation Group subsequent to the original issuance of SFAS No. 133 and in connection with other FASB projects. This standard is generally effective prospectively for contracts and hedging relationships entered into or modified after June 30, 2003. The Company is currently evaluating the impact of this standard, but does not expect the adoption to have a material impact on the financial statements. The Company is not currently a party to any derivative financial instruments.

In May 2003, the FASB issued SFAS No. 150 "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 changes the accounting for certain financial instruments that, under previous guidance, could be classified as equity or mezzanine equity, by now requiring those same instruments to be classified as liabilities (or assets in some circumstances) in the statement of financial position. Further, SFAS No. 150 requires disclosure regarding the terms of those instruments and settlement alternatives. The guidance in SFAS No. 150 is generally effective for all financial instruments entered into or modified after May 31, 2003, and is otherwise effective at the beginning of the first interim period beginning after

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June 15, 2003. The Company is in the process of evaluating this standard, but does not expect the adoption to have a material impact on the financial statements.

Note 3 – Stock-Based Compensation

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

| | Three Months ended June 30, | | Six Months ended June 30, | |
|---|--------------------------------|----------|------------------------------|----------|
| | 2003 | 2002 | 2003 | 2002 |
| Net Income – as reported | \$3,475 | \$ 3,236 | \$6,582 | \$ 5,594 |
| Add: Stock-based employee compensation expense included in net income, net of related tax effects | (23) | 174 | 152 | 275 |
| Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of tax | (115) | (302) | (334) | (505) |
| Pro forma net income | \$3,337 | \$ 3,108 | \$6,400 | \$ 5,364 |
| Earnings per share: | | | | |
| Basic – as reported | \$ 0.37 | \$ 0.35 | \$ 0.71 | \$ 0.61 |
| Basic – pro forma | \$ 0.36 | \$ 0.34 | \$ 0.69 | \$ 0.58 |
| Diluted – as reported | \$ 0.36 | \$ 0.35 | \$ 0.69 | \$ 0.60 |
| Diluted – pro forma | \$ 0.35 | \$ 0.33 | \$ 0.67 | \$ 0.58 |

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Note 4 – Earnings Per Share

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|----------|------------------------------|---------|
| | 2003 | 2002 | 2003 | 2002 |
| Numerator for basic EPS and diluted EPS– net income | \$ 3,475 | \$ 3,236 | \$6,582 | \$5,594 |
| Denominator for basic EPS–weighted average shares | 9,324 | 9,250 | 9,297 | 9,202 |
| Effect of dilutive securities, primarily employee stock options | 348 | 59 | 296 | 60 |
| Denominator for diluted EPS–weighted average shares and assumed conversions | 9,672 | 9,309 | 9,593 | 9,262 |
| Basic EPS | \$.37 | \$.35 | \$.71 | \$.61 |
| Diluted EPS | \$.36 | \$.35 | \$.69 | \$.60 |

Note 5 – Business Segments

The Company's reportable segments are as follows:

- (1) Metalworking process chemicals - products used as lubricants for various heavy industrial and manufacturing applications.
- (2) Coatings - temporary and permanent coatings for metal and concrete products and chemical milling maskants.
- (3) Other chemical products – other various chemical products.

Segment data includes direct segment costs as well as general operating costs.

The table below presents information about the reported segments for the six months ended June 30, :

| | Metalworking Process Chemicals | Coatings | Other Chemical Products | Total |
|------------------|--------------------------------------|-----------|-------------------------------|------------|
| 2003 | | | | |
| Net sales | \$ 142,974 | \$ 11,565 | \$ 2,251 | \$ 156,790 |
| Operating income | 25,751 | 3,016 | 438 | 29,205 |
| 2002 | | | | |
| Net sales | \$ 117,902 | \$ 9,383 | \$ 2,099 | \$ 129,384 |
| Operating income | 25,194 | 2,397 | 582 | 28,173 |

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

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A reconciliation of total segment operating income to total consolidated income before taxes, for the six months ended June 30, is as follows:

| | 2003 | 2002 |
|--|-----------|-----------|
| Total operating income for reportable segments | \$ 29,205 | \$ 28,173 |
| Non-operating expenses | (17,362) | (17,832) |
| Amortization | (438) | (325) |
| Interest expense | (737) | (826) |
| Interest income | 363 | 548 |
| Other income, net | 535 | 252 |
| Consolidated income before taxes | \$ 11,566 | \$ 9,990 |

Note 6 – Comprehensive Income

The following table summarizes comprehensive income:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|----------|------------------------------|----------|
| | 2003 | 2002 | 2003 | 2002 |
| Net income | \$ 3,475 | \$ 3,236 | \$ 6,582 | \$ 5,594 |
| Foreign currency translation adjustments | 4,073 | 2,746 | 6,668 | 443 |
| Comprehensive income | \$ 7,548 | \$ 5,982 | \$ 13,250 | \$ 6,037 |

Note 7 – Restructuring and Related Activities

In 2001, Quaker's management approved restructuring plans to realign its organization and reduce operating costs. Quaker's restructuring plans included the closure and sale of its 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 the severance of 53 employees.

Restructuring and related charges of \$5,854 were recognized in 2001. The charge comprised \$2,644 related to employee separations, \$2,613 related to facility rationalization charges and \$597 related to abandoned acquisitions. Employee separation benefits under each plan varied depending on local regulations within certain foreign countries and included severance and other benefits. As of June 30, 2003, Quaker had completed 50 of the planned 53 employee separations under the 2001 plans. 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.

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Accrued restructuring balances, included in other current liabilities, are as follows:

| | Balance December 31, 2002 | Payments | Currency translation and other | Balance June 30, 2003 |
|--------------------------|---------------------------------|----------|--------------------------------------|-----------------------------|
| Employee separations | \$ 1,274 | \$ (735) | \$ 14 | \$ 553 |
| Facility rationalization | 869 | (131) | 11 | 749 |
| Total | \$ 2,143 | \$ (866) | \$ 25 | \$ 1,302 |

Note 8 – Business Acquisition

In May 2003, the Company acquired a range of cleaners, wet temper fluids and other products from KS Chemie, located in Dusseldorf, Germany for approximately \$1,100. This acquisition strategically strengthens the Company's global leadership position as a process fluids supplier to the steel industry. The Company recorded \$345 of intangible assets comprised of product line technology to be amortized over a range of five to ten years. The Company also recorded \$715 of goodwill, which was assigned to the Metalworking process chemicals segment. The pro forma results of operations have not been provided because the effects were not material.

Note 9 – Goodwill and Other Intangible Assets

The changes in carrying amount of goodwill for the six months ended June 30, 2003 are as follows:

| | Metalworking process chemicals | Coatings | Total |
|----------------------------------|-----------------------------------|----------|-----------|
| Balance as of January 1, 2003 | \$ 14,658 | \$ 7,269 | \$ 21,927 |
| Goodwill additions | 779 | — | 779 |
| Currency translation adjustments | 1,449 | — | 1,449 |
| Balance as of June 30, 2003 | \$ 16,886 | \$ 7,269 | \$ 24,155 |

Gross carrying amounts and accumulated amortization for intangible assets as of June 30, 2003, are as follows:

| | Gross carrying Amount | Accumulated Amortization |
|-------------------------------------|--------------------------|-----------------------------|
| Amortized intangible assets | | |
| Customer lists and rights to sell | \$ 3,850 | \$ (602) |
| Trademarks and patents | 2,300 | (1,553) |
| Formulations and product technology | 1,765 | (278) |
| Other | 1,513 | (1,224) |
| Total | \$ 9,428 | \$ (3,657) |

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

| | |
|--------------------------------------|-------|
| For the year ended December 31, 2003 | \$882 |
| For the year ended December 31, 2004 | \$793 |
| For the year ended December 31, 2005 | \$760 |
| For the year ended December 31, 2006 | \$741 |
| For the year ended December 31, 2007 | \$337 |
| For the year ended December 31, 2008 | \$254 |

Note 10 – Debt

In June 2003, the Company entered into a \$10,000 committed credit facility with a bank, which expires in June 2004. At the Company's option, the interest rate for borrowings under the agreement may be based on the eurodollar rate plus a margin or the prime rate plus a margin. The provisions of the agreement require that the Company maintain certain financial ratios and covenants, all of which the Company was in compliance with as of June 30, 2003. In July 2003, an amendment increased this committed credit facility to \$15,000.

In June 2003, the Company entered into a \$10,000 uncommitted demand credit facility, with a different bank. At the Company's option, the interest rate for borrowings under the agreement may be based on the prime rate or the LIBOR rate plus a margin.

As a result of these agreements, the Company increased its credit facilities from \$15,000 committed and \$10,000 uncommitted at the end of March 2003 to its current position of \$30,000 committed and \$20,000 uncommitted. The Company had approximately \$17,100 and \$22,048 outstanding on its credit facilities as of June 30, 2003 and 2002, respectively.

Note 11 – Commitments and Contingencies

The Company is involved in environmental clean-up activities and litigation in connection with an existing plant location and former waste disposal sites. 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. The Company believes that the remaining potential-known liabilities associated with these matters ranges from approximately \$800 to \$1,500, for which the Company has sufficient reserves. Notwithstanding the foregoing, the Company cannot be certain that liabilities in the form of remediation expenses, fines, penalties, and damages will not be incurred in excess of the amount reserved.

An inactive subsidiary of the Company that was acquired in 1978 sold certain products containing asbestos, primarily on an installed basis, and is among the defendants in numerous lawsuits alleging injury due to exposure to asbestos. The subsidiary discontinued operations in 1991 and has no remaining assets other than its existing insurance policies. To date, the overwhelming majority of these claims have been disposed of without payment and there have been no adverse judgments against the subsidiary. Based on 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 \$15,000 (excluding the 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

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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.

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-subsubsidiary 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 coverage and the Company's strong defenses to claims that it should be held responsible for the subsidiary's obligations because of the parent-subsubsidiary 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.

Note 12 – Subsequent Event

In July 2003, the Company acquired all of the outstanding stock of Eural S.r.l., a privately held company located in Tradate, Italy for \$5,700. Eural manufactures a variety of specialty metalworking fluids primarily for the Italian market. The Company is currently assessing the allocation of the purchase price. Pro-forma results of operations have not been presented because the effects were not material.

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

Liquidity and Capital Resources

Quaker's cash and cash equivalents increased to \$15.1 million at June 30, 2003 from \$13.9 million at December 31, 2002. The increase resulted primarily from \$2.2 million cash used in operating activities, \$2.0 million cash used in investing activities, offset by \$4.9 million cash provided by financing activities.

Net cash flows used in operating activities were \$2.2 million in the first six months of 2003 compared to cash flows provided by operating activities of \$4.2 million in the same period of 2002. The decrease was primarily due to increased cash out flows from working capital accounts offset by higher net income, depreciation and amortization expense. The change in cash flows from accounts receivable was primarily due to \$6.7 million of sales attributable to the Company's recently awarded chemical management services (CMS) contracts, which were effective May 1, 2003. Increased business activity as well as higher raw material costs accounted for the increased inventory levels. Increased cash flows from prepaid expenses and other current assets versus the prior year is primarily due to a \$2.6 million refund related to a settlement from a tax audit at one of our foreign entities. The change in cash flows from accounts payable and accrued liabilities is due to higher annual incentive compensation payments as well as timing related to high levels of accounts payable at December 31, 2002.

Net cash flows used in investing activities were \$2.0 million in the first six months of 2003 compared to \$26.3 million in the same period of 2002. The decrease was primarily related to \$21.6 million cash used in the first six months of 2002 for the acquisitions of United Lubricants Corporation ("ULC") and Epmar Corporation ("Epmar") versus \$1.1 million used in 2003 for the acquisition of certain product lines from KS Chemie. Reference is made to Note 8 of the notes to condensed consolidated financial statements which appears in Item 1 of this Quarterly Report on Form 10-Q. In addition, the Company also received \$4.2 million of priority cash distributions from its real estate joint venture in the first six months of 2003.

Net cash flows provided by financing activities were \$4.9 million for the first six months of 2003 compared to \$19.4 million for the same period of the prior year. The net change was primarily due to \$22.0 million of short-term borrowings incurred in the first six months of 2002 used to finance the Company's acquisitions of ULC and Epmar versus \$7.7 of short-term borrowings in 2003 used to fund working capital needs.

In June 2003, the Company entered into a \$10.0 million committed credit facility with a bank, which expires in June 2004. At the Company's option, the interest rate for borrowings under the agreement may be based on the eurodollar rate plus a margin or the prime rate plus a margin. The provisions of the agreement require that the Company maintain certain financial ratios and covenants, all of which the Company was in compliance with as of June 30, 2003. In July 2003, an amendment increased this committed credit facility to \$15.0 million.

In June 2003, the Company entered into a \$10.0 million uncommitted demand credit facility, with a different bank. At the Company's option, the interest rate for borrowings under the agreement may be based on the prime rate or the LIBOR rate plus a margin.

As a result of these agreements, the Company has increased its credit facilities from \$15.0 million committed and \$10.0 million uncommitted at the end of March 2003 to its current position of \$30.0 million committed and \$20.0 million uncommitted. The Company had approximately \$17.1 and \$22.0 million outstanding on its credit facilities as of June 30, 2003 and 2002, respectively.

The Company believes that its balance sheet remains strong with a debt to total capital ratio of 27% at June 30, 2003 compared to 25% at the end of 2002 and 34% at June 30, 2002. The Company further believes it is capable of supporting its operating requirements including pension plan contributions, payment of dividends to shareholders, possible acquisition and business opportunities, and possible resolution of contingencies, through internally generated funds supplemented with debt as needed.

Operations

Comparison of First Six Months 2003 with First Six Months 2002

Consolidated net sales for the first six months of the year increased to a record \$156.8 million, up 21% from \$129.4 million for the first six months of 2002. Foreign exchange rate translation and the timing of the Company's 2002 acquisitions favorably impacted net sales by \$6.3 million and \$8.1 million, respectively. Year-to-date 2003 consolidated net sales also include \$6.7 million from the Company's recently awarded Chemical Management Services (CMS) contracts, which were effective May 1, 2003.

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Gross margin as a percentage of sales declined from 41.2% for the first six months of 2002 to 36.6% for the first six months of 2003. As previously disclosed, the Company's new CMS contracts result in a different relationship between margins and revenue than has applied in the past for the Company's traditional product business. At the majority of current CMS sites, the Company effectively acts as an agent and records revenue and costs from these sales on a net sales or "pass-through" basis. The new CMS contracts have a different structure that results in the Company recognizing in reported revenue the gross revenue received from the CMS site customer, and in cost of goods sold the third party product purchases, which substantially offset each other. The negative impact on gross margin for the first half of 2003 is approximately 2 percentage points. The company expects the negative impact to gross margin in the second half of 2003, related to the new CMS contracts, to be approximately 4 to 5 percentage points. The remaining decline in gross margin as a percentage of sales was due to increased raw material costs, as well as product and regional sales mix. On a full year basis, the Company continues to expect raw material costs to be higher in 2003 versus 2002 in part due to the continued high oil prices. However, the Company also expects raw material prices to be somewhat more favorable in the second half of 2003 versus the first half of 2003.

Selling, general and administrative (SG&A) expenses for the first six months of 2003 increased \$2.6 million from the first six months of 2002. Increases due to foreign exchange rates and the timing of the Company's 2002 acquisitions were partially offset by reduced incentive compensation expense and cost containment efforts of the Company. Consistent with previous guidance, the Company expects increased SG&A costs for the full year 2003 partially due to increased costs associated with higher pension expense, insurance premiums and the Company's ERP implementation.

The increase in other income primarily reflects a \$0.3 million positive income impact related to \$4.2 million (\$1.8 million received in the first quarter of 2003 and \$2.4 million received in the second quarter of 2003) of priority cash distributions received from the Company's real estate joint venture during 2003. Interest expense is below the prior year primarily due to decreased average debt levels and lower borrowing rates. The decrease in interest income is due to lower interest income from the Company's international affiliates. In the first half of 2002, the Company's Brazilian entity had more cash, which was earning interest at a rate of nearly 20%. The Company made a mid-year 2002 decision to repatriate this cash to the U.S. due to the potential for the Real to weaken, which has resulted in decreased interest income in the first half of 2003.

The year-to-date 2003 effective tax rate is 32% compared to 32% in the prior year and down from 33% in the first quarter of 2003. The decrease in the effective tax rate compared to the first quarter of 2003 is primarily due to the Company's favorable settlement of outstanding tax audits and appeal issues related to several foreign subsidiaries. The Company currently expects the effective tax rate will be 32% for the full 2003 year. However, the effective tax rate is dependent on many internal and external factors, and is assessed by the Company on a regular basis.

The increase in equity income for the first six months of 2003 is due to improved results from the Company's real estate joint venture offset in part by the consolidation of the Company's South African joint venture effective July 1, 2002 and a weaker performance from the Company's Venezuelan affiliate. The increase in minority interest was primarily due to the consolidation of the Company's South African joint venture.

Comparison of Second Quarter 2003 with Second Quarter 2002

Consolidated net sales for the second quarter of 2003 were a record \$83.5, a 20% increase compared to the second quarter of 2002. Foreign exchange rate translation and the timing of the Company's 2002 acquisitions favorably impacted second quarter 2003 net sales by \$4.2 million and \$2.5 million respectively. As noted above, second quarter 2003 sales include \$6.7 million from the Company's recently awarded CMS contracts.

Gross margin as a percentage of sales declined from 41.7% for the second quarter of 2002 to 34.7% for the second quarter of 2003. The Company's new CMS contracts negatively impacted gross margin for the second quarter 2003 by approximately 3 percentage points. The remaining decline in gross margin as a percentage of sales was due to increased raw material costs, as well as product and regional sales mix.

Selling, general and administrative (SG&A) expenses for the quarter were essentially flat with the second quarter of 2002. Increases due to foreign exchange rates and the timing of the Company's 2002 acquisitions were offset by reduced incentive compensation expense and cost containment efforts of the Company.

The increase in other income primarily reflects a \$0.3 million positive income impact related to a \$2.4 million priority cash distribution received from the Company's real estate joint venture in the second quarter of 2003. Interest expense is slightly below the prior year primarily due to decreased average debt levels and lower borrowing rates. The decrease in interest income is due to lower interest income from the Company's international affiliates. In the second quarter of 2002, the Company's Brazilian entity had more cash, which was

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earning interest at a rate of nearly 20%. The Company made a mid-year 2002 decision to repatriate this cash to the U.S. due to the potential for the Real to weaken, which has resulted in decreased interest income in the second quarter of 2003.

The effective tax rate for the second quarter 2003 is 31% down from 32% in the second quarter of 2002 and 33% in the first quarter of 2003. The decrease in the effective tax rate is primarily due to the Company's favorable settlement of outstanding tax audits and appeal issues related to several foreign subsidiaries.

The decrease in equity income for the second quarter of 2003 is primarily due to the consolidation of our South African joint venture effective July 1, 2002 and a weaker performance from our Venezuelan affiliate, offset in part by improved results from the Company's real estate joint venture. The increase in minority interest was primarily due to the consolidation of the Company's South African joint venture.

Other Significant Items

In May 2003, the Company acquired a range of cleaners, wet temper fluids and other products from KS Chemie, located in Dusseldorf, Germany for approximately \$1.1 million. This acquisition strategically strengthens the Company's global leadership position as a process fluids supplier to the steel industry. The Company recorded \$0.3 million of intangible assets comprised of product line technology to be amortized over a range of five to ten years. The Company also recorded \$0.7 million of goodwill, which was assigned to the Metalworking process chemicals segment.

In July 2003, the Company acquired all of the outstanding stock of Eural S.r.l., a privately held company located in Tradate, Italy for \$5.7 million. Eural manufactures a variety of specialty metalworking fluids primarily for the Italian market. The Company is currently assessing the allocation of the purchase price.

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.

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, 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 3. 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. Incorporated by reference is the information under the caption "Liquidity and Capital Resources" in Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 8 of the Notes to Consolidated Financial Statements beginning on pages 11 and 33, respectively, of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002 (the "2002 Form 10-K"). If interest rates rise significantly, the cost of short-term debt to Quaker will increase. This can have a material adverse effect on Quaker depending on the extent of Quaker's short-term borrowings. As of June 30, 2003, Quaker had \$17.1 million of short-term borrowings compared to \$9.3 million as of December 31, 2002.

Foreign Exchange Risk. A significant portion of Quaker's revenues and earnings is generated by its foreign operations. Incorporated by reference is the information concerning Quaker's non-U.S. activities appearing in Note 11 of the Notes to Consolidated Financial Statements beginning on page 38 of the 2002 Form 10-K. All such subsidiaries use the local currency as their functional currency. Accordingly, Quaker's financial results are affected by risks typical of 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 is not currently a party to any derivative financial instruments.

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. 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. Incorporated by reference is the information under the captions "Critical Accounting Policies and Estimates" and "Liquidity and Capital Resources" in Management's Discussion and Analysis of Financial Condition and Results of Operations beginning on pages 8 and 11 respectively, of the 2002 Form 10-K.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures. The Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-14(c)), based on their evaluation of such controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q, are effective to reasonably assure that information required to be disclosed by the Company in the reports it files under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission.

Changes in internal controls. As previously disclosed, the Company is in the process of implementing a global ERP system. The Company completed its initial implementation of this system in the Netherlands during the fourth quarter of 2002. In the second quarter of 2003, the Company implemented the ERP system in its Spanish subsidiary. During the fourth quarter of 2003, the Company plans to implement the system in its US operations. By the end of 2003, subsidiaries representing more than 50% of consolidated revenue are expected to be operational on the global ERP system. Additional subsidiaries are planned to be implemented during 2004. The Company is taking the necessary steps to monitor and maintain the appropriate internal controls during this period of change.

PART II. OTHER INFORMATION

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

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

The 2003 Annual Meeting of the Company's shareholders was held on May 14, 2003. At the meeting, management's nominees, Donald R. Caldwell, Robert E. Chappell, William R. Cook, and Robert P. Hauptfuhrer were elected Class II Directors. Voting (expressed in number of votes) was as follows: Donald R. Caldwell, 23,331,952 votes for, 276,622 votes against or withheld, and no abstentions or broker non-votes; Robert E. Chappell, 23,483,314 votes for, 125,260 votes against or withheld, and no abstentions or broker non-votes; William R. Cook, 23,336,380 votes for, 272,194 votes against or withheld, and no abstentions or broker non-votes; Robert P. Hauptfuhrer, 23,493,071 votes for, 115,503 votes against or withheld, and no abstentions or broker non-votes.

In addition at the meeting, the shareholders approved the 2003 Director Stock Ownership Plan by a vote of 21,796,524 votes for, 1,101,170 votes against, 710,880 abstentions, and no broker non-votes.

In addition, at the Meeting, the shareholders ratified the appointment of PricewaterhouseCoopers LLP as the Company's independent accountants to examine and report on its financial statements for the year ending December 31, 2003 by a vote of 23,347,361 for, 161,498 votes against, 99,715 abstentions, and no broker non-votes.

Item 6: Exhibits and Reports on Form 8-K

(a) Exhibits.

- 10(qq) – Credit Agreement between Registrant and PNC Bank, National Association in the amount of \$10,000,000, dated June 19, 2003.
- 10(rr) – Commercial Note between Registrant and National City Bank, National Association in the amount of \$10,000,000, dated June 19, 2003.
- 31.1 – Certification of Chief Executive Officer of the Company pursuant to Rule 13a-14(a) or rule 15d-14(a) of the Securities Exchange Act of 1934
- 31.2 – Certification of Chief Financial Officer of the Company pursuant to Rule 13a-14(a) or rule 15d-14(a) of the Securities Exchange Act of 1934
- 32.1 – Certification of Ronald J. Naples Pursuant to U.S. C. Section 1350
- 32.2 – Certification of Michael F. Barry Pursuant to U.S. C. Section 1350

(b) Reports on Form 8-K.

- 1. On May 5, 2003 the Company furnished on Form 8-K its First Quarter 2003 Press Release.

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

QUAKER CHEMICAL CORPORATION
(Registrant)

/s/ MICHAEL F. BARRY

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

Date: August 14, 2003

CREDIT AGREEMENT

between

QUAKER CHEMICAL CORPORATION

and

PNC BANK, NATIONAL ASSOCIATION

Dated as of June 19, 2003

\$10,000,000

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CREDIT AGREEMENT, dated as of June 19, 2003, between QUAKER CHEMICAL CORPORATION (the "Borrower"), and PNC BANK, NATIONAL ASSOCIATION (the "Bank"). Unless otherwise defined herein, all capitalized terms used herein and defined in Section 9 are used herein as so defined.

W I T N E S S E T H :

WHEREAS, subject to and upon the terms and conditions herein set forth, the Bank is willing to make available the credit facilities provided for herein;

NOW, THEREFORE, IT IS AGREED:

**SECTION 1.
AMOUNT AND TERMS OF CREDIT**

1.01 **Co m m i t m e n t.** Subject to and upon the terms and conditions herein set forth, the Bank agrees to make a loan or loans (each, a "Loan" and, collectively, the "Loans") to the Borrower, which Loans (i) shall be made at any time and from time to time on and after the Effective Date and prior to the Expiry Date; (ii) may be repaid and reborrowed in accordance with the provisions hereof; and (iii) shall not exceed at any time outstanding that aggregate principal amount of \$10,000,000.

1.02 **Minimum Borrowing Amounts, Etc.** The aggregate principal amount of each Loan shall not be less than the Minimum Borrowing Amount. More than one Loan may be incurred on any day; provided that at no time shall there be outstanding more than eight Loans.

1.03 **Notice of Borrowing.** Whenever the Borrower desires to incur a Loan, it shall give written notice to the Bank, prior to (i) 12:00 Noon (Philadelphia time), at least two Business Days' prior to the date on which the Loan will be disbursed, if the requested Loan is to be a Eurodollar Loan, or (ii) 3:00 P.M. (Philadelphia time) on the date on which the Loan will be disbursed if the requested Loan is to be a Prime Rate Loan. Each such notice (each a "Notice of Borrowing") shall, except as provided in Section 1.09(b), be irrevocable, shall be executed by an Authorized Financial Officer of the Borrower and shall be in the form of Exhibit A, appropriately completed to specify: (i) the aggregate principal amount of the Loan requested; (ii) the date of such borrowing (which shall be a Business Day); (iii) the Interest Rate Basis selected for the Loan; (iv) if applicable, the Interest Period to be initially applicable thereto; and (v) the Maturity Date of such Loan (provided that the Maturity Date shall in no event be later than the Expiry Date).

1.04 **Disbursement of Funds.** On the date specified in the respective Notice of Borrowing, the Bank will make available to the Borrower the amount of the Loan to be made on such date (if any) by depositing such amount, in funds of same day availability, to the account of the Borrower, on the books of the Bank; or by wire transfer of such funds in accordance with the Borrower's prior written instructions.

1.05 **Note.** (a) The Borrower's obligation to pay the principal of, and interest on, the Loans shall be evidenced by a promissory note substantially in the form of Exhibit B with blanks appropriately completed in conformity herewith (the "Note").

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(b) The Note shall (i) be executed by the Borrower, (ii) be payable to the order of the Bank and be dated the Effective Date, (iii) be in a stated principal amount equal to the Commitment, and shall be payable in the principal amount of the Loans evidenced thereby, (iv) mature on the Expiry Date, (v) bear interest as provided in Section 1.06, (vi) be subject to voluntary prepayment as provided in Section 3.01, and (vii) be entitled to the benefits of the Agreement.

(c) The Bank will note on its internal records the amount of each Loan made by it and each payment in respect thereof and will prior to any transfer of the Note endorse thereon the outstanding principal amount of Loans evidenced thereby. Failure to make any such notation shall not affect the Borrower's obligations in respect of such Loans.

1.06 Interest. (a) The unpaid principal amount of each Loan shall bear interest from the date of the disbursement thereof until maturity (whether by acceleration or otherwise) at a rate per annum which shall at all times be the Applicable Margin plus the relevant Interest Rate Basis.

(b) Overdue principal and, to the extent permitted by law, overdue interest in respect of each Loan shall bear interest at a rate per annum (recomputed daily) equal to 2.55% per annum in excess of the average daily cost to the Bank (as determined by the Bank, which determination shall be conclusive and binding, absent manifest error) of overnight funds in the interbank market in amounts comparable to the respective Loan.

(c) Interest shall accrue from and including the date of any Loan to but excluding the date of any repayment thereof and shall be payable in respect of the outstanding amount of each Loan, (i) in the case of any Prime Loan, on the last Business Day of each consecutive calendar month, (ii) on the last day of each Interest Period applicable thereto and, in the case of an Interest Period in excess of three months, on each date occurring at three month intervals after the first day of such Interest Period, (iii) on any prepayment (on the amount prepaid), (iv) at maturity (whether by acceleration or otherwise) and (v) after such maturity (as such maturity may be extended pursuant to Section 1.07(b)), on demand.

(d) All computations of interest hereunder shall be made in accordance with Section 10.06(b).

(e) The Bank, upon determining the interest rate for any Loan for any Interest Period, shall promptly notify the Borrower thereof.

1.07 Interest Periods.

(a) At the time the Borrower gives a Notice of Borrowing in respect of the making of a Loan (in the case of the initial Interest Period applicable thereto) or in the case of a notice given at the expiration of an Interest Period, (i) prior to 12:00 Noon (Philadelphia time) on the second Business Day prior to the expiration of an Interest Period (if the next Interest Rate Basis will be the Eurodollar Rate) or (ii) prior to 3:00 P.M. (Philadelphia time) on the date of the expiration of the Interest Period (if the next Interest Rate Basis will be the Prime Rate), it shall have the right to elect by giving the Bank written notice (or telephonic notice promptly confirmed in writing) of the Interest Period and Interest Rate Basis applicable to such Loan. If

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the Interest Rate Basis is the Eurodollar Rate, the Interest Period shall, at the option of the Borrower, be one, two, three or six months. Notwithstanding anything to the contrary contained above:

- (i) the initial Interest Period for any Loan shall commence on the date of such Loan and each Interest Period occurring thereafter in respect of such Loan shall commence on the day on which the next preceding Interest Period expires;
- (ii) if any Interest Period for a Loan for which the Interest Rate Basis is the Eurodollar Rate, begins on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period, such Interest Period shall end on the last Business Day of such calendar month;
- (iii) if any Interest Period would otherwise expire on a day which is not a Business Day, such Interest Period shall expire on the next succeeding Business Day, provided, that if the Interest Rate Basis for the respective Loan is the Eurodollar Rate and if such succeeding Business Day falls in the following calendar month, such Interest Period shall expire on the next preceding Business Day;
- (iv) no Interest Period may be elected if it would extend beyond the Expiry Date; and
- (v) no Interest Period may be elected at any time when a Default under Section 7.01 or Event of Default is then in existence.

(b) If by 3:00 P.M. (Philadelphia time) on the day of the expiration of any Interest Period, (I) the Borrower has not notified the Bank of its selection of a new Interest Period and/or a new Interest Rate Basis, (II) the Borrower has not notified the Bank that it will repay the respective Loan at the expiration of such Interest Period, and (III) no Event of Default has occurred and is continuing, then the Borrower shall be deemed to have converted such Loan to a Prime Rate Loan (and the Loan shall not thereupon be considered overdue), which election shall remain in effect until (A) the Borrower repays such Loan and all accrued interest thereon, (B) the Borrower selects another Interest Rate Basis or (C) the Expiry Date.

1.08 Maturity of Loans. Each Loan shall mature on its Maturity Date or, in the case of a Prime Rate Loan, on the Expiry Date. On the applicable date, the Borrower will pay to the Bank any and all amounts due in connection with such Loan, which have not theretofore been paid or automatically extended pursuant to Section 1.07(b).

1.09 In creased Costs, Illegality, Etc. (a) In the event that the Bank shall have determined (which determination shall, absent manifest error, be final and conclusive and binding upon all parties hereto):

- (i) on any date for determining the Eurodollar Rate for any Interest Period, that, by reason of any changes arising after the date of this Agreement affecting the interbank Eurodollar market, adequate and fair means do not exist

for ascertaining the applicable interest rate on the basis provided for in the definition of Eurodollar Rate; or

(ii) at any time, that the Bank shall incur increased costs or reductions in the amounts received or receivable hereunder with respect to any Loan because of (x) any change since the date of this Agreement in any applicable law, governmental rule, regulation, guideline, or order (whether or not having the force of law), or in the interpretation or administration thereof and including the introduction of any new law or governmental rule, regulation, guideline, order or request (such as, for example, but not limited to, a change in official reserve requirements, but, in all events, excluding reserves required under Regulation D to the extent included in the computation of the Eurodollar Rate) and/or (y) other circumstances affecting the interbank markets generally; or

(iii) at any time since the date of this Agreement, that the making or continuance of any Loan has become unlawful by compliance by the Bank in good faith with any law, governmental rule, regulation, guideline or order (or would conflict with any such governmental rule, regulation, guideline or order not having the force of law but with which the Bank and similarly-situated banks customarily comply even though the failure to comply therewith would not be unlawful), or has become impracticable as a result of a contingency occurring after the date of this Agreement which materially and adversely affects the interbank Eurodollar market; then, and in any such event, the Bank shall (x) on such date and (y) within 10 Business Days of the date on which such event no longer exists give notice (by telephone confirmed in writing) to the Borrower of such determination. Thereafter, (x) in the case of clause (i) above, Eurodollar Loans shall no longer be available until such time as the Bank notifies the Borrower that the circumstances giving rise to such notice by the Bank no longer exist, and any Notice of Borrowing given by the Borrower with respect to Eurodollar Loans which have not yet been incurred shall be deemed rescinded by the Borrower, (y) in the case of clause (ii) above, the Borrower agrees to pay to the Bank, upon written demand therefor (accompanied by the written notice referred to below), such additional amounts as shall be required to compensate the Bank for such increased costs or reductions in amounts received or receivable hereunder (a written notice as to the additional amounts owed to the Bank, showing the basis for the calculation thereof (and in the case of any notice given as a result of a change with any law, governmental rule, regulation, guideline or order, a description of the relevant provisions of such law, rule, regulation, guideline or order and, as requested by the Borrower, a memorandum or an opinion of counsel (the reasonable fees and expenses of which shall be born by the Borrower) of recognized standing as to the effect of such change on the Bank), submitted to the Borrower by the Bank shall, absent manifest error, be final and conclusive and binding upon all parties hereto) and (z) in the case of clause (iii) above, the Borrower shall take one of the actions specified in Section 1.09(b) as promptly as possible and, in any event, within the time period required by law.

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(b) At any time that any Loan is affected by the circumstances described in Section 1.09(a)(ii) or (iii), the Borrower may (and in the case of a Loan affected pursuant to Section 1.09(a)(iii) the Borrower shall) either (i) if the affected Loan is then being made pursuant to a pending Notice of Borrowing, cancel such Notice of Borrowing by giving the Bank telephonic notice (confirmed promptly in writing) thereof on the same date that the Borrower was notified by the Bank pursuant to Section 1.09(a)(ii) or (iii)) or (ii) if the affected Loan is then outstanding, convert such loan together with interest accrued thereon and any other amounts due thereunder to a Prime Rate Loan. The Bank, upon determining in good faith that any additional amounts will be payable pursuant to this Section 1.09(b), will give prompt written notice thereof to the Borrower, which notice shall set forth the basis of the calculation of such additional amounts, although the failure to give any such notice shall not release or diminish the Borrower's obligations to pay additional amounts pursuant to this Section 1.09(b) upon the subsequent receipt of such notice.

(c) If the Bank shall have determined that after the date hereof, the adoption or effectiveness of any applicable law, rule or regulation regarding capital adequacy, or any change therein, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by the Bank with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on the Bank's capital or assets as a consequence of its commitments or obligations hereunder to a level below that which the Bank could have achieved but for such adoption, effectiveness, change or compliance (taking into consideration the Bank's policies with respect to capital adequacy), then from time to time, upon written demand by the Bank, accompanied by the notice referred to in the last sentence of this clause (c), the Borrower shall pay to the Bank such additional amount or amounts as will compensate the Bank for such reduction. The Bank, upon determining in good faith that any additional amounts will be payable pursuant to this Section 1.09(c), will give prompt written notice thereof to the Borrower, which notice shall set forth the basis of the calculation of such additional amounts, although the failure to give any such notice shall not release or diminish the Borrower's obligations to pay additional amounts pursuant to this Section 1.09(c) upon the subsequent receipt of such notice.

1.10 Compensation. The Borrower agrees to compensate the Bank, upon its written request (which request shall set forth the basis for requesting such compensation), for all reasonable losses, expenses and liabilities (including, without limitation, any loss, expense or liability incurred by reason of the liquidation or reemployment of deposits or other funds required by the Bank to fund its Loans, but excluding loss of anticipated profit with respect to any Loans) which the Bank may sustain: (i) if for any reason (other than a default by the Bank) a Loan does not occur on a date specified therefor in a Notice of Borrowing (whether or not withdrawn by the Borrower or deemed withdrawn pursuant to Section 1.09(b)); (ii) if any repayment or conversion of any Loan occurs on a date which is not the last day of an Interest Period applicable thereto; (iii) if any prepayment of any Loan is not made on any date specified in a notice of prepayment given by the Borrower; or (iv) as a consequence of (x) any other default by the Borrower to repay its Loans when required by the terms of this Agreement or (y) an election made pursuant to Section 1.09(b). Calculation of all amounts payable to the Bank under this Section 1.10 shall be made as though the Bank had actually funded its relevant Loan

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through the purchase of a deposit bearing interest at the Eurodollar Rate in an amount equal to the amount of that Loan, having a maturity comparable to the relevant Interest Period and through the transfer of a Eurodollar deposit from an offshore office of the Bank to a domestic office of the Bank in the United States of America; provided, however, that the Bank may fund each of its Loans in any manner it sees fit and the foregoing assumption shall be utilized only for the calculation of amounts payable under this Section 1.10.

1.11 Change of Lending Office. The Bank agrees that, upon the occurrence of any event giving rise to the operation of Section 1.09(a)(ii) or (iii), or 1.09(c) with respect to the Bank, it will, if requested by the Borrower, use reasonable efforts (subject to overall policy considerations of the Bank) to designate another lending office for any Loans affected by such event; provided, that such designation is made on such terms that, in the sole judgment of the Bank, the Bank and its lending office suffer no economic, legal or regulatory disadvantage, with the object of avoiding the consequences of the event giving rise to the operation of any such Section. Nothing in this Section 1.11 shall affect or postpone any of the obligations of the Borrower or the rights of the Bank provided in Section 1.09.

1.12 Extension of Expiry Date. On any Business Day not less than 60 nor more than 90 days prior to the Expiry Date then in effect, the Borrower may, by written notice to the Bank, request that the Expiry Date be extended for an additional 364 days. The Bank may accept or reject such request in its sole discretion. The Bank will notify the Borrower of its decision, in writing, not less than 45 days prior to the Expiry Date then in effect. If the Bank shall fail to give such notice, it shall be deemed to have rejected such request.

SECTION 2. FEES; COMMITMENTS

2.01 Commitment Fee. The Borrower agrees to pay to the Bank an unused commitment fee (the "Commitment Fee") for the period from the Effective Date to but not including the date the Commitment has been terminated quarterly in arrears as billed by the Bank, at a rate per annum equal to one quarter of one percent (.25%) per annum, payable on the amount by which the Commitment (as the same may be reduced in accordance with Section 2.02) exceeds the average daily unpaid balance of the Loans. The Commitment Fee shall be computed in accordance with Section 10.06.

2.02 Voluntary Reduction of Commitments. Upon at least three Business Days' prior written notice (or telephonic notice promptly confirmed in writing) to the Bank the Borrower shall have the right, without premium or penalty, to terminate or partially reduce the unutilized Commitment; provided, that any partial reduction pursuant to this Section 2.02 shall be in the amount of at least \$250,000.

2.03 Termination of Commitments. The Commitment shall terminate on the Expiry Date as extended from time to time in accordance with the terms hereof.

**SECTION 3.
PAYMENTS**

3.01 Voluntary Prepayments. The Borrower shall have the right to prepay the Loans, in whole or in part, without premium or penalty except as otherwise provided in this Agreement, from time to time on the following terms and conditions: (i) the Borrower shall give the Bank written notice (or telephonic notice promptly confirmed in writing) of its intent to prepay the Loans, the amount of such prepayment and the specific Loans(s) to which prepayment shall be applied, which notice shall be given by the Borrower prior to 12:00 Noon (Philadelphia time) at least two Business Days prior to the date of such prepayment in the case of Eurodollar Loans, or prior to 3:00 P.M. (Philadelphia time) on the date of such prepayment in the case of Prime Rate Loans; and (ii) each prepayment shall be in an aggregate principal amount of at least \$250,000; provided, that no partial prepayment of a Loan shall reduce the aggregate principal amount of the Loans outstanding to an amount less than the Minimum Borrowing Amount applicable thereto; and provided further that the Borrower shall comply with Section 1.10 hereof.

3.02 Method and Place of Payment. Except as otherwise specifically provided herein, all payments under this Agreement shall be made to the Bank not later than 3:00 P.M. (Philadelphia time) on the date when due and shall be made in immediately available funds and in lawful money of the United States of America at the office of the Bank designated to receive notices pursuant to Section 10.03 hereof, it being understood that written, telex or facsimile transmission notice by the Borrower to the Bank to make a payment from the funds in the Borrower's account at the Bank shall constitute the making of such payment to the extent of such funds held in such account. Any payments under this Agreement which are made later than 3:00 P.M. (Philadelphia time) shall be deemed to have been made on the next succeeding Business Day. Whenever any payment to be made hereunder shall be stated to be due on a day which is not a Business Day, the due date thereof shall be extended to the next succeeding Business Day and, with respect to payments of principal, interest shall be payable during such extension at the applicable rate in effect immediately prior to such extension.

3.03 Net Payments. (a) All payments made by the Borrower hereunder or under any Note will be made without setoff, counterclaim or other defense. All such payments will be made free and clear of, and without deduction or withholding for, any present or future taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature now or hereafter imposed by any jurisdiction or by any political subdivision or taxing authority thereof or therein with respect to such payments (but excluding any tax imposed on or measured by the net income or net profits of the Bank pursuant to the laws of the jurisdiction in which it is organized or the jurisdiction in which the principal office or applicable lending office of the Bank is located or any subdivision thereof or therein) and all interest, penalties or similar liabilities with respect to such non-excluded taxes, levies, imposts, duties, fees, assessments or other charges (all such non-excluded taxes, levies, imposts, duties, fees, assessments or other charges being referred to collectively as "Taxes"). If any Taxes are so levied or imposed, the Borrower agrees to pay the full amount of such Taxes, and such additional amounts as may be necessary so that every payment of all amounts due under this Agreement or under the Note, after withholding or deduction for or on account of any Taxes, will not be less than the amount provided for herein or in the Note. The Borrower will furnish to the Bank within 45 days after the date the payment of any Tax is due pursuant to applicable law certified copies of tax receipts evidencing such

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payment by the Borrower. The Borrower agrees to indemnify and hold harmless the Bank, and reimburse the Bank upon its written request, for the amount of any Taxes so levied or imposed and paid by the Bank.

(b) The Bank agrees to deliver to the Borrower prior to the Effective Date, an accurate and complete original signed copy of Internal Revenue Service Form W-9 (or successor form) certifying the Bank's entitlement to a complete exemption from United States Withholding Tax with respect to payments to be made under this Agreement and under the Note.

**SECTION 4.
CONDITIONS**

4.01 Conditions Precedent to the Effective Date. This Agreement shall become effective on the date (the "Effective Date") on which the following conditions shall have been satisfied:

(a) Execution of Agreement. Each of the Borrower and the Bank shall have executed counterparts of this Agreement and shall have delivered the same to the other;

(b) Note. On the Effective Date, there shall have been delivered to the Bank the Note executed by the Borrower in the amount, maturity and as otherwise provided herein;

(c) Corporate Proceedings. On the Effective Date, all corporate and legal proceedings and all instruments and agreements in connection with the transactions contemplated by this Agreement and the Note shall be reasonably satisfactory in form and substance to the Bank, and the Bank shall have received all information and copies of all certificates, documents and papers, including good standing certificates and any other records of corporate proceedings and governmental approvals, if any, which the Bank reasonably may have requested in connection therewith, such documents and papers, where appropriate, to be certified by proper corporate or governmental authorities;

provided, however, that if the Effective Date shall not have occurred on or before the 30th day after the Bank shall have executed and delivered to the Borrower a counterpart hereof, then this Agreement shall be deemed terminated.

4.02 Conditions Precedent to Loans. The obligation of the Bank to make each Loan hereunder is subject, at the time of the making of each such Loan, to the satisfaction of the following conditions:

(a) Effectiveness. The Effective Date shall have occurred.

(b) No Default; Representations and Warranties. At the time of the making of each Loan and also immediately after giving effect thereto (i) there shall exist no Default or Event of Default and (ii) all representations and warranties contained herein and in the respective Notice of Borrowing shall be true and correct in all material respects with the same effect as though such representations and warranties had been made on and as of the date of the making of such Loan, unless stated to relate to a specific earlier date, in which case such representations and warranties shall be true and correct in all material respects as of such earlier date.

(c) Notice of Borrowing. The Bank shall have received a Notice of Borrowing in respect of such Loans satisfying the requirements of Section 1.02.

The acceptance of the benefits of each Loan shall constitute a representation and warranty by the Borrower to the Bank that all of the applicable conditions specified above exist as of the date of such Loan. All of the certificates, legal opinions and other documents and papers referred to in Section 4.01 shall be reasonably satisfactory in form and substance to the Bank.

**SECTION 5.
REPRESENTATIONS AND WARRANTIES**

In order to induce the Bank to enter into this Agreement and to make the Loans provided for herein, the Borrower makes the following representations and warranties, all of which shall survive the execution and delivery of this Agreement and the making of the Loans.

5.01 Corporate Status. The Borrower is a corporation duly existing and in good standing under the laws of the Commonwealth of Pennsylvania; each Principal Subsidiary is a corporation duly existing and in good standing under the laws of the jurisdiction of its respective incorporation; and the Borrower and each Principal Subsidiary is duly qualified and in good standing as a foreign corporation authorized to do business in each jurisdiction where, because of the nature of its activities or properties, such qualification is required, except where the failure to be so qualified would not have a Material Adverse Effect. The Borrower and each Principal Subsidiary, respectively, has all corporate powers and all material governmental licenses, authorizations, consents and approvals required to carry on its business as now conducted.

5.02 Power and Authority. The Borrower has the corporate power and authority to execute, deliver and carry out the terms and provisions of the Credit Documents and has taken all necessary corporate action to authorize the execution, delivery and performance of the Credit Documents. The Borrower has duly executed and delivered each Credit Document and each such Credit Document constitutes the legal, valid and binding obligation of the Borrower enforceable in accordance with its terms, except to the extent that the enforceability thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws generally affecting creditors' rights, by equitable principles (regardless of whether enforcement is sought in equity or at law) and by principles of good faith and fair dealing.

5.03 No Violation. Neither the execution, delivery or performance by the Borrower of the Credit Documents nor compliance by it with the terms and provisions thereof, nor the consummation of the transactions contemplated therein, (i) will contravene any applicable provision of any law, statute, rule or regulation, or any material order, writ, injunction or decree binding upon the Borrower of any court or governmental instrumentality, (ii) will conflict with or result in any breach of, any of the terms, covenants, conditions or provisions of, or constitute a default under, or result in the creation or imposition of (or the obligation to create or impose) any Lien upon any of the property or assets of the Borrower or any of its Principal Subsidiaries pursuant to the terms of any indenture, mortgage, deed of trust, or other material instrument or agreement to which the Borrower is a party or by which it or any of its property or assets are

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bound or to which it is subject or (iii) will violate any provision of the Certificate of Incorporation or By-Laws of the Borrower.

5.04 Litigation. There are no actions, suits or proceedings pending or, to the knowledge of the Borrower, threatened with respect to the Borrower or any Subsidiary (i) in which there is a reasonable possibility of an adverse decision which could have a Material Adverse Effect or (ii) that in any manner draws into question the validity of any material provision of any Credit Document.

5.05 Use of Proceeds; Margin. (a) The proceeds of all Loans shall be utilized for the general corporate and working capital purposes of the Borrower.

(b) Neither the making of any Loan hereunder, nor the use of the proceeds thereof, will violate the provisions of Regulation T, U or X of the Board of Governors of the Federal Reserve System and no part of the proceeds of any Loan will be used to purchase or carry any Margin Stock or to extend credit for the purpose of purchasing or carrying any Margin Stock.

5.06 Governmental Approvals. No order, consent, approval, license, authorization, or validation of, or filing, recording or registration with, or exemption by, any foreign or domestic governmental or public body or authority, or any subdivision thereof, is required to authorize or is required in connection with (i) the execution, delivery and performance of any Credit Document or (ii) the legality, validity, binding effect or enforceability of any Credit Document.

5.07 Investment Company Act. The Borrower is not an "investment company" or a company "controlled" by an "investment company," within the meaning of the Investment Company Act of 1940, as amended.

5.08 Public Utility Holding Company Act. The Borrower is not a "holding company," or a "subsidiary company" of a "holding company," or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company," within the meaning of the Public Utility Holding Company Act of 1935, as amended.

5.09 Financial Condition; Financial Statement. (a) The consolidated balance sheet of the Borrower at December 31, 2002 and the related statement of operations and cash flows of the Borrower for the fiscal period ended as of said date, which have been certified by PriceWaterhouseCoopers LLP, independent certified public accountants, copies of which have heretofore been furnished to the Bank, present fairly in all material respects the financial position of the Borrower and its Subsidiaries at the date of said statements and their results of operations and cash flows for the period covered thereby. All such financial statements have been prepared in accordance with GAAP consistently applied except to the extent provided in the notes to said financial statements. Except as disclosed publicly and in writing by the Borrower, nothing has occurred since December 31, 2002 that has had a Material Adverse Effect.

(b) Except as correctly reflected in the financial statements described in Section 5.09(a) or in the footnotes thereto and any Indebtedness incurred under this Agreement, there were as of the Effective Date (and after giving effect to any Loans made on such date), no material contingent obligation, contingent liability or liability for taxes or any long-term lease or

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unusual forward or long-term commitment, including interest rate or currency swap or exchange transactions, or with respect to the Borrower or its Subsidiaries which either individually or in the aggregate would be material to the Borrower and its subsidiaries on a consolidated basis, except as incurred in the ordinary course of business subsequent to December 31, 2002.

5.10 Tax Returns and Payments. The Borrower has filed all federal income tax returns and all other material tax returns, domestic and foreign, required to be filed by it and has paid all material taxes and assessments payable by it which have become due, except for those contested in good faith. The Borrower has at all times paid, or has provided adequate reserves (in the good faith judgment of the management of the Borrower) for the payment of, all federal, state and foreign income taxes applicable for all prior fiscal years and for the current fiscal year to date.

5.11 Compliance with ERISA. Each Plan is in substantial compliance with ERISA and the Code; no Reportable Event has occurred and continues with respect to a Plan; no Plan is insolvent or in reorganization; no Plan has an Unfunded Current Liability; no Plan has an accumulated or waived funding deficiency, has applied for a waiver of the minimum funding standard or an extension of any amortization period within the meaning of Section 412 of the Code; all contributions required to be made with respect to a Plan have been timely made; neither the Borrower nor any ERISA Affiliate has incurred any material liability to or on account of a Plan pursuant to Section 409, 502(i), 502(l), 515, 4062, 4063, 4064, 4069, 4201, 4204 or 4212 of ERISA or Section 401(a)(29), 4971, 4975 or 4980 of the Code or reasonably expects to incur any material liability (including any indirect, contingent or secondary liability) under any of the foregoing Sections with respect to any Plan (other than liabilities of any ERISA Affiliate which could not, by operation of law or otherwise, become a liability of the Borrower); no proceedings have been instituted to terminate, or to appoint a trustee to administer, any Plan; no condition exists which presents a material risk to the Borrower or any ERISA Affiliate of incurring a liability to or on account of a Plan pursuant to the foregoing provisions of ERISA and the Code; neither the Borrower nor any of its ERISA Affiliates has, within the past six years, withdrawn in a complete or partial withdrawal under Section 4201 or Section 4204 of ERISA from a multiemployer plan (as defined in Section 4001(a)(3) of ERISA) which would result in a Material Adverse Effect; and no lien imposed under the Code or ERISA on the assets of the Borrower or any ERISA Affiliate exists or is likely to arise on account of any Plan.

5.12 Environmental Matters. The Borrower and each Subsidiary is in compliance with all applicable Environmental Laws, except to the extent that such failure to comply will not result in, has not resulted in and cannot reasonably be expected to result in a Material Adverse Effect.

SECTION 6. AFFIRMATIVE COVENANTS

The Borrower hereby agrees that, so long as the Commitment remains in effect, the Note remains outstanding and unpaid or any other amount is owing to the Bank hereunder, the Borrower shall:

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6.01 Financial Statements. Furnish or cause to be furnished to the Bank:

(a) Within 90 days after each fiscal year of the Company, a consolidated balance sheet of the Borrower and its consolidated Subsidiaries as of the end of such fiscal year and the related consolidated statements of earnings, cash flows and changes in common stockholders' equity for such fiscal year, prepared on a consolidated basis and in conformity with generally accepted accounting principles, duly certified (without qualification) by independent certified public accountants of recognized standing selected by the Borrower; and

(b) Within 60 days after each quarter (except the last quarter) of each fiscal year of the Borrower, a copy of unaudited consolidated financial statements of the Borrower prepared in the same manner as the audited financial statements referred to in Section 5.09, signed by a proper accounting officer of the Borrower and consisting of at least a balance sheet as at the close of such quarter and statements of operations and cash flows for such quarter and for the period from the beginning of such fiscal year to the close of such quarter; all such financial statements to be complete and correct in all material respects and to be prepared in reasonable detail and in accordance with GAAP applied consistently throughout the periods reflected therein and with prior periods (except as approved by such accountants or officer, as the case may be, and disclosed therein).

6.02 Certificates; Other Information. Furnish to the Bank:

(a) from time to time such additional information regarding the business, financial condition and operations of the Borrower and its Subsidiaries as the Bank may reasonably request; and

(b) as soon as possible and in any event within fifteen days after the same are sent, (i) copies of all financial statements and reports which the Borrower sends to its shareholders, and (ii) copies of any and all periodic or special reports filed by the Borrower with any governmental authority, if such reports indicate any Material Adverse Effect has occurred or is likely to occur, or if copies thereof are reasonably requested by the Bank.

6.03 Payment of Obligations. If and to the extent the failure to do so would result in a Material Adverse Effect, pay, discharge or otherwise satisfy at or before maturity or before they become delinquent, as the case may be, all its Indebtedness and other obligations of whatever nature, except where the amount or validity thereof is currently being contested in good faith by appropriate proceedings and reserves in conformity with GAAP with respect thereto have been provided on the books of the Borrower; and cause each of its Subsidiaries so to do.

6.04 Conduct of Business and Maintenance of Existence. Except to the extent that failure to do so would not result in a Material Adverse Effect, continue to engage in business of the same general type as now conducted by it and preserve, renew and keep in full force and effect its corporate existence and take all reasonable action to maintain all rights, privileges and franchises necessary or desirable in the normal conduct of its business; comply with all material contractual obligations and applicable laws except to the extent that failure to comply therewith could not reasonably be expected, in the aggregate, to have a Material Adverse Effect; and cause each of its Subsidiaries so to do. It is expressly understood and agreed that the Borrower and its

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Subsidiaries in continuing their respective general businesses, have at any time the right to implement any changes that they deem necessary or appropriate in their corporate group structures, provided that such changes do not result in a Material Adverse Effect.

6.05 In surance. Maintain, in the name of the Borrower, with financially sound and reputable insurance companies, insurance with adequate coverage on all of its properties.

6.06 Books and Records. Keep proper books of record and accounts in which full, true and correct entries in conformity with GAAP shall be made of all dealings and transactions in relation to its business and activities.

6.07 Notices. Promptly, upon gaining actual knowledge thereof, give notice to the Bank of:

(a) the occurrence of any Default or Event of Default;

(b) any (i) default or event of default under any contractual obligation of the Borrower or (ii) litigation, investigation or proceeding which may exist at any time between the Borrower and any governmental or administrative body or agency, which in either case, if not cured or if adversely determined, as the case may be, would have a Material Adverse Effect;

(c) any litigation or proceeding affecting the Borrower or any of its Subsidiaries in which the amount involved is \$10,000,000 or more and not covered by insurance or in which injunctive or similar relief is sought which might result in a Material Adverse Effect; and

(d) any Material Adverse Effect on the Borrower.

Each notice pursuant to this subsection shall be accompanied by a statement of a Responsible Officer setting forth details of the occurrence referred to therein and stating what action (if any) the Borrower proposes to take with respect thereto.

6.08 Environmental Laws.

(a) If and to the extent the failure to do so would result in a Material Adverse Effect, comply with, and require compliance by all of its tenants and subtenants, if any, and each of its Subsidiaries, with all Environmental Laws and obtain and comply with and maintain, and require that all tenants and subtenants obtain and comply with and maintain, any and all licenses, approval, registrations or permits required by Environmental Laws; and

(b) If and to the extent the failure to do so would result in a Material Adverse Effect, conduct and complete all investigations, studies, sampling and testing, and all remedial, removal and other actions required under Environmental Laws and promptly comply with all applicable, lawful orders and directives respecting Environmental Laws and cause each of its Subsidiaries so to do

6.09 Payment of Taxes. If and to the extent the failure to do any of the following would result in a Material Adverse Effect, (a) pay and discharge prior to their becoming

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delinquent all taxes, assessments and other governmental charges or levies imposed upon it or its income or upon any of its property or assets, or upon any part thereof, as well as all lawful claims of any kind (including claims for labor, materials and supplies) which, if unpaid, would by law become a Lien upon its property; and (b) cause each of its Principal Subsidiaries so to do; provided that the Borrower and its Principal Subsidiaries will not be required to pay any such tax, assessment, charge, levy or claim if the amount, applicability or validity thereof shall be contested in good faith by appropriate proceedings or other appropriate actions diligently conducted and if the Borrower shall have set aside on its books such reserves, if any, with respect thereto as are required by GAAP and deemed appropriate by the Borrower and its independent public accountants.

6.10 **Further Assurances.** From time to time hereafter, execute and deliver, or cause to be executed and delivered, such additional instruments, certificates or documents, and will take all such actions, as the Bank may reasonably request, for the purposes of implementing or effectuating the provisions of the Loan Documents. Upon the exercise by the Bank of any power, right, privileges or remedy pursuant to the Loan Documents, which requires any consent, approval, recording, qualification or authorization of any governmental or administrative body or agency, the Borrower will execute and deliver, or will cause the execution and delivery of, all applications, certifications, instruments and other documents and papers that the Bank may be required to obtain from the Borrower for such governmental consent, approval, recording, qualification or authorization.

SECTION 7. NEGATIVE COVENANTS

7.01 **Negative Pledge.** The Borrower will not, and will not permit any Principal Subsidiary to, create, assume, incur or suffer to exist any Lien on any asset now owned or hereafter acquired by it, except for the following (the "Permitted Liens"):

- (a) any Lien on any asset securing Indebtedness incurred or assumed for the purpose of financing all or any part of the cost of acquiring such asset; provided that such Lien attaches to such asset concurrently with or within 90 days after the acquisition thereof;
- (b) any lien existing on any asset of any Person at the time such corporation becomes a Subsidiary and not created in contemplation of such event;
- (c) any Lien on any asset of any Person existing at the time such corporation is merged or consolidated with or into the Borrower or a Subsidiary, or existing at the time that such asset was acquired from the seller on arms' length terms, and, in each case, not created in contemplation of such acquisition;
- (d) Liens for taxes, assessments and governmental charges which are not delinquent or which are being contested in good faith and by appropriate proceedings and as to which appropriate reserves are being maintained;
- (e) Liens imposed by statute, ordinance or regulation, such as materialmen's, mechanics' carriers', workmen's and repairmen's Liens and other similar Liens arising in the ordinary course of business securing obligations which (i) are not overdue for a period of more

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than 30 days after filing of any notice with respect to, or such Person's otherwise having notice of, such Lien, (ii) are fully bonded by reputable and responsible insurers or (iii) involve claims which are being contested in good faith and by proper proceedings and in respect of which such Person has set aside adequate cash (or cash equivalent) reserves for the payment of that portion thereof in excess of \$100,000 or has provided such other assurances as the Bank may approve;

(f) pledges or deposits to secure obligations under workers' compensation laws, unemployment insurance or social security laws;

(g) Liens incurred to secure the performance of bids, tenders, contracts (other than for the repayment of borrowed money) or Capital Leases or to secure statutory obligations or deposits of cash or United States government bonds securing surety or appeal bonds or to secure indemnity, performance or other similar bonds, in each case, incurred in the ordinary course of business;

(h) zoning restrictions, easements, licenses, restriction on the use of real property or immaterial irregularities in title thereto, which do not in the aggregate have a material adverse effect on the business or financial condition of the Borrower and its Subsidiaries;

(i) Liens incurred by any Subsidiary to secure Indebtedness owing to the Borrower or a wholly-owned Subsidiary;

(j) any Lien arising out of the refinancing, extension, renewal or refunding of any Indebtedness secured by any Lien permitted by any of the foregoing clauses of this Section, provided that such Indebtedness is not increased and is not secured by any additional assets; and

(k) Liens not otherwise permitted by the foregoing clauses of this Section securing Indebtedness in an aggregate principal amount at any time outstanding not to exceed the greater of \$10,000,000 and 15% of Consolidated Net Worth.

7.02 Dissolutions and Mergers. The Borrower shall neither liquidate or dissolve nor merge into or consolidate with or into any corporation, unless, after giving effect to such merger or consolidation, (a) either (i) the Borrower is the surviving corporation or (ii) the surviving corporation shall assume all of the obligations of the Borrower hereunder; and (b) no Default or Event of Default shall then exist.

7.03 Disposition of Assets. The Borrower and its Principal Subsidiaries shall not sell, assign, or transfer all or a substantial portion of its consolidated assets, or its consolidated accounts receivable, other than in the ordinary course of business.

7.04 Conduct of Business. The Borrower shall not make or permit to be made any material change in the character of its business as carried on at the date of this Agreement and will not allow any Principal Subsidiary so to do.

7.05 Use of Proceeds. The Borrower shall not use any part of the proceeds of any credit extended under this Agreement or the Note to purchase or carry, or to reduce or retire any indebtedness incurred to purchase or carry, any Margin Stock or to extend credit to any Person for the purpose of purchasing or carrying any Margin Stock.

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7.06 Financial Covenants.

(a) The Borrower will not at any time allow the ratio of (i) Consolidated Total Indebtedness to (ii) the sum of (A) Consolidated Net Worth plus (B) Consolidated Total Indebtedness to exceed 0.50 to 1.

(b) The Borrower will not permit the aggregate amount of all Indebtedness of Subsidiaries (exclusive of Indebtedness owing to the Borrower or to a Wholly-Owned Subsidiary) outstanding at any time to exceed \$40,000,000.

(c) The Borrower will not at any time allow Consolidated Net Worth to be less than the sum of (i) \$50,000,000, plus (ii) 33% of Consolidated Net Income (without deduction for losses sustained) accrued from December 31, 1991, to and including the most recent fiscal quarter prior to the date of determination thereof, plus (iii) the net proceeds of any common stock issue or conversion of Convertible Securities occurring after December 31, 2001.

SECTION 8. EVENTS OF DEFAULT

Upon the occurrence of any of the following specified events (each, an "Event of Default"):

8.01 Payments. The Borrower shall default in the payment when due of any principal of the Loans; or of any interest on the Loans and such default shall continue for three days after the Borrower has actual notice thereof; or of any Fees or other amounts owing hereunder or under any other Credit Document and such default shall continue for seven days after the due date therefor; or

8.02 Covenants Without Notice. The Borrower shall default in the due performance or observance by it of any material term, covenant or agreement on its part to be performed or observed pursuant to Sections 6.07 or 7; or

8.03 Re presentations, etc. Any representation, warranty or statement made by the Borrower herein or in any statement or certificate delivered pursuant hereto shall prove to be untrue in any material respect on the date as of which made or deemed made; or

8.04 Covenants With Notice. The Borrower shall default in the due performance or observance by it of any material term, covenant or agreement (other than those referred to in Sections 8.01, 8.02 and 8.03 hereof) contained in this Agreement and such default shall continue unremedied for a period of fifteen days after written notice from the Bank; or

8.05 Other Agreements. The Borrower or any Subsidiary shall fail to pay any Indebtedness in excess of \$5,000,000 (excluding Indebtedness hereunder or under the Note) of the Borrower or Subsidiary (as the case may be), or any interest or premium thereon, when due (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise) and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument relating to any such Indebtedness; or any other default under any agreement or instrument relating to any such Indebtedness, or any other event, shall occur and shall continue

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after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such default or event is to accelerate, or to permit the acceleration of, the maturity of such Indebtedness; or any such Indebtedness shall be declared to be due and payable, or required to be prepaid (other than by a regularly scheduled required prepayment), prior to the stated maturity thereof; or

8.06 Bankruptcy, etc. The Borrower or any Principal Subsidiary shall commence a voluntary case concerning itself under Title 11 of the United States Code entitled "Bankruptcy", as now or hereafter in effect, or any successor thereto (the "Bankruptcy Code"); or an involuntary case is commenced against the Borrower under the Bankruptcy Code and the petition is not dismissed within 60 days after commencement of the case; or a custodian (as defined in the Bankruptcy Code) is appointed for, or takes charge of, all or substantially all of the property of the Borrower; or the Borrower commences any other proceeding under any other reorganization, arrangement, adjustment of debt, relief of debtors, dissolution, insolvency or liquidation or similar law of any jurisdiction whether now or hereafter in effect relating to the Borrower; or there is commenced against the Borrower any such proceeding which remains undismissed for a period of 60 days; or the Borrower is adjudicated insolvent or bankrupt; or any order of relief or other order approving any such case or proceeding is entered; or the Borrower suffers any appointment of any custodian or the like for it or any substantial part of its property to continue undischarged or unstayed for a period of 60 days; or the Borrower makes a general assignment for the benefit of creditors; or any corporate action is taken by the Borrower for the purpose of effecting any of the foregoing; or

8.07 ERISA. (a) Any Plan shall fail to satisfy the minimum funding standard required for any plan year or part thereof or a waiver of such standard or extension of any amortization period is sought or granted under Section 412 of the Code, any Plan shall have had or is likely to have a trustee appointed to administer such Plan, any Plan is, shall have been or is likely to be terminated or the subject of termination proceedings under ERISA, any Plan shall have an Unfunded Current Liability, a contribution required to be made to a Plan has not been timely made or the Borrower or any ERISA Affiliate has incurred or is likely to incur a liability to or on account of a Plan under Section 409, 502(i), 502(l), 515, 4062, 4063, 4064, 4069, 4201, 4204 or 4212 of ERISA or Section 401(a)(29), 4971, 4975 or 4980 of the Code; (b) there shall result from any such event or events the imposition of a lien, the granting of a security interest, or a liability or a material risk of incurring a liability; and (c) which lien, security interest or liability, individually and/or in the aggregate, in the opinion of the Bank, will have a Material Adverse Effect; or

8.08 Judgments. A judgment or decree shall be entered against the Borrower or any Principal Subsidiary for the payment of money (to the extent not paid or covered by insurance) which together with all other such judgments is in excess of \$5,000,000 and such judgments or decrees shall not have been vacated, paid, discharged or stayed or bonded pending appeal within 30 days from the entry thereof;

then, and in any such event, and at any time thereafter, if any Event of Default shall then be continuing, the Bank may, by written notice to the Borrower, take any or all of the following actions, without prejudice to the rights of the Bank to enforce its claims against the Borrower, except as otherwise specifically provided for in this Agreement (provided, that if an Event of

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Default specified in Section 8.06 shall occur with respect to the Borrower, the result which would occur upon the giving of written notice by the Bank as specified in clauses (i) and (ii) below shall occur automatically without the giving of any such notice): (i) declare the Commitment (or the unutilized portion thereof) terminated, whereupon the Commitment (or the unutilized portion thereof) shall forthwith terminate immediately and any Commitment Fees shall forthwith become due and payable without any other notice of any kind, (ii) declare the principal of and any accrued interest in respect of all Loans and all obligations owing hereunder to be, whereupon the same shall become, forthwith due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower and (iii) exercise all rights and remedies available under applicable law or equity.

SECTION 9. DEFINITIONS

As used herein, the following terms shall have the meanings herein specified unless the context otherwise requires. Defined terms in this Agreement shall include in the singular number the plural and in the plural the singular:

“Agreement” shall mean this Credit Agreement, as the same may be modified, amended and/or supplemented from time to time.

“Applicable Eurodollar Margin” shall be 1.00 per cent per annum.

“Applicable Margin” shall be the Applicable Eurodollar Margin or the Applicable Prime Margin, as the context may require.

“Applicable Prime Margin” shall be 0.00 per cent per annum.

“Assets” shall mean at any time the aggregate book value of all assets of the Borrower as would be set forth at such time on a consolidated balance sheet of the Borrower prepared in accordance with GAAP.

“Authorized Financial Officer” shall mean the chief financial officer, treasurer or corporate controller of the Borrower or any other person duly appointed in writing by the Borrower.

“Bankruptcy Code” shall have the meaning provided in Section 8.06.

“Borrower” shall mean Quaker Chemical Corporation, a Pennsylvania corporation.

“Business Day” shall mean (i) for all purposes other than as covered by clause (ii) below, any day excluding Saturday, Sunday and any day which shall be in the City of Philadelphia, Pennsylvania a legal holiday or a day on which banking institutions are authorized by law or other governmental actions to close and (ii) with respect to all notices and determinations in connection with, and payments of principal and interest on, Eurodollar Loans, any day which is a Business Day described in clause (i) and which is also a day for trading by and between banks in U.S. dollar deposits in the London interbank Eurodollar market.

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“Capital Lease” as applied to any Person, shall mean any lease of any property (whether real, personal or mixed) by that Person as lessee which, in conformity with GAAP, is accounted for as a capital lease on the balance sheet of that Person.

“Code” shall mean the Internal Revenue Code of 1986, as amended from time to time, and the regulations promulgated and rulings issued thereunder. Section references to the Code are to the Code, as in effect at the date of this Agreement and any subsequent provisions of the Code amendatory thereof, supplemental thereto or substituted therefor.

“Commitment” means \$10,000,000, as the same may be reduced from time to time pursuant to Section 2.02 or Section 8.

“Commitment Fee” shall have the meaning provided in Section 2.01.

“Consolidated Net Income” shall mean, with respect to any period, the Net Income of the Borrower and its Subsidiaries for such period after eliminating intercompany items, all as consolidated and determined in accordance with GAAP.

“Consolidated Net Worth” shall mean, as of any particular time, the amount which would be set forth under the caption “Stockholder’s Equity” (or any like caption) on a consolidated balance sheet of the Borrower and its Subsidiaries as at the end of such period, less the amount which would be set forth under the caption “Equity Adjustment from Foreign Currency Translation” (or any like caption) on such consolidated balance sheet, all as prepared in accordance with GAAP.

“Consolidated Total Indebtedness” shall mean, as of any particular time and after eliminating inter-company items, all Indebtedness of the Borrower and its Subsidiaries, all as consolidated and determined in accordance with GAAP.

“Convertible Securities” shall mean any evidences of indebtedness, shares of stock (other than common stock), or other securities directly or indirectly convertible into or exchangeable for shares of common stock.

“Credit Documents” shall mean this Agreement and the Note.

“Default” shall mean any event, act or condition which with notice or lapse of time, or both, would constitute an Event of Default.

“Effective Date” shall have the meaning provided in Section 4.01.

“Environmental Law” shall mean any federal, state, foreign or local statute, law, rule, regulation, ordinance, code, policy or rule of common law now or hereafter in effect and in each case as amended, and any judicial or administrative interpretation thereof, including any judicial or administrative order, consent, decree or judgment, relating to the environment, health, safety or Hazardous Materials, including, without limitation, CERCLA; RCRA; the Federal Water Pollution Control Act, as amended, 33 U.S.C. (S)1251 et seq.; the Toxic Substances Control Act, 15 U.S.C. (S)7401 et seq.; the Clean Air Act, 42 U.S.C. (S)7401 et seq.; the Safe Drinking Water

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Act, 42 U.S.C. (S)3808 et seq.; the Oil Pollution Act of 1990, 33 U.S.C. (S)2701 et seq. and any applicable state and local or foreign counterparts or equivalents.

“ERISA” shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time and the regulations promulgated and the rulings issued thereunder. Section references to ERISA are to ERISA as in effect at the date of this Agreement and any subsequent provisions of ERISA amendatory thereof, supplemental thereto or substituted therefor.

“ERISA Affiliate” shall mean each person (as defined in Section 3(9) of ERISA) which together with the Borrower would be deemed to be a “single employer” (i) within the meaning of Section 414(b), (c), (m) or (o) of the Code.

“Eurodollar Loan” shall mean a Loan for which the interest rate is the Eurodollar Rate, plus the Applicable Eurodollar Margin.

“Eurodollar Rate” shall mean with respect to each day during each Interest Period, the rate per annum determined by the Bank by dividing (the resulting quotient rounded upwards, if necessary, to the nearest 1/16th of 1%) (i) the rate per annum determined by the Bank in accordance with its usual procedures (which determination shall be conclusive absent manifest error) to be the eurodollar rate two Business Days prior to the start of such Interest Period, for deposits of comparable term and amount in the London interbank Eurodollar market for the delivery on the first day of such Interest Period by (ii) a percentage equal to 100% minus the then stated maximum rate of all reserve requirements (including, without limitation, any marginal, emergency, supplemental, special or other reserves) applicable to any member bank of the Federal Reserve System in respect of Eurocurrency liabilities as defined in Regulation D (or any successor category of liabilities under Regulation D). The Eurodollar Rate shall be adjusted with respect to any Eurodollar Loan on and as of the effective date of any change in the reserve requirements referred to in clause (ii) of the preceding sentence.

“Event of Default” shall have the meaning provided in Section 8.

“Exchange Act” shall mean the Securities Exchange Act of 1934, as amended.

“Expiry Date” shall mean the date occurring 364 days after the Effective Date.

“Fees” shall mean all amounts payable pursuant to, or referred to in, Section 2.01.

“GAAP” shall mean generally accepted accounting principles in the United States of America as in effect from time to time; it being understood and agreed that determinations in accordance with GAAP for purposes of Sections 6 and 7, including defined terms as used therein, are subject (to the extent provided therein) to Section 10.06(a).

“Hazardous Materials” shall mean (a) any petrochemical or petroleum products, radioactive materials, asbestos in any form that is or could become friable, urea formaldehyde foam insulation, transformers or other equipment that contain dielectric fluid containing levels of polychlorinated biphenyls, and radon gas; and (b) any chemicals, materials or substances defined as or included in the definition of “hazardous substances,” “hazardous wastes,” “hazardous materials,” “restricted hazardous materials,” “extremely hazardous wastes,” “restrictive

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hazardous wastes,” “toxic substances,” “toxic pollutants,” “contaminants” or “pollutants,” or words of similar meaning and regulatory effect under any applicable Environmental Law.

“Indebtedness” of any Person means at any date, without duplication, (i) all obligations of such Person for borrowed money, (ii) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments, (iii) all obligations of such Person to pay the deferred purchase price of property, except accounts payable arising in the ordinary course of business, (iv) all obligations of such Person as lessee under Capital Leases, (v) all Indebtedness of others secured by a Lien on any asset of such person, whether or not such Indebtedness is assumed by such Person, (vi) all Indebtedness of others guaranteed by such Person and (vii) all non-contingent obligations of such Person to reimburse or prepay any bank or other Person in respect of amounts paid under a letter of credit, banker’s acceptance or similar instrument.

“Interest Expense” shall mean, for any period, the total interest expense of the Borrower determined as the same would be set forth in a statement of income of the Borrower for such period.

“Interest Period”, with respect to any Loan, shall mean the interest period applicable thereto, as determined pursuant to Section 1.07.

“Interest Rate Basis” means the Eurodollar Rate or the Prime Rate, as selected by the Borrower in accordance with this Agreement.

“Lien” shall mean, with respect to any Person, any mortgage, pledge, security interest, encumbrance, lien or charge of any kind with respect to any asset of such Person (including any agreement to give any of the foregoing, any conditional sale or other title retention agreement, any financing or similar statement or notice filed under the UCC or any similar recording or notice statute, and any lease having substantially the same effect as the foregoing).

“Loan” shall have the meaning provided in Section 1.

“Margin Stock” shall have the meaning provided in Regulation U.

“Material Adverse Effect” shall mean a material adverse effect on (i) the business, results of operations or financial condition of the Borrower taken as a whole or (ii) the validity or enforceability of the Credit Documents.

“Maturity Date” shall mean with respect to any Loan, the date specified in the respective Notice of Borrowing as the same may be extended pursuant to Section 1.07.

“Minimum Borrowing Amount” shall mean \$250,000.

“Note” shall have the meaning provided in Section 1.

“Notice of Borrowing” shall have the meaning provided in Section 1.05.

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“Obligations” shall mean all amounts, direct or indirect, contingent or absolute, of every type or description, and at any time existing, owing to the Bank pursuant to the terms of this Agreement or any other Credit Document.

“PBGC” shall mean the Pension Benefit Guaranty Corporation established pursuant to Section 4002 of ERISA, or any successor thereto.

“Person” shall mean any individual, partnership, joint venture, firm, corporation, association, trust or other enterprise or any government or political subdivision or any agency, department or instrumentality thereof.

“Plan” shall mean any multiemployer or single-employer plan as defined in Section 4001 of ERISA, which is maintained or contributed to by (or to which there is an obligation to contribute of) the Borrower or an ERISA Affiliate and each plan for the five-year period immediately following the latest date on which the Borrower or an ERISA Affiliate maintained, contributed to or had an obligation to contribute to such a multiemployer or single-employer plan.

“Prime Rate” shall mean the rate of interest equal to the higher (redetermined daily) of (i) the per annum rate of interest announced by the Bank from time to time as its prime rate (with any change in such Prime Rate to become effective as and when such prime rate change shall become effective) or (ii) the Federal Funds Rate, plus one half of one per cent (0.50 %) per annum. “Federal Funds Rate” shall mean the average daily Federal Funds Rate as published by the Federal Reserve Bank of New York in Publication H.15 (or any successor thereto), or, if no such rate is published, the per annum rate of interest at which overnight federal funds are from time to time offered to the Bank by any bank in the interbank market in an amount equal to the principal amount of the respective Loan, as determined in good faith by the Bank.

“Prime Rate Loan” shall mean a Loan for which the interest rate is the Prime Rate, plus the Applicable Prime Margin.

“Principal Subsidiary” shall mean any Subsidiary (i) whose net sales or earnings, as shown by the accounts of such Subsidiary based upon which the most recent consolidated financial statements delivered to the Bank pursuant to Sections 5.09 and 6.01 have been prepared, are at least 5% of the consolidated total net sales or earnings of the Company and its consolidated Subsidiaries as shown by such financial statements or (ii) whose gross assets, as shown by the accounts of such Subsidiary based upon which the most recent consolidated financial statements delivered to the Bank pursuant to Sections 5.09 and 6.01 have been prepared, are at least 5% of the consolidated total gross assets of the Company and its consolidated Subsidiaries as shown by such consolidated financial statements.

“Regulation D” shall mean Regulation D of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor to all or a portion thereof establishing reserve requirements.

“Regulation U” shall mean Regulation U of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor to all or a portion thereof establishing margin requirements.

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“Reportable Event” shall mean an event described in Section 4043(c) of ERISA with respect to a Plan other than those events as to which the 30-day notice period is waived under PBGC Regulation Section 4043.

“SEC” shall mean the Securities and Exchange Commission or any successor thereto.

“Subsidiary” shall mean any corporation or other entity of which the Borrower owns, directly or indirectly, such number of outstanding shares as have more than 50% of the ordinary voting power for the election of directors.

“Taxes” shall have the meaning provided in Section 3.03.

“UCC” shall mean the Uniform Commercial Code as in effect from time to time in the Commonwealth of Pennsylvania.

“Unfunded Current Liability” of any Plan shall mean the amount, if any, by which the actuarial present value of the accumulated plan benefits under the Plan as of the close of its most recent plan year exceeds the fair market value of the assets allocable thereto, each determined in accordance with Statement of Financial Accounting Standards No. 87, based upon the actuarial assumptions used by the Plan’s actuary in the most recent annual valuation of the Plan.

“Wholly Owned Subsidiary” shall mean any Subsidiary in respect of which all shares (other than directors’ qualifying shares required by law) of the capital stock of each class, or other such ownership interests, outstanding at the time as of which any determination is being made, are owned, beneficially and of record by the Borrower.

“Written” or “in writing” shall mean any form of written communication or a communication by means of telex, facsimile device, telegraph or cable.

SECTION 10. MISCELLANEOUS

10.01 Payment of Expenses, Etc. The Borrower agrees to: (i) pay all reasonable out-of-pocket costs and expenses of the Bank in connection with the administration, amendment, modification, waiver or enforcement of the Credit Documents and the documents and instruments referred to therein and the protection of the rights of the Bank thereunder (including, without limitation, the reasonable fees and disbursements of counsel for the Bank); (ii) pay and hold the Bank harmless from and against any and all present and future stamp and other similar taxes with respect to the foregoing matters and save the Bank harmless from and against any and all liabilities with respect to or resulting from any delay or omission (other than to the extent attributable to the Bank) to pay such taxes; and (iii) indemnify the Bank, its officers, directors, employees, representatives and agents from and hold each of them harmless against any and all losses, liabilities, claims, damages or expenses incurred by any of them as a result of, or arising out of, or in any way related to, or by reason of, any investigation, litigation or other proceeding (whether or not the Bank is a party thereto) related to the entering into and/or performance of this Agreement or any other Credit Document or the use of the proceeds of any Loans hereunder (but excluding any such losses, liabilities, claims, damages or expenses to the extent incurred by reason of the gross negligence or willful misconduct of the Bank as determined by a court of

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competent jurisdiction), including, without limitation, the reasonable fees and disbursements of counsel incurred in connection with any such investigation, litigation or other proceeding (whether any such counsel's fees are incurred in connection with any investigation, litigation or other proceeding between the Borrower and the Bank or between the Bank or any third Person or otherwise.) In case any proceeding shall be instituted in respect of which indemnity may be sought by the Bank pursuant to this Section, the Bank shall promptly notify the Borrower thereof provided that failure so to notify the Borrower shall not relieve the Borrower from its obligations under this Section. The Borrower (i) shall not be liable for any settlement effected without its consent (which shall not be unreasonably withheld) and (ii) shall have the right to participate in the defense of any proceedings for which indemnification may be sought hereunder.

10.02 Right of Setoff. In addition to any rights now or hereafter granted under applicable law or otherwise, and not by way of limitation of any such rights, upon the occurrence and during the continuance of an Event of Default, the Bank is hereby authorized at any time or from time to time, without presentment, demand, protest or other notice of any kind to the Borrower or to any other Person, any such notice being hereby expressly waived, to set off and to appropriate and apply any and all deposits (general or special) and any other Indebtedness at any time held or owing by the Bank (including, without limitation, by branches and agencies of the Bank wherever located) to or for the credit or the account of the Borrower against and on account of the Obligations and liabilities of the Borrower to the Bank under this Agreement or under any of the other Credit Documents, irrespective of whether or not the Bank shall have made any demand hereunder and although said Obligations, liabilities or claims, or any of them, shall be contingent or unmatured.

10.03 Notices; Financial Information Available Through the SEC. Except as otherwise expressly provided herein, all notices and other communications provided for hereunder shall be in writing (including telegraphic, telex or facsimile communication) and mailed, telegraphed, telexed, telecopied or delivered, at the address specified opposite the signature of the Bank or the Borrower, as the case may be, below; or, at such other address as shall be designated by any party in a written notice to the other parties hereto. All such notices and communications shall be mailed, telegraphed, telexed or telecopied or sent by overnight courier, and shall be effective when received. In the event that this Agreement shall require the Borrower to deliver to the Bank any financial statements or other similar information, and such statements or information shall be publicly available at the internet web site of the SEC, such statements or information shall be deemed delivered in accordance herewith as of the time the Bank is given notice that such statements or information has been made available.

10.04 Benefit of Agreement. (a) This Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective successors and assigns of the parties hereto; provided, that the Borrower may not assign or transfer any of its rights or obligations hereunder without the prior written consent of the Bank.

(b) Nothing in this Agreement shall prevent or prohibit the Bank from pledging its Loans and Notes hereunder to a Federal Reserve Bank in support of borrowings made by the Bank from such Federal Reserve Bank.

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10.05 No Waiver; Remedies Cumulative. No failure or delay on the part of the Bank in exercising any right, power or privilege hereunder or under any other Credit Document and no course of dealing between the Borrower and the Bank shall operate as a waiver thereof; nor shall any single or partial exercise of any right, power or privilege hereunder or under any other Credit Document preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder or thereunder. The rights and remedies herein expressly provided are cumulative and not exclusive of any rights or remedies which the Bank would otherwise have. No notice to or demand on the Borrower in any case shall entitle the Borrower to any other or further notice or demand in similar or other circumstances or constitute a waiver of the rights of the Bank to any other or further action in any circumstances without notice or demand.

10.06 Calculations; Computations. (a) Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made, and all financial statements required to be delivered hereunder shall be prepared in accordance with GAAP as in effect from time to time, applied on a basis consistent (except for immaterial changes, or changes concurred in by the Borrower's independent public accountants) with the most recent audited financial statements of the Borrower delivered to the Bank provided that, if the Borrower notifies the Bank that the Borrower wishes to amend any covenant contained in Section 6 or 7 to eliminate the effect of any change in GAAP on the operation of such covenant (or if the Bank notifies the Borrower that the Bank wishes to amend any such covenant for such purpose), then the Borrower's compliance with such covenant shall be determined on the basis of GAAP in effect immediately before the relevant change in GAAP became effective, until either such notice is withdrawn or such covenant is amended in a manner satisfactory to the Borrower and the Bank.

(b) All computations of Fees hereunder shall be made on the basis of the actual number of days elapsed over a year of 365 or 366 days, as applicable, and all computations of interest shall be made on the basis of the actual number of days elapsed over a year of 360 days.

10.07 Governing Law; Submission to Jurisdiction; Venue.

(a) **This Agreement and the other Credit Documents and the rights and obligations of the parties hereunder and thereunder shall be construed in accordance with and be governed by the law of the Commonwealth of Pennsylvania, excluding its conflict of law rules.** Any legal action or proceeding with respect to this Agreement or any other Credit Document may be brought in the courts of the Commonwealth of Pennsylvania or of the United States for the Eastern District of Pennsylvania, and, by execution and delivery of this agreement, the Borrower hereby irrevocably accepts for itself and in respect of its property, generally and unconditionally, the jurisdiction of the aforesaid courts. Nothing herein shall affect the right of the Bank or the holder of the Note to serve process in any other manner permitted by law or to commence legal proceedings or otherwise proceed against the Borrower in any other jurisdiction.

(b) The Borrower hereby irrevocably waives any objection which it may now or hereafter have to the laying of venue of any of the aforesaid actions or proceedings arising out of or in connection with this Agreement or any other Credit Document brought in the courts referred to in clause (a) above and hereby further irrevocably waives and agrees not to plead or

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claim in any such court that any such action or proceeding brought in any such court has been brought in an inconvenient forum.

10.08 Counterparts. This Agreement may be executed in any number of counterparts and by the different parties hereto on separate counterparts, each of which when so executed and delivered shall be an original, but all of which shall together constitute one and the same instrument. A complete set of counterparts executed by all the parties hereto shall be lodged with the Borrower and the Bank.

10.09 Headings Descriptive. The headings of the several sections and subsections of this Agreement are inserted for convenience only and shall not in any way affect the meaning or construction of any provision of this Agreement.

10.10 Amendment or Waiver. Neither this Agreement nor any other Credit Document nor any terms hereof or thereof may be changed, waived, discharged or terminated unless such change, waiver, discharge or termination is in writing signed by the Bank and (except in the case of a waiver) the Borrower.

10.11 Survival. All indemnities set forth herein including, without limitation, in Section 1.09, 1.10 or 10.01, shall survive the execution and delivery of this Agreement and the Note, and the making and repayment of the Loans.

10.12 Waiver of Jury Trial. Each of the parties to this Agreement hereby irrevocably waives all right to a trial by jury in any action, proceeding or counterclaim arising out of or relating to this Agreement, the other Credit Documents or the transactions contemplated hereby or thereby.

IN WITNESS WHEREOF, each of the parties hereto has caused a counterpart of this Agreement to be duly executed and delivered as of the date first above written.

Address:

Elm and Lee Streets
Conshohocken, PA 19428
Attn.: Michael Barry
Tel.: 610 832-8500
Fax. 610 832-4494

QUAKER CHEMICAL CORPORATION

By: /s/ MICHAEL F. BARRY

Title: Vice President and Chief Financial Officer

By: /s/ D. JEFFRY BENOLIEL

Title: Vice President and General Counsel

PNC BANK, NATIONAL ASSOCIATION

1600 Market Street
Philadelphia, PA 19103
Attn.: John G. Siegrist
Tel.: 215-585-5355
Fax.: 215-585-4144

By /s/ JOHN G. SIEGRIST

Title: Vice President

COMMERCIAL NOTE: DEMAND LINE OF CREDIT/PRIME/LIBOR (Ohio)

| Amount | City, State | Date | FOR BANK USE ONLY |
|-----------------|------------------|---------------|--|
| \$10,000,000.00 | Philadelphia, PA | June 19, 2003 | Obligor # Tax I. D. # Obligation # Office |

ON DEMAND, FOR VALUE RECEIVED, **QUAKER CHEMICAL CORPORATION**, a Pennsylvania corporation ("**Borrower**"), whose mailing address is 901 East Hector Street, Conshohocken, Pennsylvania 19428-2307, hereby promises to pay to the order of **NATIONAL CITY BANK**, a national banking association ("**Bank**"), having a banking office at 1 South Broad Street, 13th Floor, Philadelphia, Pennsylvania 19107, Attention: Corporate Banking, at the address specified on the bills received by Borrower from Bank (or at such other place as Bank may from time to time designate by written notice) in lawful money of the United States of America, the principal sum of

TEN MILLION AND 00/100 DOLLARS

or such lesser amount as may appear on this Note, or as may be entered in a loan account on Bank's books and records, or both, together with interest, all as provided below. Notwithstanding any provision or inference to the contrary, this Note may be enforced without presentment, protest, or notice of dishonor, all of which are waived by all makers and indorsers of this Note, now or hereafter existing. Any reference to any Contract Period or to any rate of interest or late charge to be applicable after any notice of demand or the commencement of any Proceeding is made solely for the purpose of determining the rate of interest and late charges applicable under this Note, and shall not diminish or impair Bank's right to enforce this Note at any time.

1. No Commitment. This Note evidences an arrangement whereby, for Borrower's convenience, Borrower may, without having to execute and deliver a separate note each time, obtain such loans (each a "**Subject Loan**") as Borrower may from time to time request and as Bank in its sole discretion may from time to time be willing to make, subject in any case to the condition that (a) each Subject Loan shall be in an amount that is an integral multiple of five hundred thousand and 00/100 Dollars (\$500,000.00) and (b) that the aggregate unpaid principal balance of the Subject Loans shall not at any time exceed the face amount of this Note. NOTWITHSTANDING ANY PROVISION OR INFERENCE TO THE CONTRARY, BANK SHALL HAVE NO OBLIGATION TO EXTEND ANY CREDIT TO OR FOR THE ACCOUNT OF BORROWER BY REASON OF THIS NOTE.

2. Disbursement. Bank is hereby irrevocably authorized to make an appropriate entry on this Note, in a loan account on Bank's books and records, or both, whenever Borrower obtains a Subject Loan. Each such entry shall be prima facie evidence of the data entered, but the making of such an entry shall not be a condition to Borrower's obligation to pay. Bank is hereby directed, absent notice from Borrower to the contrary, to disburse the proceeds of each such Subject Loan to Borrower's general checking account with Bank. Bank shall have no duty to follow, nor any liability for, the application of any proceeds of any Subject Loan.

3. Interest. The unpaid principal balance of each Subject Loan shall at all times bear interest at the Contract Rate, *provided*, that so long as (a) any principal of any Subject Loan remains unpaid after Bank shall have given Borrower notice of demand for any such principal or after the commencement of any Proceeding with respect to Borrower, or (b) any accrued interest on any Subject Loan remains unpaid after the due date of that interest, then, and in each such case, all unpaid principal of this Note and all overdue interest on that principal shall bear interest at a fluctuating rate equal to two percent (2.0%) per annum above the rate that would otherwise be applicable, but in no case less than two percent (2.0%) per annum above the Prime Rate; *provided further*, that in no event shall any principal of or interest on any Subject Loan bear interest at any time after the giving of any such notice or the commencement of any such Proceeding, whichever shall first occur, at a lesser rate than the rate applicable thereto immediately after the giving of that notice or the commencement of that Proceeding, as the case may be. The "**Contract Rate**" shall at all times be a fluctuating rate equal to the Prime Rate, *provided*, that Borrower shall have the right from time to time to irrevocably elect one percent (1%) per annum plus LIBOR as the Contract Rate applicable during a Contract Period to a Unit in the amount of five hundred thousand and 00/100 Dollars (\$500,000.00) (or any greater amount that is an integral multiple of five hundred thousand and 00/100 Dollars (\$500,000.00) by specifying the term and amount, respectively, of the Contract Period and Unit in a notice given to Bank orally or in writing not later than 2:00 p. m., Banking-Office Time, of the third (3rd) Eurodollar Banking Day preceding the first day of that Contract Period.

Interest on each Subject Loan shall be payable in arrears on June 1, 2003, and on the first day of each month thereafter and on demand, *except* that interest on each LIBOR Unit shall be payable in arrears on the last day of the Contract Period for that Unit, on demand, and in the case of any Contract Period having a term longer than ninety (90) days, shall also be payable every three (3) months after the first day of the Contract Period. The principal comprising each LIBOR Unit shall, at the end of the Contract Period for that Unit, become part of the Prime Rate Unit unless and to the extent that Borrower shall have elected otherwise as hereinbefore provided. Bank shall be entitled to fund and maintain its funding of all or any part of any LIBOR Unit in any manner Bank may from time to time deem advisable, Borrower hereby acknowledging that all determinations relating to LIBOR Units shall be made as if Bank had actually funded and maintained each such Unit by the purchase of deposits in an amount similar to the amount of that Unit, with a maturity similar to the Contract Period for that Unit, and bearing interest at LIBOR with respect to that Unit.

4. Ineffective Elections. Notwithstanding any provision or inference to the contrary, Bank shall have the right in its discretion, without notice to Borrower, to deem ineffective Borrower's election of a Contract Rate if (a) on or before the first day of the Contract Period specified in Borrower's notice of that election, Bank shall give Borrower any notice of demand for payment of this Note or any Proceeding shall have been commenced with respect to Borrower, (b) after giving effect to that election, more than one Contract Rate would be applicable to all or any part of any Unit, (c) after giving effect to that election, the aggregate unpaid principal balance of all LIBOR Units would not, on the first day of the Contract Period specified in Borrower's notice of that election, exceed the then aggregate amount of the Subject Loans, or (d) Bank shall determine that any governmental authority has asserted that it is unlawful for Bank to fund, make, or maintain loans bearing interest based on LIBOR. Moreover, Borrower shall not be entitled to elect a Contract Rate if Bank shall determine that (i) dollar deposits of the appropriate amount and maturity are not available in the market selected by Bank for the

purpose of funding the relevant Unit at LIBOR, (ii) circumstances affecting the market selected by Bank for the purpose of funding the relevant Unit make it impracticable for Bank to determine LIBOR, (iii) LIBOR is unlikely to adequately compensate Bank for the cost of making, funding or maintaining the relevant Unit for the Contract Period specified in Borrower's notice of that election, or (iv) any governmental authority has asserted that it is unlawful for Bank to fund, make, or maintain loans bearing interest based on LIBOR. Bank's books and records shall be conclusive (absent manifest error) as to whether Bank shall have deemed any election of a Contract Rate ineffective. Except as hereinbefore provided, there is no limit to the number of Contract Rates that may be applicable to the unpaid principal balance of this Note at any one time.

5. **Prepayment.** (a) If any LIBOR Unit is paid in whole or in part before the last day of the Contract Period for that Unit, then, and in each such case, Borrower shall, concurrently with the payment, pay to Bank (i) the accrued interest on the principal being so paid and (ii) a premium based on the principal amount paid and computed for the period from the date of payment to the last day of the Contract Period for that Unit at a rate per annum equal to the excess, if any, of LIBOR used in determining the Contract Rate for such Contract Period theretofore applicable over the Reinvestment Rate, *provided*, that no such premium shall be payable under this subsection (a) in respect of that Unit if Bank shall have given Borrower a written notice of demand for payment of this Note after the first day of that Contract Period for that Unit but before the date of the payment.

(b) If Bank shall deem ineffective Borrower's election of any Contract Rate, then, and in each such case, that election shall be ineffective and Borrower shall pay to Bank, on Bank's demand, a premium to be calculated as set forth in (a) above as if Borrower had made a payment before the last day of the Contract Period in the amount of the Unit in question on the date Bank deemed such election to be ineffective.

(c) If Bank shall determine that any governmental authority has asserted that it is unlawful for Bank to fund, make, or maintain loans bearing interest based on LIBOR, then, and in each such case, notwithstanding any provision or inference to the contrary, the principal comprising each then outstanding LIBOR Unit shall, upon Bank's giving Borrower notice of that determination, be added to and become part of the Prime Rate Unit, and Borrower shall, concurrently with the addition of that principal to the Prime Rate Unit, pay to Bank (i) the accrued interest on the principal so added and (ii) a premium to be calculated as set forth in (a) above as if Borrower had made a payment before the last day of the Contract Period in the amount of the principal so added on the date that the principal was added to the Prime Rate Unit.

(d) Bank's determination of any premium shall be conclusive absent manifest error. Borrower acknowledges and agrees that the premium (i) constitutes liquidated damages, (ii) is a reasonable method of determining Bank's loss in the event all or any part of any principal of the Note is paid in whole or in part or is accelerated before its original due date, and (iii) is not a penalty.

6. **Definitions.** As used in this Note, except where the context clearly requires otherwise, "**Affiliate**" means, when used with reference to any Person (the "*subject*"), a Person that is in control of, under the control of, or under common control with, the subject, the term "*control*" meaning the possession, directly or indirectly, of the power to direct the management or policies of a Person, whether through the ownership of voting securities, by contract, or otherwise;

“Bank Debt” means, collectively, all Debt to Bank, whether incurred directly to Bank or acquired by it by purchase, pledge, or otherwise, and whether participated to or from Bank in whole or in part; **“Banking Day”** means any day (other than any Saturday, Sunday or legal holiday) on which Bank’s banking office is open to the public for carrying on substantially all of its banking functions; **“Banking-Office Time”** means, when used with reference to any time, that time determined at the location of Bank’s banking office; **“Contract Period”** means, relative to a Unit, a period selected by Borrower, *provided*, that each Contract Period shall commence on a Eurodollar Banking Day and end one (1) month, two (2) months, or three (3) months thereafter, or, subject in each case to Bank’s assent thereto, four (4) months or six (6) months thereafter, in each case on the first day of the respective month, *provided*, that (a) if any Contract Period otherwise would end on a day that is not a Banking Day, it shall end instead on the next following Banking Day and (b) if any Contract Period commences on a day for which there is no numerical equivalent in the calendar month in which that Contract Period is to end, it shall end on the last calendar day of that calendar month unless such day is not a Banking Day in which case it shall end on the next following Banking Day; **“Debt”** means, collectively, all obligations of the Person or Persons in question, including, without limitation, every such obligation whether owing by one such Person alone or with one or more other Persons in a joint, several, or joint and several capacity, whether now owing or hereafter arising, whether owing absolutely or contingently, whether created by lease, loan, overdraft, guaranty of payment, or other contract, or by quasi-contract, tort, statute, other operation of law, or otherwise; **“Eurodollar Banking Day”** means any Banking Day on which banks in the London Interbank Market deal in United States dollar deposits and on which banking institutions are generally open for domestic and international business at the place where Bank’s banking office is located and in New York City; **“LIBOR”** means, with respect to a Unit, the rate per annum (rounded upwards, if necessary, to the next higher 1/16 of 1.0%) determined by Bank by dividing (a) the rate per annum determined by Bank to equal the average rate per annum at which deposits (denominated in United States dollars) in an amount similar to that Unit and with a maturity similar to the Contract Period for that Unit are offered to Bank at 11:00 A.M. London time (or as soon thereafter as practicable) two (2) Eurodollar Banking Days prior to the first day of that Contract Period by banking institutions in any Eurodollar market selected by Bank by (b) the difference of one (1) less the Reserve Percentage; **“LIBOR Unit”** means a Unit for which the Contract Rate is based on LIBOR; **“Note”** means this promissory note (including, without limitation, each addendum, allonge, or amendment, if any, hereto); **“Obligor”** means any Person who, or any of whose property, shall at the time in question be obligated in respect of all or any part of the Bank Debt of Borrower and (in addition to Borrower) includes, without limitation, co-makers, indorsers, guarantors, pledgors, hypothecators, mortgagors, and any other Person who agrees, conditionally or otherwise, to assure such other Obligor’s creditors or any of them against loss; **“Person”** means an individual or entity of any kind, including, without limitation, any association, company, cooperative, corporation, partnership, trust, governmental body, or any other form or kind of entity; **“Prime Rate”** means the fluctuating rate per annum which is publicly announced from time to time by Bank as being its “prime rate” or “base rate” thereafter in effect, with each change in the Prime Rate automatically, immediately, and without notice changing the Prime Rate thereafter applicable hereunder, it being acknowledged that the Prime Rate is not necessarily the lowest rate of interest then available from Bank on fluctuating-rate loans; **“Prime Rate Unit”** means, at any time, the then aggregate unpaid principal balance of the Subject Loans for which the Contract Rate is based on the Prime Rate; **“Proceeding”** means any assignment for the benefit of creditors, any case in bankruptcy, any marshalling of any Obligor’s assets for the benefit of creditors, any moratorium on the payment of debts, or any proceeding under any law relating to conservatorship, insolvency, liquidation, receivership,

trusteeship, or any similar event, condition, or other thing; "**Reinvestment Rate**" means, at the time of calculation, the "bond equivalent yield" interpolated from the most actively traded U.S. Treasury Bills, U.S. Treasury Notes and/or U.S. Treasury Bonds to a term equal to the principal weighted average time (as measured in years from the date of calculation and rounded to the nearest 1/10th of a year) that all principal payments subject to early repayment are scheduled to be outstanding and bear interest at a fixed rate under this Note; "**Related Writing**" means this Note and any indenture, note, guaranty, assignment, mortgage, security agreement, subordination agreement, notice, financial statement, legal opinion, certificate, or other writing of any kind pursuant to which all or any part of the Bank Debt of Borrower is issued, which evidences or secures all or any part of the Bank Debt of Borrower, which governs the relative rights and priorities of Bank and one or more other Persons to payments made by, or the property of, any Obligor, which is delivered to Bank pursuant to another such writing, or which is otherwise delivered to Bank by or on behalf of any Person (or any employee, officer, auditor, counsel, or agent of any Person) in respect of or in connection with all or any part of the Bank Debt of Borrower; "**Reserve Percentage**" means the percentage (expressed as a decimal) which Bank determines to be the maximum (but in any case less than 1.00) reserve requirement (including, without limitation, any emergency, marginal, special, or supplemental reserve requirement) prescribed for so-called "Eurocurrency liabilities" (or any other category of liabilities that includes deposits by reference to which the interest rate applicable to LIBOR Units is determined) under Regulation D (as amended from time to time) of the Board of Governors of the Federal Reserve System or under any successor regulation which Bank determines to be applicable, with each change in such maximum reserve requirement automatically, immediately, and without notice changing the interest rate thereafter applicable to each LIBOR Unit, it being agreed that LIBOR Units shall be deemed Eurocurrency liabilities subject to such reserve requirements without the benefit of any credit for proration, exceptions, or offsets; "**Unit**" means an amount of unpaid principal under this Note which (a) Borrower elects under section 3 to bear interest at a Contract Rate based on LIBOR, or (b) which bears interest at a Contract Rate equal to the Prime Rate; and the foregoing definitions shall be applicable to the respective plurals of the foregoing defined terms.

7. **Late Charges.** If any principal of any Subject Loan is not paid within ten (10) days after Bank shall have given Borrower notice of demand therefor or within ten (10) days after the commencement of any Proceeding with respect to Borrower, or if any interest on this Note is not paid within (10) days after the due date of that interest, then, and in each such case, Bank shall have the right to assess a late charge, payable by Borrower on demand, in an amount equal to the greater of Twenty and 00/100 Dollars (\$20.00) or five percent (5.0%) of the amount not timely paid.

8. **No Setoff.** Borrower hereby waives any and all now existing or hereafter arising rights to recoup or offset any obligation of Borrower under or in connection with this Note or any Related Writing against any claim or right of Borrower against Bank.

9. **Indemnity: Governmental Costs.** If (a) there shall be enacted any law (including, without limitation, any change in any law or in its interpretation or administration and any request by any governmental authority) relating to any interest rate or any assessment, reserve, or special deposit requirement (except if and to the extent utilized in computation of the Reserve Percentage) against assets held by, deposits in, or loans by Bank or to any tax (other than any tax on Bank's overall net income) and (b) in Bank's sole opinion any such event increases the cost of funding or maintaining any LIBOR Unit or reduces the amount of any payment to be

made to Bank in respect thereof, then, and in each such case, upon Bank's demand, Borrower shall pay Bank an amount equal to each such cost increase or reduced payment, as the case may be. In determining any such amount, Bank may use reasonable averaging and attribution methods. Each determination by Bank shall be conclusive absent manifest error.

10. Indemnity: Administration and Enforcement. Borrower will reimburse Bank, on Bank's demand from time to time, for any and all reasonable fees, costs, and expenses (including, without limitation, the reasonable fees and disbursements of legal counsel) incurred by Bank in administering this Note or in protecting, enforcing, or attempting to protect or enforce its rights under this Note. If any amount (other than any principal of any Subject Loan and any interest and late charges) owing under this Note is not paid when due, then, and in each such case, Borrower shall pay, on Bank's demand, interest on that amount from the due date thereof until paid in full at a fluctuating rate equal to two percent (2.0%) per annum plus the Prime Rate.

11. Waivers; Remedies; Application of Payments. Bank may from time to time in its discretion grant waivers and consents in respect of this Note or any other Related Writing or assent to amendments thereof, but no such waiver, consent, or amendment shall be binding upon Bank unless set forth in a writing (which writing shall be narrowly construed) signed by Bank. No course of dealing in respect of, nor any omission or delay in the exercise of, any right, power, or privilege by Bank shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any further or other exercise thereof or of any other, as each such right, power, or privilege may be exercised either independently or concurrently with others and as often and in such order as Bank may deem expedient. Without limiting the generality of the foregoing, neither Bank's acceptance of one or more late payments or charges nor Bank's acceptance of interest on overdue amounts at the respective rates applicable thereto shall constitute a waiver of any right of Bank. Each right, power, or privilege specified or referred to in this Note is in addition to and not in limitation of any other rights, powers, and privileges that Bank may otherwise have or acquire by operation of law, by other contract, or otherwise. Bank shall be entitled to equitable remedies with respect to each breach or anticipatory repudiation of any provision of this Note, and Borrower hereby waives any defense which might be asserted to bar any such equitable remedy. Bank shall have the right to apply payments in respect of the indebtedness evidenced by this Note with such allocation to the respective parts thereof and the respective due dates thereof as Bank in its sole discretion may from time to time deem advisable. If any payment is required to be made on a day which is not a Banking Day, such payment shall be due on the next immediately following Banking Day and interest shall continue to accrue at the applicable rate.

12. Other Provisions. The provisions of this Note shall bind Borrower and Borrower's successors and assigns and benefit Bank and its successors and assigns, including each subsequent holder, if any, of this Note. Except for Borrower and Bank and their respective successors and assigns, there are no intended beneficiaries of this Note, any Subject Loan, or the arrangement evidenced by this Note. The provisions of sections 7 through 16, both inclusive, shall survive the payment in full of the principal of and interest on this Note. The captions to the sections and subsections of this Note are inserted for convenience only and shall be ignored in interpreting the provisions thereof. If any provision in this Note shall be or become illegal or unenforceable in any case, then that provision shall be deemed modified in that case so as to be legal and enforceable to the maximum extent permitted by law while most nearly preserving its original intent, and in any case the illegality or unenforceability of that provision shall affect neither that provision in any other case nor any other provision. All fees,

interest, and premiums for any given period shall accrue on the first day thereof but not on the last day thereof (unless the last day is the first day) and in each case shall be computed on the basis of a 360-day year and the actual number of days in the period. In no event shall interest accrue at a higher rate than the maximum rate, if any, permitted by law. Bank shall have the right to furnish to its Affiliates, and to such other Persons as Bank shall deem advisable for the conduct of its business, information concerning the business, financial condition, and property of Borrower, the amount of the Bank Debt of Borrower, and the terms, conditions, and other provisions applicable to the respective parts thereof. This Note shall be governed by the law (excluding conflict of laws rules) of the jurisdiction in which Bank's banking office is located.

13. Integration. This Note and, to the extent consistent with this Note, the other Related Writings, set forth the entire agreement of Borrower and Bank as to the subject matter of this Note, and may not be contradicted by evidence of any agreement or statement unless made in a writing (which writing shall be narrowly construed) signed by Bank contemporaneously with or after the execution and delivery of this Note. Without limiting the generality of the foregoing, Borrower hereby acknowledges that Bank has not based, conditioned, or offered to base or condition the credit hereby evidenced or any charges, fees, interest rates, or premiums applicable thereto upon Borrower's agreement to obtain any other credit, property, or service other than any loan, discount, deposit, or trust service from Bank. In the event and to the extent of any conflict between the terms hereof and the terms of any exhibit, schedule, addendum, allonge, modification or amendment hereto, the terms of such exhibit, schedule, addendum, allonge, modification or amendment shall control.

14. Notices and Other Communications. Each notice, demand, or other communication, whether or not received, shall be deemed to have been given to Borrower whenever Bank shall have mailed a writing to that effect by certified or registered mail to Borrower at Borrower's mailing address (or any other address of which Borrower shall have given Bank notice after the execution and delivery of this Note); however, no other method of giving actual notice to Borrower is hereby precluded. Borrower hereby irrevocably accepts Borrower's appointment as each Obligor's agent for the purpose of receiving any notice, demand, or other communication to be given by Bank to each such Obligor pursuant to any Related Writing. Bank shall be entitled to assume that any knowledge possessed by any Obligor other than Borrower is possessed by Borrower. Each communication to be given to Bank shall be in writing unless this Note expressly permits that communication to be made orally, and in any case shall be given to Bank at Bank's banking office (or any other address of which Bank shall have given notice to Borrower after the execution and delivery this Note). Borrower hereby assumes all risk arising out of or in connection with each oral communication given by Borrower and each communication given or attempted by Borrower in contravention of this section. Bank shall be entitled to rely on each communication believed in good faith by Bank to be genuine.

15. Jurisdiction and Venue; Waiver of Jury Trial. Any action, claim, counterclaim, crossclaim, proceeding, or suit, whether at law or in equity, whether sounding in tort, contract, or otherwise at any time arising under or in connection with this Note or any other Related Writing, the administration, enforcement, or negotiation of this Note or any other Related Writing, or the performance of any obligation in respect of this Note or any other Related Writing (each such action, claim, counterclaim, crossclaim, proceeding, or suit, an "Action") may be brought in any federal or state court located in the city in which Bank's banking office is located. Borrower hereby unconditionally submits to the jurisdiction of any such court with respect to each such Action and hereby waives any objection Borrower may now or hereafter

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER OF THE COMPANY PURSUANT TO RULE 13A-14(A) OR RULE 15D-14(A) OF THE SECURITIES
EXCHANGE ACT OF 1934**

I, Ronald J. Naples, certify that:

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

Date: August 14, 2003

/s/ RONALD J. NAPLES

Ronald J. Naples
Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER OF THE COMPANY PURSUANT TO RULE 13A-14(A) OR RULE 15D-14(A) OF THE SECURITIES
EXCHANGE ACT OF 1934**

I, Michael F. Barry, certify that:

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

Date: August 14, 2003

/s/ MICHAEL F. BARRY

Michael F. Barry
Chief Financial Officer

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

The undersigned hereby certifies that the Form 10-Q Quarterly Report of Quaker Chemical Corporation (the "Company") for the quarterly period ended June 30, 2003 filed with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 14, 2003

/s/ RONALD J. NAPLES

Ronald J. Naples

Chief Executive Officer of Quaker
Chemical Corporation

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

The undersigned hereby certifies that the Form 10-Q Quarterly Report of Quaker Chemical Corporation (the "Company") for the quarterly period ended June 30, 2003 filed with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 14, 2003

/s/ MICHAEL F. BARRY

Michael F. Barry
Chief Financial Officer of Quaker Chemical Corporation