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

FORM 10-Q

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

For the quarterly period ended September 30, 2007

OR

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

For the transition period from _____ to _____

Commission file number 001-12019

QUAKER CHEMICAL CORPORATION

(Exact name of Registrant as specified in its charter)

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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one).

Large accelerated filer Accelerated filer Non-accelerated filer

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Number of Shares of Common Stock
Outstanding on October 31, 2007

10,127,066

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QUAKER CHEMICAL CORPORATION AND CONSOLIDATED SUBSIDIARIES

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Item 1. Financial Statements

Quaker Chemical Corporation
Condensed Consolidated Balance Sheet

	Unaudited (Dollars in thousands, except par value and share amounts)	
	September 30, 2007	December 31, 2006*
ASSETS		
Current assets		
Cash and cash equivalents	\$ 24,224	\$ 16,062
Accounts receivable, net	118,217	107,340
Inventories		
Raw materials and supplies	23,392	21,589
Work-in-process and finished goods	34,516	30,395
Prepaid expenses and other current assets	15,229	10,855
Total current assets	<u>215,578</u>	<u>186,241</u>
Property, plant and equipment, at cost	169,425	158,934
Less accumulated depreciation	<u>108,934</u>	<u>98,007</u>
Net property, plant and equipment	60,491	60,927
Goodwill	43,067	38,740
Other intangible assets, net	8,097	8,330
Investments in associated companies	7,123	7,044
Deferred income taxes	33,037	28,573
Other assets	31,196	27,527
Total assets	<u>\$ 398,589</u>	<u>\$ 357,382</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings and current portion of long-term debt	\$ 3,098	\$ 4,950
Accounts and other payables	63,279	56,345
Accrued compensation	15,704	15,225
Other current liabilities	<u>19,076</u>	<u>13,659</u>
Total current liabilities	101,157	90,179
Long-term debt	89,364	85,237
Deferred income taxes	6,838	5,317
Other non-current liabilities	<u>75,477</u>	<u>61,783</u>
Total liabilities	272,836	242,516
Minority interest in equity of subsidiaries	4,679	4,035
Shareholders' equity		
Common stock \$1 par value; authorized 30,000,000 shares; issued 2007 - 10,125,249 shares, 2006 - 9,925,976 shares	10,125	9,926
Capital in excess of par value	9,065	5,466
Retained earnings	113,326	114,498
Accumulated other comprehensive (loss)	<u>(11,442)</u>	<u>(19,059)</u>
Total shareholders' equity	121,074	110,831
Total Liabilities and Shareholders' Equity	<u>\$ 398,589</u>	<u>\$ 357,382</u>

* Condensed from audited financial statements.

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

Quaker Chemical Corporation
Condensed Consolidated Statement of Income

	Unaudited			
	(dollars in thousands, except per share and share amounts)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net sales	\$ 140,715	\$ 116,425	\$ 403,204	\$ 344,924
Cost of goods sold	97,547	79,650	278,878	239,599
Gross margin	43,168	36,775	124,326	105,325
Selling, general and administrative expenses	36,602	31,485	103,930	88,636
Environmental charges	3,300	—	3,300	—
Operating income	3,266	5,290	17,096	16,689
Other income, net	382	539	1,618	1,054
Interest expense	(1,714)	(1,432)	(4,929)	(4,040)
Interest income	344	214	708	605
Income before taxes	2,278	4,611	14,493	14,308
Taxes on income	(1,066)	1,378	3,076	5,058
	3,344	3,233	11,417	9,250
Equity in net income of associated companies	166	218	557	456
Minority interest in net income of subsidiaries	(350)	(312)	(1,126)	(1,033)
Net income	<u>\$ 3,160</u>	<u>\$ 3,139</u>	<u>\$ 10,848</u>	<u>\$ 8,673</u>
Per share data:				
Net income – basic	\$ 0.32	\$ 0.32	\$ 1.09	\$ 0.89
Net income – diluted	\$ 0.31	\$ 0.32	\$ 1.07	\$ 0.88
Dividends declared	\$ 0.215	\$ 0.215	\$ 0.645	\$ 0.645
Based on weighted average number of shares outstanding:				
Basic	10,016,801	9,792,187	9,969,739	9,762,019
Diluted	10,134,909	9,854,625	10,095,945	9,833,903

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

Quaker Chemical Corporation
Condensed Consolidated Statement of Cash Flows

	Unaudited (Dollars in thousands) For the Nine Months Ended September 30,	
	2007	2006
Cash flows from operating activities		
Net income	\$ 10,848	\$ 8,673
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	8,579	7,406
Amortization	900	1,058
Equity in undistributed earnings of associated companies, net of dividends	(83)	(251)
Minority interest in earnings of subsidiaries	1,126	1,033
Deferred income taxes	(1,498)	834
Deferred compensation and other, net	878	387
Stock-based compensation	863	601
Environmental charges	3,300	—
Loss on disposal of property, plant and equipment	33	19
Insurance settlement realized	(1,266)	(252)
Pension and other postretirement benefits	(2,532)	(3,108)
Increase (decrease) in cash from changes in current assets and current liabilities, net of acquisitions:		
Accounts receivable	(5,795)	(10,077)
Inventories	(3,227)	(4,561)
Prepaid expenses and other current assets	(1,750)	(3,022)
Accounts payable and accrued liabilities	6,009	8,351
Change in restructuring liabilities	—	(3,731)
Net cash provided by operating activities	<u>16,385</u>	<u>3,360</u>
Cash flows from investing activities		
Investments in property, plant and equipment	(5,431)	(8,513)
Payments related to acquisitions	(1,543)	(1,069)
Proceeds from disposition of assets	176	64
Insurance settlement received and interest earned	5,534	240
Change in restricted cash, net	(4,268)	12
Net cash used in investing activities	<u>(5,532)</u>	<u>(9,266)</u>
Cash flows from financing activities		
Short-term debt borrowings	1,305	1,873
Repayments of short-term debt	(3,267)	(4,519)
Long-term debt borrowings	3,132	15,680
Repayments of long-term debt	(674)	(704)
Dividends paid	(6,484)	(6,320)
Stock options exercised, other	2,935	429
Distributions to minority shareholders	(864)	(1,464)
Net cash (used in) provided by financing activities	<u>(3,917)</u>	<u>4,975</u>
Effect of exchange rate changes on cash	1,226	595
Net increase (decrease) in cash and cash equivalents	8,162	(336)
Cash and cash equivalents at beginning of period	<u>16,062</u>	<u>16,121</u>
Cash and cash equivalents at end of period	<u>\$ 24,224</u>	<u>\$ 15,785</u>

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

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

Note 1 – Out of Period Adjustments

During the third quarter of 2007, the Company identified errors of a cumulative \$993 overstatement of its consolidated income tax expense for the years 2004, 2005 and 2006. These errors were related to the deferred tax accounting for the Company's foreign pension plans and intangible assets regarding one of the Company's 2002 acquisitions. The Company corrected these errors during the third quarter 2007, which had the effect of reducing tax expense by \$993, and increasing net income by \$993 for the three and nine months ended September 30, 2007. The Company does not believe this adjustment is material to the consolidated financial statements for the years ended December 31, 2004, 2005 or 2006, or to our projected results for the current year, and as a result, has not restated any prior period amounts. As the Company's assessment was based on projected full year 2007 results, the Company will update its assessment at year-end based upon actual 2007 results.

Note 2 – Condensed Financial Information

The condensed consolidated financial statements included herein are unaudited and have been prepared in accordance with generally accepted accounting principles in the United States for interim financial reporting and the United States Securities and Exchange Commission regulations. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the financial statements reflect all adjustments (consisting only of normal recurring adjustments, except as described in note 1 above) 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 nine months ended September 30, 2007 are not necessarily indicative of the results to be expected for the full year. These financial statements should be read in conjunction with the Company's Annual Report filed on Form 10-K for the year ended December 31, 2006.

As part of the Company's chemical management services, certain third-party product sales to customers are managed by the Company. Where the Company acts as a principal, revenues are recognized on a gross reporting basis at the selling price negotiated with customers. Where the Company acts as an agent, such revenue is recorded using net reporting as service revenues at the amount of the administrative fee earned by the Company for ordering the goods. Third-party products transferred under arrangements resulting in net reporting totaled \$40,233 and \$44,408 for the nine months ended September 30, 2007 and 2006, respectively.

Note 3 – Recently Issued Accounting Standards

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS No. 157). SFAS No. 157 establishes a common definition for fair value to be applied to U.S. GAAP guidance requiring use of fair value, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact of SFAS No. 157 on its consolidated financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115" (SFAS No. 159). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. This statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact of SFAS No. 159 on its consolidated financial position and results of operations.

Note 4 – Uncertain Income Tax Positions

The Company adopted FASB Interpretation 48, Accounting for Uncertainty in Income Taxes ("FIN 48"), on January 1, 2007. As a result of the implementation, the Company recognized a \$5,503 increase to reserves for uncertain tax positions. This increase was accounted for as an adjustment to the beginning balance of retained earnings on the Balance Sheet. Including the cumulative effect increase, at the beginning of 2007, the Company had approximately \$8,902 of total gross unrecognized tax benefits. Of this amount, \$5,479 (net of the Federal benefit of state taxes and other offsetting taxes) represents the amount of unrecognized tax benefits that, if recognized, would affect the effective income tax rate in any future periods. At September 30, 2007, the Company had \$10,159 of total gross unrecognized tax benefits.

The Company and its subsidiaries are subject to U.S. Federal income tax, as well as income tax of multiple state and foreign jurisdictions. The Company has concluded all U.S. Federal income tax matters for years through 2002. Substantially, all material state and local tax matters have been concluded for years through 1992. With few exceptions, the Company is no longer subject to non-U.S. income tax examinations by foreign taxing authorities for years before 2000.

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

The Company is currently under audit by French taxing authorities for 2000 through 2004 tax years. As of December 31, 2006, the French taxing authorities have proposed certain significant adjustments to the Company's transfer pricing and intercompany charges. Management is currently evaluating those proposed adjustments to determine if it agrees, but the Company does not anticipate the adjustments would result in a material change to its financial position.

In addition, the Company is currently under a routine Federal audit in the U.S. for the year 2005.

The Company's continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense. The Company had \$728 accrued for interest and \$592 accrued for penalties at January 1, 2007. As of September 30, 2007, the Company had \$1,077 accrued for interest and \$768 accrued for penalties.

Note 5 – Stock-Based Compensation

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), *Share-Based Payment*, ("SFAS 123R"). SFAS 123R requires the recognition of the fair value of stock compensation in net income. The Company elected the modified prospective method in adopting SFAS 123R. Under this method, the provisions of SFAS 123R apply to all awards granted or modified after the date of adoption. In addition, the unrecognized expense of awards not yet vested at the date of adoption is recognized in net income in the periods after the date of adoption using the same valuation method (e.g. Black-Scholes) and assumptions determined under the original provisions of SFAS 123, "*Accounting for Stock-Based Compensation*," as disclosed in the Company's previous filings.

Prior to January 1, 2006, the Company accounted for employee stock option grants using the intrinsic method in accordance with Accounting Principles Board (APB) Opinion No. 25 "*Accounting for Stock Issued to Employees*." As such, no compensation cost was recognized for employee stock options that had exercise prices equal to the fair market value of our common stock at the date of granting the option. The Company also complied with the pro forma disclosure requirements of SFAS No. 123 "*Accounting for Stock Based Compensation*," and SFAS No. 148 "*Accounting for Stock-Based Compensation—Transition and Disclosure*."

The Company recognized approximately \$863 of share-based compensation expense and \$302 of related tax benefits in our unaudited condensed consolidated statement of operations for the nine months ended September 30, 2007. The compensation expense was comprised of \$304 related to stock options, \$437 related to nonvested stock awards, \$30 related to the Company's Employee Stock Purchase Plan, and \$92 related to the Company's Director Stock Ownership Plan.

Approximately \$73 of the amount of compensation cost recognized in 2006 for stock option awards reflects amortization relating to the remaining unvested portion of stock option awards granted prior to January 1, 2006. The estimated fair value of the options granted during prior years was calculated using a Black-Scholes model. The Black-Scholes model incorporates assumptions to value stock-based awards. The Company will continue to use the Black-Scholes option pricing model to value share-based awards. The estimated fair value of the Company's share-based awards is amortized on a straight-line basis over the vesting period of the awards. The risk-free rate of interest for periods within the contractual life of the option is based on U.S. Government Securities Treasury Constant Maturities over the contractual term of the equity instrument. Expected volatility is based on the historical volatility of the Company's stock. The Company uses historical data on exercise timing to determine the expected life assumption. The assumptions used for stock option grants made in the first quarter of 2005 include the following: dividend yield of 3.4%, expected volatility of 22.6%, risk-free interest rate of 3.9%, an expected life of 5 years, and a forfeiture rate of 8% over the remaining life of these options.

Based on our historical experience, we have assumed a forfeiture rate of 13% on the nonvested stock. Under the true-up provisions of SFAS 123R, we will record additional expense if the actual forfeiture rate is lower than we estimated, and we will record a recovery of prior expense if the actual forfeiture is higher than we estimated.

The adoption of SFAS 123R had an impact of \$66 and \$156 due to the accrual of compensation expense on the unvested stock options for the three and nine months ended September 30, 2006.

The Company has a long-term incentive program ("LTIP") for key employees which provides for the granting of options to purchase stock at prices not less than market value on the date of the grant. Most options become exercisable between one and three years after the date of the grant for a period of time determined by the Company not to exceed seven years from the date of grant for options issued in 1999 or later and ten years for options issued in prior years. Beginning in 1999, the LTIP program provided for common stock awards, the value of which was generally determined based on Company performance over a two to five-year period. Common stock awards issued in 2006 and 2007 under the LTIP program are subject only to time vesting over a two to five-year period. In addition, as part of the Company's Global Annual Incentive Plan ("GAIP"), nonvested shares may be issued to key employees.

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

Stock option activity under all plans is as follows:

	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (years)
Balance at December 31, 2006	1,092,420	20.69	
Options granted	166,065	23.13	
Options exercised	(166,935)	18.52	
Options forfeited	(29,956)	23.16	
Options expired	(11,519)	24.16	
Balance at September 30, 2007	<u>1,050,075</u>	21.31	3.3
Exercisable at September 30, 2007	<u>824,935</u>	21.10	2.5

The total intrinsic value of options exercised during 2007 was approximately \$676. Intrinsic value is calculated as the difference between the current market price of the underlying security and the strike price of a related option. As of September 30, 2007, the total intrinsic value of options outstanding was approximately \$2,699, and the total intrinsic value of exercisable options was approximately \$2,377.

A summary of the Company's outstanding stock options at September 30, 2007 is as follows:

Range of Exercise Prices	Number Outstanding at 9/30/2007	Weighted Average Contractual Life	Weighted Average Exercise Price	Number Exercisable at 9/30/2007	Weighted Average Exercise Price
\$13.30 - \$15.96	1,000	1.5	\$ 14.13	1,000	\$ 14.13
15.97 - 18.62	142,400	0.4	17.56	142,400	17.56
18.63 - 21.28	437,875	2.8	20.10	363,475	20.12
21.29 - 23.94	320,000	5.2	22.45	169,260	21.85
23.95 - 26.60	148,800	3.1	26.06	148,800	26.06
	<u>1,050,075</u>	3.3	21.31	<u>824,935</u>	21.10

As of September 30, 2007, unrecognized compensation expense related to options granted during 2006 was \$253, and for options granted during 2007 was \$577.

During the first quarter of 2007, the Company granted 166,065 stock options under the Company's LTIP plan that are subject only to time vesting over a three-year period. The options were valued using the Black-Scholes model with the following assumptions: dividend yield of 4.4%, expected volatility of 27.0%, risk-free interest rate of 4.7%, an expected term of 6 years, and a forfeiture rate of 3% over the remaining life of the options. Approximately \$140 of expense was recorded on these options during 2007. The fair value of these awards is amortized on a straight-line basis over the vesting period of the awards.

Under the Company's LTIP plan, 49,550 shares of nonvested stock were outstanding at December 31, 2006. In the first quarter of 2007, 38,240 shares of nonvested stock were granted at a weighted average grant date fair value of \$23.13. None of these awards were vested, 15,680 shares were forfeited and 72,110 shares were outstanding as of September 30, 2007. The fair value of the nonvested stock is based on the trading price of the Company's common stock on the date of grant. The Company adjusts the grant date fair value for expected forfeitures based on historical experience for similar awards. As of September 30, 2007, unrecognized compensation expense related to these awards was \$953, to be recognized over a weighted average remaining period of 2.2 years.

Under the Company's GAIP plan, 42,500 shares of nonvested stock were granted during the second quarter of 2005 at a weighted average grant date fair value of \$20.12 per share. At December 31, 2006, 40,250 shares were outstanding. Through September 30, 2007, 12,750 shares vested and were issued, no shares were forfeited and 27,500 shares were outstanding. As of September 30, 2007, unrecognized compensation expense related to these awards was \$168, to be recognized over a weighted average remaining period of 1.6 years.

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

Employee Stock Purchase Plan

In 2000, the Board adopted an Employee Stock Purchase Plan (“ESPP”) whereby employees may purchase Company stock through a payroll deduction plan. Purchases are made from the plan and credited to each participant’s account at the end of each month, the “Investment Date.” The purchase price of the stock is 85% of the fair market value on the Investment Date. The plan is compensatory and the 15% discount is expensed on the Investment Date. All employees, including officers, are eligible to participate in this plan. A participant may withdraw all uninvested payment balances credited to a participant’s account at any time by giving written notice to the Committee. An employee whose stock ownership of the Company exceeds five percent of the outstanding common stock is not eligible to participate in this plan.

2003 Director Stock Ownership Plan

In March 2003, our Board of Directors approved a stock ownership plan for each member of our Board to encourage the Directors to increase their investment in the Company. The Plan was effective on the date it was approved and remains in effect for a term of ten years or until it is earlier terminated by the Board. The maximum number of shares of Common Stock which may be issued under the Plan is 75,000, subject to certain conditions that the Committee may elect to adjust the number of shares. As of September 30, 2007, the Committee has not made any elections to adjust the shares under this plan. Each Director is eligible to receive an annual retainer for services rendered as a member of the Board of Directors. Currently, each Director who owns less than 7,500 shares of Company Common Stock is required to receive 75% of the annual retainer in Common Stock and 25% of the annual retainer in cash. Effective as of the 2007 Annual Meeting, each Director who owns 7,500 or more shares of Company Common Stock received 20% of the annual retainer in Common Stock and 80% of the annual retainer in cash with the option to receive Common Stock in lieu of the cash portion of the retainer. Effective as of the 2007 Annual Meeting, the annual retainer is \$28. The number of shares issued in payment of the fees is calculated based on an amount equal to the average of the closing prices per share of Common Stock as reported on the composite tape of the New York Stock Exchange for the two trading days immediately preceding the retainer payment date. The retainer payment date is June 1. For the three and nine months ended September 30, 2007, the Company recorded approximately \$31 and \$92 of compensation expense, respectively. For the three and nine months ended September 30, 2006, the Company recorded approximately \$32 and \$94, respectively.

Note 6 – Earnings Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Numerator for basic EPS and diluted EPS— net income	\$ 3,160	\$ 3,139	\$ 10,848	\$ 8,673
Denominator for basic EPS—weighted average shares	10,016,801	9,792,187	9,969,739	9,762,019
Effect of dilutive securities, primarily employee stock options	118,108	62,438	126,206	71,884
Denominator for diluted EPS—weighted average shares and assumed conversions	<u>10,134,909</u>	<u>9,854,625</u>	<u>10,095,945</u>	<u>9,833,903</u>
Basic EPS	\$ 0.32	\$ 0.32	\$ 1.09	\$ 0.89
Diluted EPS	\$ 0.31	\$ 0.32	\$ 1.07	\$ 0.88

The following number of stock options are not included in the earnings per share since in each case the exercise price is greater than the market price: 299,540 and 787,520 for the three and nine months ended September 30, 2007 and 2006, respectively.

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

Note 7 – Business Segments

The Company's reportable segments are as follows:

- (1) Metalworking process chemicals – industrial process fluids 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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Metalworking Process Chemicals				
Net sales	\$129,944	\$107,416	\$373,090	\$318,282
Operating income	18,772	15,894	56,020	45,452
Coatings				
Net sales	10,043	8,668	28,200	24,940
Operating income	2,193	2,093	6,360	6,285
Other Chemical Products				
Net sales	728	341	1,914	1,702
Operating income	22	(3)	107	150
Total				
Net sales	140,715	116,425	403,204	344,924
Operating income	20,987	17,984	62,487	51,887
Non-operating expenses	(14,132)	(12,344)	(41,191)	(34,140)
Environmental charges	(3,300)	—	(3,300)	—
Amortization	(289)	(350)	(900)	(1,058)
Interest expense	(1,714)	(1,432)	(4,929)	(4,040)
Interest income	344	214	708	605
Other income, net	382	539	1,618	1,054
Consolidated income before taxes	<u>\$ 2,278</u>	<u>\$ 4,611</u>	<u>\$ 14,493</u>	<u>\$ 14,308</u>

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.

Note 8 – Comprehensive Income

The following table summarizes comprehensive income:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net income	\$ 3,160	\$ 3,139	\$10,848	\$ 8,673
Change in fair value of derivatives	(595)	(472)	(366)	131
Unrealized gain on available-for-sale securities	49	77	181	156
Minimum pension liability	(164)	—	355	—
Foreign currency translation adjustments	3,307	(408)	7,447	4,255
Comprehensive income	<u>\$ 5,757</u>	<u>\$ 2,336</u>	<u>\$18,465</u>	<u>\$13,215</u>

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

Note 9 – Business Acquisitions and Divestitures

In March 2005, the Company acquired the remaining 40% interest in its Brazilian joint venture for \$6,700. In addition, annual \$1,000 payments for four years will be paid subject to the former minority partners' compliance with the terms of the purchase agreement. The second \$1,000 payment was made in February 2007 and was recorded as goodwill assigned to the Metalworking Process Chemicals Segment.

In May 2007, the Company's Q2 Technologies ("Q2T") joint venture acquired the hydrogen sulfide and natural gas field business of Frontier Research and Chemicals Company, Inc., for \$527 cash. The acquisition of this business is compatible with the products provided by Q2T and represents an attractive market addition. In connection with the acquisition, \$394 of intangible assets was recorded to be amortized over five years.

Note 10 – Goodwill and Other Intangible Assets

The Company completed its annual impairment assessment as of the end of the third quarter 2007 and no impairment charge was warranted. The changes in carrying amount of goodwill for the nine months ended September 30, 2007 are as follows:

	Metalworking Process Chemicals	Coatings	Total
Balance as of December 31, 2006	\$ 31,471	\$7,269	\$38,740
Goodwill additions	1,016	—	1,016
Currency translation adjustments and other	2,499	812	3,311
Balance as of September 30, 2007	<u>\$ 34,986</u>	<u>\$8,081</u>	<u>\$43,067</u>

Gross carrying amounts and accumulated amortization for definite-lived intangible assets as of September 30, 2007 and December 31, 2006 are as follows:

Amortized intangible assets	Gross Carrying Amount		Accumulated Amortization	
	2007	2006	2007	2006
Customer lists and rights to sell	\$ 8,315	\$ 7,682	\$3,178	\$2,812
Trademarks and patents	1,788	1,788	1,788	1,781
Formulations and product technology	3,278	3,278	1,865	1,645
Other	3,339	3,143	2,392	1,923
Total	<u>\$16,720</u>	<u>\$15,891</u>	<u>\$9,223</u>	<u>\$8,161</u>

The Company recorded \$900 and \$1,058 of amortization expense in the first nine months of 2007 and 2006, respectively. Estimated annual aggregate amortization expense for the current year and subsequent five years is as follows:

For the year ended December 31, 2007	\$1,185
For the year ended December 31, 2008	\$1,131
For the year ended December 31, 2009	\$1,068
For the year ended December 31, 2010	\$ 873
For the year ended December 31, 2011	\$ 810
For the year ended December 31, 2012	\$ 712

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

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

Note 11 – Pension and Other Postretirement Benefits

The components of net periodic benefit cost, for the three and nine months ended September 30, are as follows:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	Pension Benefits		Other Postretirement Benefits		Pension Benefits		Other Postretirement Benefits	
	2007	2006	2007	2006	2007	2006	2007	2006
Service cost	\$ 631	\$ 725	\$ 5	\$ 8	\$ 1,861	\$ 1,947	\$ 15	\$ 23
Interest cost and other	1,472	638	135	155	4,379	4,111	405	465
Expected return on plan assets	(1,271)	(281)	—	—	(3,783)	(3,600)	—	—
Other amortization, net	324	424	—	—	970	1,131	—	—
FAS 88 (Gain)/loss due to curtailments	—	—	—	—	—	(942)	—	—
Net periodic benefit cost	<u>\$ 1,156</u>	<u>\$ 1,506</u>	<u>\$ 140</u>	<u>\$ 163</u>	<u>\$ 3,427</u>	<u>\$ 2,647</u>	<u>\$ 420</u>	<u>\$ 488</u>

Employer Contributions:

The Company previously disclosed in its financial statements for the year ended December 31, 2006, that it expected to make minimum cash contributions of \$6,883 to its pension plans and \$1,100 to its other postretirement benefit plan in 2007. As of September 30, 2007, \$5,640 and \$825 of contributions have been made, respectively.

In accordance with local legislation, effective January 1, 2006, one of the Company's European pension plans was partially curtailed to eliminate the supplemental early retirement payments for certain individuals. A curtailment gain of \$942 was recognized in the first quarter of 2006.

Note 12 – Commitments and Contingencies

In April of 1992, the Company identified certain soil and groundwater contamination at AC Products, Inc. ("ACP"), a wholly owned subsidiary. In voluntary coordination with the Santa Ana California Regional Water Quality Board, ACP has been remediating the contamination, the principal contaminant of which is perchloroethylene ("PERC"). On or about December 18, 2004, the Orange County Water District ("OCWD") filed a civil complaint in Superior Court, in Orange County, California against ACP and other parties potentially responsible for groundwater contamination. OCWD was seeking to recover compensatory and other damages related to the investigation and remediation of the contamination in the groundwater. Effective October 17, 2007, ACP and OCWD settled all claims related to this litigation. Pursuant to the settlement agreement with OCWD, ACP agreed to pay \$2.0 million in two equal payments of \$1.0 million (the first payment being due October 31, 2007 and the second payment being due February 15, 2008). In addition to the \$2.0 million payment, ACP agreed to operate the two existing groundwater treatment systems associated with its extraction wells P-2 and P-3 so as to hydraulically contain groundwater contamination emanating from ACP's site until such time as the concentrations of PERC are below the Federal maximum contaminant level for four consecutive quarterly sampling events. During the third quarter, the Company recognized a \$3.3 million charge made up of \$2.0 million for the settlement of the litigation, plus an increase in its reserve for its soil and water remediation program by \$1.3 million. The Company believes that the range of potential-known liabilities associated with ACP contamination, including amounts owed to OCWD pursuant to the settlement and estimated future costs of the water and soil remediation program, is approximately \$4.75 million to \$6.6 million, for which the Company has sufficient reserves.

The low and high ends of the range are based on the length of operation of the two extraction wells as determined by groundwater modeling with planned higher maintenance costs in later years if a longer treatment period is required. Costs of operation include the operation and maintenance of the extraction wells, groundwater monitoring, one-time expenses to insure P-3 is hydraulically containing the PERC plume and program management. The duration of the well operation was estimated based on historical trends in concentrations in the monitoring wells within the proximity of the applicable extraction wells. Also factored into the model was the impact of water injected into the underground aquifer from a planned recharge basin adjacent to the ACP site as well as from an injection operated by OCWD as part of the groundwater treatment system for contaminants which are the subject of the aforementioned litigation. Based on the modeling, it is estimated that P-2 will operate for three and half years to up to five years and P-3 will operate for six years to up to nine years. Operation and maintenance costs were based on historical expenditures and estimated inflation. Also included in the reserve are anticipated expenditures to operate an on-site soil vapor extraction system and amounts owed in basin fees for extracted water.

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

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 the proceeds from insurance settlements received in late 2005 and early in the second quarter of 2007. To date, the overwhelming majority of these claims have been disposed of without payment and there have been no adverse judgments against the subsidiary. Based on a continued analysis of the existing and anticipated future claims against this subsidiary, it is currently projected that the subsidiary's total liability over the next 50 years for these claims is approximately \$12,700 (excluding costs of defense). Although the Company has also been named as a defendant in certain of these cases, no claims have been actively pursued against the Company, and the Company has not contributed to the defense or settlement of any of these cases pursued against the subsidiary. These cases were handled by the subsidiary's primary and excess insurers who had agreed in 1997 to pay all defense costs and be responsible for all damages assessed against the subsidiary arising out of existing and future asbestos claims up to the aggregate limits of the policies. A significant portion of this primary insurance coverage was provided by an insurer that is now insolvent, and the other primary insurers have asserted that the aggregate limits of their policies have been exhausted. The subsidiary challenged the applicability of these limits to the claims being brought against the subsidiary. In response to this challenge, two of the three carriers entered into separate settlement and release agreements with the subsidiary in late 2005 and in the first quarter of 2007 for \$15,000 and \$20,000, respectively. The payments under the latest settlement and release agreement are structured to be received over a four-year period with annual installments of \$5,000, the first of which was received early in the second quarter of 2007. The subsequent installments are contingent upon whether or not Federal asbestos legislation is adopted by the due date of each annual installment. If Federal asbestos legislation is so enacted, and such legislation eliminates the carrier's obligation to make the installment payment and requires the carrier to contribute into a trust or similar vehicle as a result of the policies issued to the subsidiary, then the insurance carrier's obligation to make the subsequent installments will be cancelled. The proceeds of both settlements are restricted and can only be used to pay claims and costs of defense associated with the subsidiary's asbestos litigation. During the third quarter of 2007, the subsidiary and the remaining primary insurance carrier entered into a Claim Handling and Funding Agreement, under which the carrier will pay 27% of defense and indemnity costs incurred by or on behalf of the subsidiary in connection with asbestos bodily injury claims for a minimum of five years beginning July 1, 2007. At the end of the term of the agreement, the subsidiary may choose to again pursue its claim against this insurer regarding the application of the policy limits. The Company also believes that, if the coverage issues under the primary policies with the remaining carrier are resolved adversely to the subsidiary and all settlement proceeds were used, the subsidiary may have limited additional coverage from a state guarantee fund established following the insolvency of one of the subsidiary's primary insurers. Nevertheless, liabilities in respect of claims may exceed the assets and coverage available to the subsidiary. See also Notes 16 and 17 of Notes to Consolidated Financial Statements filed with the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

If the subsidiary's assets and insurance coverage were to be exhausted, claimants of the subsidiary may actively pursue claims against the Company because of the parent-subsidiary relationship. Although asbestos litigation is particularly difficult to predict, especially with respect to claims that are currently not being actively pursued against the Company, the Company does not believe that such claims would have merit or that the Company would be held to have liability for any unsatisfied obligations of the subsidiary as a result of such claims. After evaluating the nature of the claims filed against the subsidiary and the small number of such claims that have resulted in any payment, the potential availability of additional insurance coverage at the subsidiary level, the additional availability of the Company's own insurance and the Company's strong defenses to claims that it should be held responsible for the subsidiary's obligations because of the parent-subsidiary relationship, the Company believes it is not probable that the Company will incur any material losses. All of the asbestos cases pursued against the Company challenging the parent-subsidiary relationship are in the early stages of litigation. The Company has been successful in the past having claims naming it dismissed during initial proceedings. Since the Company may be in this early stage of litigation for some time, it is not possible to estimate additional losses or range of loss, if any.

The Company believes, although there can be no assurance regarding the outcome of other unrelated environmental matters, that it has made adequate accruals for costs associated with other environmental problems of which it is aware. Approximately \$159 and \$134 was accrued at September 30, 2007 and December 31, 2006, respectively, to provide for such anticipated future environmental assessments and remediation costs. 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.

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

Note 13 – Debt

On August 13, 2007, Quaker and its wholly owned subsidiaries entered into a second amendment to our syndicated multicurrency credit agreement with Bank of America, N.A., as administrative agent, swing line lender and letter of credit issuer, and certain other financial institutions, as lenders. The amendment increases the maximum principal amount available for revolving credit borrowings from \$100,000 to \$125,000, which can be increased to \$175,000 at the Company's option if lenders agree to increase their commitments and the Company satisfies certain conditions. The amendment also extended the maturity date of the credit facility from 2010 to 2012. The Company was in compliance with all debt related covenants as of September 30, 2007 and December 31, 2006.

The Company has entered into interest rate swaps in order to fix a portion of its variable rate debt and mitigate the risks associated with higher interest rates. The combined notional value of the swaps was \$35,000 and \$25,000 as of September 30, 2007 and December 31, 2006, respectively.

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

Executive Summary

Quaker Chemical Corporation is a worldwide developer, producer, and marketer of chemical specialty products and a provider of chemical management services ("CMS") for various heavy industrial and manufacturing applications around the globe with significant sales to the steel and automotive industries.

The revenue growth in the third quarter of 2007 was due to higher volumes in Asia/Pacific, Europe and North America and increased selling prices. CMS revenues were higher due to the renewal and renegotiation of several of the Company's contracts earlier in the year. Higher selling prices, combined with improved CMS profitability, helped to offset higher raw material and third-party finished product costs, resulting in significantly higher gross margin dollars with a decrease in gross margin as a percentage of sales compared to the third quarter of 2006. Nevertheless, the Company has been able to maintain its margins on a sequential basis throughout 2007. Raw material costs continue to be higher as compared to the prior year and have been steadily rising throughout the year. Factors impacting higher selling, general and administrative costs in the third quarter include continued expansion into Asia/Pacific, higher commissions as a result of higher earnings, as well as unfavorable foreign exchange.

The third quarter of 2007 included some unusual items as well. A \$3.3 million environmental charge was taken in part related to the settlement of environmental litigation involving AC Products, Inc. ("ACP"), a wholly owned subsidiary of Quaker, as well as additional costs for the estimated future remediation costs. Two charges totaling \$1.2 million were also taken relating to certain customer bankruptcies and a discontinued strategic initiative. The tax benefit recorded in the third quarter of 2007 includes a \$0.7 million refund of taxes in China as a result of the Company's increased investment and includes a non-cash out-of-period tax benefit adjustment of \$1.0 million related to certain deferred tax items.

The net result was \$0.31 per diluted share for the third quarter of 2007 compared to \$0.32 per diluted share for the third quarter of 2006.

With crude oil above \$90 per barrel and animal fats and vegetable oils impacted by increased biodiesel production, raw materials continue to be a challenge. Any improvement in gross margin as a percentage of sales will depend in part upon a sustained period of stable or declining raw material costs. With the settlement of the ACP environmental litigation, legal and environmental costs should decline in the future. The Company will remain focused on pursuing revenue opportunities, managing its raw material and other costs, and pursuing pricing initiatives.

Notwithstanding the Company's performance, continued strength of the business environment is subject to limited visibility. While demand is generally expected to remain strong, volume in certain markets was limited by customer end-market issues, including reduced vehicle sales experienced by some automotive customers and reduced steel usage, particularly in the U.S.

CMS Discussion

During 2003, the Company expanded its approach to its chemical management services (CMS) channel consistent with the Company's strategic imperative to sell customer solutions—value—not just fluids. Prior to this change, the Company effectively acted as an agent whereby it purchased chemicals from other companies and resold the product to the customer at little or no margin and earned a set management fee for providing this service. Therefore, the profit earned on the management fee was relatively secure as the entire cost of the products was passed on to the customer. The approach taken in 2003 was dramatically different. The Company began entering into new contracts under which it receives a set management fee and the costs that relate to those management fees were and are largely dependent on how well the Company controls product costs and achieves product conversions from other third-party suppliers to its own products. This approach came with new risks and opportunities, as the profit earned from the management fee is subject to movements in product costs as well as the Company's own performance. The Company believes this expanded approach is a way for Quaker to become an integral part of our customers' operational efforts to improve manufacturing costs and to demonstrate value that the Company would not be able to demonstrate as purely a product provider.

Under this alternative pricing structure, the Company was awarded a series of multi-year CMS contracts, primarily at General Motors Powertrain, DaimlerChrysler and Ford manufacturing sites over the last several years. This business was an important step in building the Company's share and leadership position in the automotive process fluids market and has positioned the Company well for penetration of CMS opportunities in other metalworking manufacturing sites. This alternative approach had a dramatic impact on the Company's revenue and margins. Under the traditional CMS approach, where the Company effectively acts as an agent, revenues and costs from these sales are reported on a net sales or "pass-through" basis. As discussed above, the alternative structure is different in that the Company's revenue received from the customer is a fee for products and services provided to the customer, which are indirectly related to the actual costs incurred. As a result, the Company recognizes in the alternative structure in reported revenues 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 until the Company achieves significant product conversions. As some contracts have been renewed or renegotiated, some of the contracts have reverted to a "pass-through" basis, while others have remained on a gross basis. Currently, the Company

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has a mix of contracts with both the traditional product pass-through structure and fixed priced contracts covering all services and products. The Company's offerings will continue to include both approaches to CMS depending on customer requirements and business circumstances.

Liquidity and Capital Resources

Quaker's cash and cash equivalents increased to \$24.2 million at September 30, 2007 from \$16.1 million at December 31, 2006. The increase resulted primarily from \$16.4 million of cash provided by operating activities, offset in part by, \$5.5 million of cash used in investing activities and \$3.9 million of cash used in financing activities.

Net cash flows provided by operating activities were \$16.4 million, compared to \$3.4 million in the same period of 2006. The increased cash flow was largely due to lower working capital requirements in 2007 compared to 2006. Although higher sales levels, raw material costs, and increased business from our CMS channel require incremental investments in working capital, the Company has made significant progress around the globe at slowing the pace of such increased investments. In addition, the Company's higher net income, higher depreciation and the 2006 completion of all restructuring activities were also significant factors in the increased cash flow from operating activities. Largely due to the improvements in working capital balances, operating cash flow improved \$19.3 million during the third quarter of 2007 compared to the first half of 2007.

Net cash flows used in investing activities were \$5.5 million in the first nine months of 2007, compared to \$9.3 million in the same period of 2006. The decreased use of cash was primarily due to lower capital expenditures as a result of reduced capital expansion and replacement activities in North America, Europe and Asia/Pacific. Also contributing to the decreased use of cash was higher cash inflow from the Company's below described restricted cash of \$1.0 million relating to asbestos costs of an inactive subsidiary of the Company. This cash inflow is equally offset as an outflow of cash in cash flows from operating activities as the inactive subsidiary makes payments for claims and costs of defense in accordance with settlement and release agreements. Also contributing to the change in investing cash flows are higher payments related to acquisitions in the first nine months of 2007. In the first quarter of 2007, the Company made the second of four annual payments of \$1.0 million related to the 2005 acquisition of the remaining 40% interest in its Brazilian joint venture. In the second quarter of 2007, the Company's Q2 Technologies ("Q2T") joint venture acquired the hydrogen sulfide and natural gas field business of Frontier Research and Chemicals Company, Inc., for \$0.5 million.

Net cash used in financing activities was \$3.9 million for the first nine months of 2007 compared to \$5.0 million of cash provided by financing activities for the first nine months of 2006. The decrease was caused primarily by greater borrowings in the prior year used to fund the Company's working capital needs, as well as the restructuring actions taken in the fourth quarter of 2005. In the first nine months of 2007, the Company experienced a high level of stock option exercises compared to the prior year, which contributed to the change in net cash flows from financing activities.

In the first quarter of 2007, an inactive subsidiary of the Company reached a settlement agreement and release with one of its insurance carriers for \$20.0 million. The proceeds of the settlement are restricted and can only be used to pay claims and costs of defense associated with this subsidiary's asbestos litigation. The payments are structured to be received over a four-year period with annual installments of \$5.0 million, the first of which was received early in the second quarter of 2007. The subsequent installments are contingent upon whether or not Federal asbestos legislation is adopted by the due date of each annual installment. If Federal asbestos legislation is so enacted, and requires the carrier to contribute into a trust or similar vehicle as a result of the policies issued to the subsidiary, then the insurance carrier's obligation to make the subsequent installments will be cancelled. During the third quarter of 2007, the same inactive subsidiary and one of its insurance carriers entered into a Claim Handling and Funding Agreement, under which the carrier will pay 27% percent of the defense and indemnity costs incurred by or on behalf of the subsidiary in connection with asbestos bodily injury claims for a minimum of five years beginning July 1, 2007. See also Note 12 of Notes to Condensed Consolidated Financial Statements.

ACP entered into a settlement agreement with the Orange County Water District, effective October 17, 2007, relating to environmental litigation initiated in late 2004. In the third quarter of 2007, the Company recorded a \$3.3 million charge to cover a payment of \$2.0 million in settlement of the litigation, and \$1.3 million of increased reserves for its future expenditures for soil and water remediation program. See also Note 12 of Notes to Condensed Consolidated Financial Statements.

The Company had a net debt-to-total-capital ratio of 36% at September 30, 2007, compared to 40% at December 31, 2006. At September 30, 2007, the Company had approximately \$81.4 million outstanding on its credit lines compared to \$79.2 million at December 31, 2006. In the third quarter of 2007, the Company entered into a second amendment to its syndicated multicurrency credit agreement. The amendment increased the maximum principal amount available for revolving credit borrowings from \$100.0 million to \$125.0 million, which can be increased to \$175.0 million at the Company's option if the lenders agree to increase their commitments and the Company satisfies certain conditions. The amendment also extended the maturity date of the credit facility from 2010 to 2012. In connection with the first quarter 2007 adoption of FIN 48, the Company recorded a non-cash charge to shareholders' equity of \$5.5 million, which negatively impacted the Company's net debt-to-total-capital ratio by approximately one percentage point. At September 30, 2007, the Company's gross FIN 48 liability, including accrued interest and penalties was \$12.0 million. The Company cannot determine a reliable estimate of the timing of cash flows by period related to its FIN 48 liability. However, should

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the FIN 48 liability be paid, the amount of the payment may be reduced by \$4.2 million as a result of offsetting benefits in other tax jurisdictions. The Company believes it is capable of supporting its operating requirements, including pension plan contributions, payment of dividends to shareholders, possible acquisitions and business opportunities, capital expenditures and possible resolution of contingencies, through internally generated funds supplemented with debt as needed.

Operations

Comparison of Third Quarter 2007 with Third Quarter 2006

Net sales for the third quarter were \$140.7 million, up 20.9%, compared to \$116.4 million for the third quarter 2006. The increase in net sales was primarily attributable to a combination of volume growth and higher sales prices. Volume growth was mainly due to strong sales growth in Asia/Pacific, Europe and North America, as well as higher revenue related to the Company's CMS channel. Foreign exchange rate translation increased revenues by approximately 5% for the third quarter 2007, compared to the same period in 2006. Selling price increases were realized across all regions and market segments, in part as an ongoing effort to offset higher raw material costs. CMS revenues were higher due to additional CMS accounts and the first quarter 2007 renewal and renegotiation of several of the Company's CMS contracts.

Gross margin as a percentage of sales was 30.7% for the third quarter of 2007, compared to 31.6% for the third quarter 2006. Higher selling prices and additional contribution from the Company's CMS channel helped improve margins in dollar terms, while higher raw material costs and sales mix resulted in a lower gross margin percentage. On a sequential basis, the third quarter gross margin percentage was in line with first quarter 2007 and second quarter 2007 gross margin percentages of 30.9% and 31.0%, respectively.

Selling, general and administrative expenses for the quarter increased \$5.1 million, compared to the third quarter 2006. Foreign exchange rate translation accounted for approximately \$1.3 million of the increase. Other major contributors were planned spending in higher growth areas, such as China, higher commissions as a result of higher sales, as well as two charges totaling \$1.2 million relating to certain customer bankruptcies and a discontinued strategic initiative.

In the third quarter 2007, the Company recorded environmental charges of \$3.3 million as disclosed in its press release dated October 23, 2007. The charges consist of \$2.0 million related to the settlement of environmental litigation involving AC Products, Inc., a wholly owned subsidiary, as well as an additional \$1.3 million charge for the estimated future remediation costs.

The decrease in other income was the result of a distribution received from the Company's former real estate joint venture in the prior year quarter, as well as lower license fee income in the third quarter 2007. The increase in net interest expense was attributable to higher average borrowings and higher interest rates.

The tax benefit recorded in the third quarter 2007 includes a \$0.7 million refund of taxes in China as a result of the Company's increased investment. The third quarter 2006 included a similar tax rebate of \$0.4 million. In addition, the third quarter 2007 includes a non-cash out-of-period tax benefit adjustment of \$1.0 million related to certain deferred tax items. Refer to the Comparison of the First Nine Months of 2007 with the First Nine Months of 2006 section below for further discussion.

Net income for the third quarter 2007 was \$3.2 million, compared to \$3.1 million for the third quarter of 2006. The environmental charges of \$3.3 million were tempered by the China tax refund as well as the out-of-period tax benefit.

Segment Reviews – Comparison of the Third Quarter 2007 with Third Quarter 2006

Metalworking Process Chemicals

Metalworking Process Chemicals consists of industrial process fluids for various heavy industrial and manufacturing applications and represented approximately 92% of the Company's net sales for the third quarter of 2007. Net sales were up \$22.5 million, or 21%, compared with the third quarter of 2006. Foreign currency translation positively impacted net sales by approximately 6%, driven by the euro to U.S. dollar and Brazilian real to U.S. dollar exchange rates. The average euro to U.S. dollar exchange rate was 1.37 in the third quarter of 2007, compared to 1.27 in the third quarter of 2006, and the average Brazilian real exchange rate was 0.52 in the third quarter of 2007, compared to 0.46 in the third quarter of 2006. Net sales were positively impacted by 24.4% growth in Asia/Pacific, 16.9% growth in North America, 13.6% growth in Europe and 6.6% growth in South America, all on a constant currency basis. The growth in sales was attributable to higher sales prices, volume growth, and higher CMS sales due to the renegotiation of certain contracts in the first quarter of 2007. The majority of the volume growth came from increased demand in China and Europe, while price increases implemented across all regions helped to offset higher raw material costs. The \$2.9 million increase in this segment's operating income compared to the third quarter of 2006 is largely reflective of the Company's pricing actions and improved performance from the Company's U.S. CMS channel, offset, in part by higher selling costs.

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Coatings

The Company's Coatings segment, which represented approximately 7% of the Company's net sales for the third quarter of 2007, contains products that provide temporary and permanent coatings for metal and concrete products and chemical milling maskants. Net sales for this segment were up \$1.4 million, or 15.9%, for the third quarter 2007, compared with the prior year period primarily due to higher temporary and permanent coatings product sales. This segment's operating income was flat with the prior year due to higher contract manufacturing and selling costs.

Other Chemical Products

Other Chemical Products, which represented approximately 1% of the Company's net sales for the third quarter of 2007, consists of sulfur removal products for industrial gas streams sold by the Company's Q2 Technologies joint venture. Net sales were up \$0.4 million and operating income for this segment was flat with the prior year. The third quarter 2007 sales increase included sales from this segment's second quarter 2007 acquisition of Frontier Research and Chemicals Company.

Comparison of the Nine Months ended September 30, 2007 with the Nine Months ended September 30, 2006

Net sales for the first nine months of 2007 were \$403.2 million, up 16.9% from \$344.9 million for the first nine months of 2006. Double-digit volume increases in China, higher CMS revenues, and selling price increases realized across all regions and market segments were the primary reasons for the increase in net sales. Foreign exchange rate translation increased revenues by approximately 4.4% for the first nine months of 2007, compared to the same period in 2006.

Gross margin as a percentage of sales was 30.8% for the first nine months of 2007, compared to 30.5% in the prior year period. Higher selling prices and a stronger performance from the Company's CMS channel helped maintain the gross margin percentage despite continued increases in raw material prices.

Selling, general and administrative expenses for the first nine months of 2007 increased \$15.3 million, compared to the first nine months of 2006. Foreign exchange rate translation accounted for approximately \$3.3 million of the increase over the prior year. Also negatively affecting the comparison with the prior year was a pension gain of \$0.9 million recorded in the first quarter 2006 due to a legislative change. The remainder of the increase was due to continued planned spending in higher growth areas, primarily China, higher incentive compensation as a result of higher earnings, higher commissions as a result of higher sales, higher legal and environmental costs, the third quarter charges noted previously, and inflationary increases.

The increase in other income was primarily due to foreign exchange gains recorded in the first nine months of 2007, compared to losses in the prior year. The increase in net interest expense was attributable to higher average borrowings and higher interest rates.

The Company's effective tax rate was 21.2% for the first nine months of 2007, compared to 35.4% in the prior year. Many external and internal factors can impact this rate and the Company will continue to refine this rate, if necessary, as the year progresses. The decrease in the effective tax rate was primarily due to a changing mix of income among tax jurisdictions as well as the non-cash out-of-period adjustment noted above, offset, in part, by the Company's first quarter 2007 adoption of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). At the end of 2006, the Company had net U.S. deferred tax assets totaling \$15.5 million, excluding deferred tax assets relating to additional minimum pension liabilities. The Company records valuation allowances when necessary to reduce its deferred tax assets to the amount that is more likely than not to be realized. The Company considers future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for a valuation allowance. However, in the event the Company were to determine that it would not be able to realize all or part of its net deferred tax assets in the future, an adjustment to the deferred tax assets would be a non-cash charge to income in the period such determination was made, which could have a material adverse impact on the Company's financial statements. The continued price pressure in the Company's raw materials has been negatively impacting profitability in certain taxing jurisdictions. The Company continues to closely monitor this situation as it relates to its net deferred tax assets and the assessment of valuation allowances. The Company is continuing to evaluate alternatives that could positively impact taxable income in these jurisdictions.

Net income for the first nine months of 2007 was \$10.8 million compared to \$8.7 million for the first nine months of 2006. Increased sales and gross margin were offset in part by higher selling, general and administrative expenses and a \$3.3 million environmental charge. In addition, the net income increase includes the China tax refund of \$0.7 million as well as the out-of-period tax benefit of \$1.0 million.

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Segment Reviews – Comparison of the Nine Months ended September 30, 2007 with the Nine Months ended September 30, 2006

Metalworking Process Chemicals

Metalworking Process Chemicals consists of industrial process fluids for various heavy industrial and manufacturing applications and represented approximately 93% of the Company's net sales for the first nine months of 2007. Net sales were up \$54.8 million, or 17.2%, compared with the first nine months of 2006. Foreign currency translation positively impacted net sales by approximately 5%, driven by the euro to U.S. dollar and Brazilian real to U.S. dollar exchange rates. The average euro to U.S. dollar exchange rate was 1.35 in the first nine months of 2007 compared to 1.25 in the first nine months of 2006 and the average Brazilian real exchange rate was 0.50 in the first nine months of 2007, compared to 0.46 in the first nine months of 2006. Net sales were positively impacted by 33.8% growth in Asia/Pacific, 10.8% growth in North America, and 8% growth in both Europe and South America, all on a constant currency basis. The growth in sales was attributable to higher sales prices, volume growth, and higher CMS sales due to the renegotiation of certain contracts in the first quarter of 2007. The majority of the volume growth came from increased demand in China, while price increases were implemented across all regions helped, in part, to offset higher raw material costs. The \$10.6 million increase in this segment's operating income compared to the first nine months of 2006 is largely reflective of the Company's pricing actions and improved performance from the Company's U.S. CMS channel, offset in part by higher selling costs.

Coatings

The Company's Coatings segment, which represented approximately 7% of the Company's net sales for the first nine months of 2007, contains products that provide temporary and permanent coatings for metal and concrete products and chemical milling maskants. Net sales for this segment were up \$3.3 million, or 13.1%, for the first nine months of 2007, compared with the prior year period primarily due to higher temporary and permanent coatings product sales. This segment's operating income was flat with the prior year period due to higher contract manufacturing and selling costs.

Other Chemical Products

Other Chemical Products, which represented less than 1% of the Company's net sales for the first nine months of 2007, consists of sulfur removal products for industrial gas streams sold by the Company's Q2 Technologies joint venture. Net sales were up \$0.2 million and operating income for this segment was flat with the prior year. Sales from this segment's second quarter 2007 acquisition of Frontier Research and Chemicals Company were offset in part by declines in this segment's base business.

Factors that May Affect Our Future Results

(Cautionary Statements Under the Private Securities Litigation Reform Act of 1995)

Certain information included in this Report and other materials filed or to be filed by Quaker with the SEC (as well as information included in oral statements or other written statements made or to be made by us) contain or may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements can be identified by the fact that they do not relate strictly to historical or current facts. We have based these forward-looking statements on our current expectations about future events. These forward-looking statements include statements with respect to our beliefs, plans, objectives, goals, expectations, anticipations, intentions, financial condition, results of operations, future performance and business, including:

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

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

Any or all of the forward-looking statements in this Report and in any other public statements we make may turn out to be wrong. This can occur as a result of inaccurate assumptions or as a consequence of known or unknown risks and uncertainties. Many factors discussed in this Report will be important in determining our future performance. Consequently, actual results may differ materially from those that might be anticipated from our forward-looking statements.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. However, any further disclosures made on related subjects in Quaker's subsequent reports on Forms 10-K, 10-Q and 8-K should be consulted. These forward-looking statements are subject to risks, uncertainties and assumptions about us and our

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operations that are subject to change based on various important factors, some of which are beyond our control. A major risk is that the Company's demand is largely derived from the demand for its customers' products, which subjects the Company to uncertainties related to downturns in a customer's business and unanticipated customer production shutdowns. Other major risks and uncertainties include, but are not limited to, significant increases in raw material costs, worldwide economic and political conditions, foreign currency fluctuations, and terrorist attacks 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. Therefore, we caution you not to place undue reliance on our forward-looking statements. This discussion is provided as permitted by the Private Securities Litigation Reform Act of 1995.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

Interest Rate Risk. Quaker's exposure to market rate risk for changes in interest rates relates primarily to its short and long-term debt. Most of Quaker's debt is negotiated at market rates which can be either fixed or variable. Accordingly, if interest rates rise significantly, the cost of debt to Quaker will increase. This can have an adverse effect on Quaker, depending on the extent of Quaker's borrowings. As of September 30, 2007, Quaker had \$81.4 million in borrowings under its credit facilities compared to \$79.2 million at December 31, 2006. The Company uses derivative financial instruments primarily for purposes of hedging exposures to fluctuations in interest rates. These derivative instruments have been designated as cash flow hedges. The Company does not enter into derivative contracts for trading or speculative purposes. The Company has entered into seven interest rate swaps in order to fix a portion of its variable rate debt. The swaps had a combined notional value of \$35.0 million and a fair value of \$(0.3) million and \$0.1 million at September 30, 2007 and December 31, 2006, respectively. The counterparties to the swaps are major financial institutions.

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

The Company generally does not use financial instruments that expose it to significant risk involving foreign currency transactions; however, the size of non-U.S. activities has a significant impact on reported operating results and the attendant net assets. During the past three most recent fiscal years, sales by non-U.S. subsidiaries accounted for approximately 53% to 56% of the consolidated net annual sales.

In addition, the Company often sources inventory among its worldwide operations. This practice can give rise to foreign exchange risk resulting from the varying cost of inventory to the receiving location, as well as from the revaluation of intercompany balances. The Company mitigates this risk through local sourcing efforts.

Commodity Price Risk. Many of the raw materials used by Quaker are commodity chemicals, and, therefore, Quaker's earnings can be materially adversely affected by market changes in raw material prices. In certain cases, Quaker has entered into fixed-price purchase contracts having a term of up to one year. These contracts provide for protection to Quaker if the price for the contracted raw materials rises, however, in certain limited circumstances, Quaker will not realize the benefit if such prices decline.

Credit Risk. Quaker establishes allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of Quaker's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Downturns in the overall economic climate may also tend to exacerbate specific customer financial issues. A significant portion of Quaker's revenues is derived from sales to customers in the U.S. steel industry, where a number of bankruptcies occurred during recent years. In recent years, certain large industrial customers have also experienced financial difficulties. When a bankruptcy occurs, Quaker must judge the amount of proceeds, if any, that may ultimately be received through the bankruptcy or liquidation process. In addition, as part of its terms of trade, Quaker may custom manufacture products for certain large customers and/or may ship product on a consignment basis. These practices may increase the Company's exposure should a bankruptcy occur, and may require writedown or disposal of certain inventory due to its estimated obsolescence or limited marketability. Customer returns of products or disputes may also result in similar issues related to the realizability of recorded accounts receivable or returned inventory.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Securities Exchange Act of 1934 (the “Exchange Act”) is accumulated and communicated to the issuer’s management, including its principal executive officer and principal financial officer, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. 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, the Company’s principal executive officer and principal financial officer have concluded that the Company’s disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)), are effective to reasonably assure that information required to be disclosed by the Company in the reports it files under the Exchange Act, 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. The Company is in the process of implementing a global ERP system. At the end of 2006, subsidiaries representing more than 70% of consolidated revenue were operational on the global ERP system. Additional subsidiaries and CMS sites have been implemented and are planned to be implemented during 2007. The Company is taking the necessary steps to monitor and maintain its internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) during this period of change.

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PART II. OTHER INFORMATION

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

Item 1: Legal Proceedings

Note 12 of the Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Report is herein incorporated by this reference.

Item 6: Exhibits

(a) Exhibits

- 10(eeee) - Second Amendment to Syndicated Multicurrency Credit Agreement between Registrant and Bank of America, N.A. and certain other financial institutions.
- 10(ffff) - Claim Handling and Funding Agreement between SB Decking, Inc., an inactive subsidiary of Registrant, and Employers Insurance Company of Wausau dated September 25, 2007.
- 31.1 - Certification of Chief Executive Officer of the Company pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934
- 31.2 - Certification of Chief Financial Officer of the Company pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934
- 32.1 - Certification of Ronald J. Naples Pursuant to 18 U.S. C. Section 1350
- 32.2 - Certification of Mark A. Featherstone Pursuant to 18 U.S. C. Section 1350

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

/s/ Mark A. Featherstone

Mark A. Featherstone,
officer duly authorized to sign this report,
Vice President and Chief Financial Officer

Date: November 7, 2007

SECOND AMENDMENT TO CREDIT AGREEMENT

THIS SECOND AMENDMENT TO CREDIT AGREEMENT (the "Second Amendment"), dated as of August 13, 2007, is by and among Quaker Chemical Corporation, a Pennsylvania corporation (the "Company"), each of the Designated Borrowers party hereto, each of Lenders party hereto, Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer, and ABN Amro Bank, N.V., as Syndication Agent. Capitalized terms used and not otherwise defined in this Second Amendment shall have the respective meanings ascribed to them in the Credit Agreement (as defined below).

WHEREAS, the parties hereto entered into that certain Credit Agreement dated as of October 14, 2005, as amended by the First Amendment to Credit Agreement dated as of October 6, 2006 (as the same may be modified and amended from time to time, including by the Second Amendment, the "Credit Agreement"); and

WHEREAS, the Company has requested, and the other parties hereto have agreed to amend certain provisions of the Credit Agreement on the terms and conditions contained herein;

NOW, THEREFORE, in consideration of the mutual promises herein contained, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

Section 1. Amendments to Credit Agreement. Subject to the satisfaction of the conditions precedent set forth in Section 2 of this Second Amendment, the Credit Agreement is hereby amended as follows, effective as of the Second Amendment Effective Date, except as otherwise expressly set forth herein:

(a) Section 1.01 of the Credit Agreement is amended by amending and restating the following definitions, to read in their entireties as follows:

"Alternative Currency" means each of Euro, Sterling, Peso, Canadian Dollar and each other currency (other than Dollars) that is approved in accordance with Section 1.05 (Additional Alternative Currencies).

"Consolidated EBITDA" means, for any period, for the Company and its Subsidiaries on a consolidated basis, an amount equal to Consolidated Net Income for such period plus (a) the following to the extent deducted in calculating such Consolidated Net Income: (i) Consolidated Interest Charges for such period, plus the portion of rent expense that is treated as interest in accordance with GAAP as a result of the Permitted Sale and Leaseback Transaction being subject to a Lease Accounting Rules Change; (ii) the provision for Federal, state, local and foreign income taxes includable in Net Income for such period including, without limitation, Permitted Non-Cash Reversals; (iii) depreciation and amortization expense; (iv) non-cash charges in respect of any write down of assets taken in the ordinary course of business; (v) commencing on January 1, 2006, non-cash compensation expenses related to the application of financial accounting standard 123-R; and (vi) charges taken to Consolidated Net Income in an aggregate amount not to exceed \$7,500,000 as a result of the Permitted Environmental Obligations; and minus (b) the following to the extent included in calculating such Consolidated Net Income: (x) Federal, state, local and foreign

income tax credits of the Company and its Subsidiaries for such period and (y) non-cash items increasing Consolidated Net Income in respect of any write up of assets taken in the ordinary course of business; provided, however, that the Company shall treat as rent expense, and therefore reduce EBITDA by, the amount of any payment made or accrued during such period on account of the Permitted Sale and Leaseback Transaction, to the extent same is subject to a Lease Accounting Rules Change. Calculations of Consolidated EBITDA shall give effect, on a *pro forma* basis, to all Permitted Acquisitions and Dispositions permitted under this Agreement made during the quarter or year to which the required compliance relates, as if such Permitted Acquisition or Disposition had been consummated on the first day of the applicable period.

“Dutch Banking Act” means the Financial Supervision Act (*Wet op het financieel toezicht*), as the same may be amended from time to time.

“Interest Period” means, as to each Eurocurrency Rate Loan, the period commencing on the date such Eurocurrency Rate Loan is disbursed or converted to or continued as a Eurocurrency Rate Loan and ending on the date one (1), two (2), three (3), six (6) or, if available by all Lenders, twelve (12) months thereafter, as selected by the Applicable Borrower in its Committed Loan Notice; provided that:

(a) any Interest Period that would otherwise end on a day that is not a Business Day shall be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Business Day;

(b) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of the calendar month at the end of such Interest Period; and

(c) no Interest Period shall extend beyond the Maturity Date.

“Letter of Credit Sublimit” means an aggregate amount equal to \$35,000,000. The Letter of Credit Sublimit is part of, and not in addition to, the Aggregate Commitments.

“Maturity Date” means August 10, 2012.

“Note” means an Amended and Restated Note, and “Notes” means, collectively, all or some of such Amended and Restated Notes.

“Permitted Acquisition” means any purchase of or investments in the capital stock or other equity or assets of any entity by any Borrower or any Subsidiary:

(a) provided that (i) the sum of the aggregate purchase price and the aggregate amount of all such acquisitions and investments made in any fiscal year, does not exceed \$50,000,000, in the aggregate; and (ii) if after giving effect to such acquisitions and any related dispositions of assets purchased in connection therewith, the Borrower or Subsidiary is in compliance with Section 7.07 (Change in Nature of Business); provided further that the aggregate value of all "Unrelated Lines of Business" acquired and continuing to be held after the Closing Date pursuant to Permitted Acquisitions does not exceed the Material Amount; and

(b) provided that no Default has occurred and is continuing; and

(c) which, after giving effect to such acquisition, including without limitation, recalculating the covenants set forth in Section 7.11 and 7.12 on a pro forma basis, including the stock or assets and concomitant liabilities then being acquired, the applicable Borrower will not be in default under any provision of any of the Credit Documents.

“Professional Market Party” means a professional market party as defined in the Financial Supervision Act (*Wet op het financieel toezicht*), as such definition is amended from time to time to include or exclude persons or entities.

“Swing Line Sublimit” means an aggregate amount equal to the lesser of (a) \$20,000,000 and (b) the Aggregate Commitments. The Swing Line Sublimit is part of, and not in addition to, the Aggregate Commitments.

(b) Section 1.01 of the Credit Agreement is further amended by adding the following additional definitions thereto, to read in their entireties as follows:

“Amended and Restated Note” means a promissory note made by a Borrower in favor of a Lender under any Loan made by such Lender to such Borrower, substantially in the form of Exhibit A to the Second Amendment, and “Amended and Restated Notes” means collectively, all or some of such Amended and Restated Notes.

“Canadian Dollar” and “C\$” mean the lawful currency in Canada.

“Peso” means the lawful currency in Mexico.

“Permitted Environmental Obligations” means amounts required to be paid (including, without limitation, costs of litigation) on account of either a court-approved settlement or final judgment rendered against the Company and/or one or more of its Subsidiaries with respect to litigation currently pending in Superior Court, Orange County, California by the Orange County Water District against AC Products, Inc., a subsidiary of the Company, relating to a groundwater contamination claim.

“Second Amendment” means that certain Second Amendment to Credit Agreement, dated as of August 13, 2007, by and among, inter alia, the Company, the Designated Borrowers, the Lenders, and the Administrative Agent.

“Second Amendment Fees” means the following fees the Company is required to pay to the Administrative Agent for the account of each Lender in accordance with its Applicable Percentage: (i) a commitment fee in the amount of \$50,000 (being 20 basis points on the amount of the increased Commitment) and (ii) an extension fee in the amount of \$100,000 (being 10 basis points on the amount of Aggregate Commitments in place prior to the Second Amendment Effective Date), and such fees shall be due and payable on the Second Amendment Effective Date.

“Second Amendment Documents” means the Second Amendment, the Notes and any other documents, agreements or instruments executed and delivered in connection therewith.

“Second Amendment Effective Date” has the meaning set forth in Section 2 of the Second Amendment.

(c) Section 1.01 of the Credit Agreement is further amended by deleting the following definitions thereto, in their entireties:

“Dutch Banking Act Exemption Regulation”

“Dutch Central Bank”

(d) Section 2.15(a) of the Credit Agreement is hereby amended and restated to read in its entirety as follows:

“Request for Increase. Provided there exists no Default, upon notice to the Administrative Agent (which shall promptly notify the Lenders), the Company may from time to time, request an increase in the Aggregate Commitments by an amount (for all such requests in the aggregate) not exceeding \$50,000,000; provided that, (i) any such request for an increase shall be in a minimum amount of \$5,000,000; and (ii) the Company may make a maximum of three (3) such requests. At the time of sending such notice, the Company (in consultation with the Administrative Agent) shall specify the time period within which each Lender is requested to respond (which shall in no event be less than ten (10) Business Days from the date of delivery of such notice to the Lenders).”

(e) Section 5.12 of the Credit Agreement is hereby amended and restated to read in its entirety as follows:

“(a) Each Plan is in compliance in all material respects with the applicable provisions of ERISA, the Code and other Federal or state Laws, except with respect to any non-compliance that reasonably could be expected to result in liability in excess of \$1,500,000. Each Plan that is intended to qualify under Section 401(a) of the Code has received a favorable determination letter from the IRS or an application for such a letter is currently being processed by the IRS with respect thereto and, to the best knowledge of the Company, nothing has occurred which would prevent, or cause the loss of, such qualification. Except where the failure to do so could not reasonably be expected to result in liability in excess of \$1,500,000, the Company and each ERISA Affiliate have made all required contributions to each Plan subject to Section 412 of the Code, and no application for a funding waiver or an extension of any amortization period pursuant to Section 412 of the Code has been made with respect to any Plan.

(b) There are no pending or, to the best knowledge of the Company, threatened claims, actions or lawsuits (other than routine benefit claims), or action by any Governmental Authority, with respect to any Plan that could reasonably be expected to have a Material Adverse Effect. There has been no Prohibited Transaction with respect to any Plan that has resulted or could reasonably be expected to result in a Material Adverse Effect.

(c) Except where any of the following could not reasonably be expected to result in liability in excess of \$1,500,000, (i) no ERISA Event has occurred and is continuing or to the best knowledge of the Company is reasonably expected to occur; (ii) no Pension Plan has any Accumulated Funding Deficiency; (iii) neither the Company nor any ERISA Affiliate has incurred, or to the best knowledge of the Company reasonably expects to incur, any liability (and no event has occurred which, with the giving of notice under Section 4219 of ERISA, would result in such liability) under Sections 4201 or 4243 of ERISA with respect to a Multiemployer Plan; and (iv) neither the Company nor any ERISA Affiliate has engaged in a transaction that could be subject to Sections 4069 or 4212(c) of ERISA.”

(f) Section 6.03(c) of the Credit Agreement is hereby amended and restated to read in its entirety as follows:

“of the occurrence of any ERISA Event in connection with which liability could reasonably be expected to exceed \$1,500,000;”

(g) Section 6.04 of the Credit Agreement is hereby amended and restated to read in its entirety as follows:

“Pay and discharge as the same shall become due and payable, all its obligations and liabilities, including (a) all tax liabilities, assessments and governmental charges or levies upon it or its properties or assets in each case, to the extent such liabilities, assessments and charges or levies, individually or in the aggregate, are equal to or greater than \$1,500,000, unless the same are being contested in good faith by appropriate proceedings diligently conducted and adequate reserves in accordance with GAAP are being maintained by the Company or such Subsidiary; (b) all lawful claims which, if unpaid, would by law become a Lien upon its property in each case, to the extent such claims, individually or in the aggregate, are equal to or greater than \$1,500,000; and (c) all Indebtedness the outstanding principal balance of which, individually or in the aggregate, is equal to or greater than the Threshold Amount, as and when due and payable, but subject to any subordination provisions contained in any instrument or agreement evidencing such Indebtedness.”

(h) Section 7.01(l) of the Credit Agreement is hereby amended and restated to read in its entirety as follows:

“Liens not otherwise permitted by the foregoing clauses of this Section 7.01 securing obligations in an aggregate principal amount (including unmatured obligations) not to exceed \$5,000,000 at any time outstanding.”

(i) Section 7.02(b) of the Credit Agreement is hereby amended and restated to read in its entirety as follows:

“advances to officers, directors and employees of the Company and Subsidiaries for travel, entertainment, relocation and analogous ordinary business purposes existing on the Closing Date and listed on Schedule 7.02(b), and any other advances to officers, directors and employees of the Company and its Subsidiaries for such purposes in an aggregate amount (excluding the advances listed on Schedule 7.02(b)) not to exceed \$1,000,000 at any time outstanding;”

(j) Section 7.03(e) of the Credit Agreement is hereby amended and restated to read in its entirety as follows:

“Indebtedness in respect of capital leases, Synthetic Lease Obligations, and purchase money obligations for fixed or capital assets in an aggregate amount not to exceed \$25,000,000 at any time outstanding;”

(k) Section 7.03(i) of the Credit Agreement is hereby amended and restated to read in its entirety as follows:

“unsecured Indebtedness of the Borrowers in an aggregate principal amount (including amounts outstanding pursuant to Section 7.03(b) hereof) not to exceed \$75,000,000 at any time outstanding; provided that, (x) the Indebtedness outstanding pursuant to Section 7.03(b) hereof and up to \$30,000,000 in the aggregate of additional Indebtedness may have a maturity date on or before the Maturity Date; and (y) the balance of such Indebtedness (A) shall have a maturity date later than the Maturity Date and (B) is otherwise on terms reasonably acceptable to the Administrative Agent;”

(l) Section 7.03(j) of the Credit Agreement is hereby amended and restated to read in its entirety as follows:

“additional Indebtedness of Subsidiaries in an aggregate principal amount not to exceed \$20,000,000 at any time outstanding;”

(m) Section 7.12 of the Credit Agreement is hereby amended and restated to read in its entirety as follows:

“Make or become legally obligated to make any Capital Expenditure (excluding normal replacements and maintenance which are properly charged to current operations), except for capital expenditures in the ordinary course of business not exceeding, in the aggregate for the Company and its Subsidiaries during each fiscal year, \$20,000,000. To the extent any portion of the amount of permitted Capital Expenditures is not used in any fiscal year, such amount may be carried over to the next fiscal year, but in no event shall the aggregate amount of Capital Expenditures in any fiscal year, including such amount carried over, exceed \$40,000,000. In addition to the foregoing, the Company or any Subsidiary may make Capital Expenditures with the proceeds from the asset sales under Section 7.05 (Dispositions) and insurance and condemnation events, for the purpose of replacing the related assets sold, lost or condemned.”

(n) Section 8.01(h) of the Credit Agreement is hereby amended and restated to read in its entirety as follows:

“Judgments. Except for a judgment related to Permitted Environmental Obligation, there is entered against the Company or any Subsidiary (i) a final non-appealable judgment or order for the payment of money in an aggregate amount exceeding the Threshold Amount (to the extent not covered by independent third-party insurance as to which the insurer does not dispute coverage), or (ii) any one or more non-monetary final judgments that have, or could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect and, in either case, (A) enforcement proceedings are commenced by any creditor upon such judgment or order, or (B) any applicable statutory period during which a stay of enforcement of such judgment, by reason of a pending appeal or otherwise, is not in effect under the laws of the applicable jurisdiction; or”

(o) Schedule 2.01 to the Credit Agreement is hereby deleted and replaced with Schedule 2.01 attached to the Second Amendment.

(p) Exhibit E to the Credit Agreement is hereby deleted and replaced with Exhibit E attached to the Second Amendment.

Section 2. Conditions of Effectiveness. This Second Amendment shall become effective as of the date (the “Second Amendment Effective Date”) when:

(a) the Administrative Agent shall have received (i) counterparts of this Second Amendment executed by each of the Borrowers, the Required Lenders and, acknowledged by the Administrative Agent and (ii) the Second Amendment Documents executed by the parties thereto;

(b) the Company shall have paid the Second Amendment Fees;

(c) the Administrative Agent shall have received a Secretary’s Certificate for each of the Borrowers: (i) attesting as to the incumbency of authorized officers; (ii) certifying that there have been no changes in the certificate of incorporation or bylaws of the Borrowers, since the date of the Secretary’s Certificate delivered in connection with the execution and delivery of the Credit Agreement; and (ii) attaching true and correct copies of (A) evidence of authorization of the Borrowers’ execution and full performance of this Second Amendment, the other Second Amendment Documents and all other documents and actions required hereunder; and (B) good standing certificates from the jurisdictions of incorporation of each of the Borrowers (or in the case of any Dutch Borrower, an extract from the commercial register showing the existence of such Dutch Borrower) certifying to the due organization and good standing of each of the Borrowers;

(d) the Administrative Agent shall have received a favorable opinion of Drinker Biddle & Reath LLP, counsel to the domestic Borrowers, and Baker & McKenzie, counsel to the Foreign Obligors in form and substance reasonably acceptable to Administrative Agent and its counsel and addressed to Administrative Agent and each Lender;

(e) the Company shall have paid all reasonable out-of-pocket costs and expenses (including the reasonable fees, charges and disbursements of counsel to the Administrative Agent invoiced to the Company in reasonable detail) incurred in connection with this Second Amendment and invoiced prior to the time the condition in clause (a) above is satisfied; and

(f) no Default shall have occurred and be continuing, or would occur as a result of the transactions contemplated by this Second Amendment.

Section 3. Representations and Warranties of the Borrowers. Each of the Borrowers represents and warrants as follows:

(a) The execution, delivery and performance by each Borrower of the Second Amendment Documents, have been duly authorized by all necessary corporate or other organizational action, and do not and will not (a) contravene the terms of any of such Person's Organization Documents; (b) conflict with or result in any breach or contravention of, or the creation of any Lien under, or require any payment to be made under (i) any Contractual Obligation to which such Person is a party or affecting such Person or the properties of such Person or any of its Subsidiaries or (ii) any order, injunction, writ or decree of any Governmental Authority or any arbitral award to which such Person or its property is subject; or (c) assuming each of the Lenders is a Professional Market Party, violate any Law. Each Borrower and each Subsidiary thereof is in compliance with all Contractual Obligations referred to in clause (b)(i), except to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect.

(b) The representations and warranties of (i) the Borrowers contained in Article V of the Credit Agreement and (ii) each Borrower contained in each other Loan Document, shall be true and correct in all material respects on and as of the Second Amendment Effective Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall be true and correct in all material respects as of such earlier date, and except that for purposes of this Section 4.02, the representations and warranties contained in subsections (a) and (b) of Section 5.05 (Financial Statements; No Material Adverse Effect; No Internal Control Event) shall be deemed to refer to the most recent statements furnished pursuant to clauses (a) and (b), respectively, of Section 6.01 (Financial Statements).

(c) The Second Amendment Documents, when delivered hereunder, will have been, duly executed and delivered by each Borrower. The Second Amendment Documents, when so delivered, will constitute, a legal, valid and binding obligation of such Borrower, enforceable against each Borrower in accordance with its terms, except to the extent that such enforceability may be limited by bankruptcy, receivership, moratorium, conservatorship, or other laws of general application affecting the rights of creditors generally or by general principles of equity.

(d) The execution, delivery and performance of the Second Amendment Documents by each Borrower does not require the obtaining of any consent under any material agreement or instrument by which any Borrower or its property may be bound.

(e) As of the Second Amendment Effective Date, after giving effect to this Second Amendment, no Default has occurred and is continuing.

Section 4. Reference to and Effect on the Loan Documents.

(a) On and after the effectiveness of this Second Amendment, each reference in the Credit Agreement to “this Agreement”, “hereunder”, “hereof” or words of like import referring to the Credit Agreement, and each reference in the Notes and each of the other Loan Documents to “the Credit Agreement”, “thereunder”, “thereof” or words of like import referring to the Credit Agreement, shall mean and be a reference to the Credit Agreement, as amended by this Second Amendment Documents.

(b) Each Borrower hereby: (i) ratifies and affirms all the provisions of the Credit Agreement, as amended by the Second Amendment, and all the provisions of each of the other Loan Documents, as amended by the Second Amendment Documents; and (ii) agrees that the terms and conditions of the Credit Agreement, as amended by the Second Amendment and all of the other Loan Documents, as amended by the Second Amendment Documents, shall continue in full force and effect as supplemented and amended hereby.

(c) The execution, delivery and effectiveness of the Second Amendment Documents shall not, except as expressly set forth herein, operate as a waiver of any right, power or remedy of any Lender or the Agent under any of the Loan Documents, nor constitute a waiver of any provision of any of the Loan Documents, or any right, power or remedy of the Administrative Agent or the Lenders under the Loan Documents; nor shall same be construed as or shall operate as a course of conduct or course of dealing among the parties.

(d) All terms and provisions of this Second Amendment shall be for the benefit of and be binding upon and enforceable by the respective successors and permitted assigns of the parties hereto.

Section 5. Execution in Counterparts. This Second Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Second Amendment by telecopier shall be effective as delivery of a manually executed counterpart of this Second Amendment.

Section 6. GOVERNING LAW. THIS SECOND AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW IS OF THE COMMONWEALTH OF PENNSYLVANIA, WITHOUT REFERENCE TO ITS CONFLICTS OF LAW PRINCIPLES.

[Signature pages follow]

IN WITNESS WHEREOF, the parties hereto have caused this Second Amendment to be duly executed as of the date first above written.

QUAKER CHEMICAL CORPORATION
(a Pennsylvania corporation)

By: /s/ Mark A. Featherstone
Name: Mark A. Featherstone
Title: Vice President, CFO & Treasurer

By: /s/ D. Jeffrey Benoliel
Name: D. Jeffrey Benoliel
Title: Vice President, Secretary & General Counsel

QUAKER CHEMICAL CORPORATION
(a Delaware corporation)

By: /s/ Mark A. Featherstone
Name: Mark A. Featherstone
Title: Vice President, CFO & Treasurer

EPMAR CORPORATION

By: /s/ Craig E. Bush
Name: Craig E. Bush
Title: Vice President

QUAKER CHEMICAL B.V.

By: /s/ Mark A. Featherstone
Name: Mark A. Featherstone
Title: Attorney-in-Fact

QUAKER CHEMICAL EUROPE B.V.

By: /s/ Mark A. Featherstone
Name: Mark A. Featherstone
Title: Attorney-in-Fact

BANK OF AMERICA, N.A., as
Administrative Agent

By: /s/ Michael Strigel
Name: Michael Strigel
Title: Vice President

(Signature Page to Second Amendment to Credit Agreement)

BANK OF AMERICA, N.A., as a Lender, L/C Issuer
and Swing Line Lender

By: /s/ Michael Strigel
Name: Michael Strigel
Title: Vice President

(Signature Page to Second Amendment to Credit Agreement)

PNC BANK, N.A.

By: /s/ Forrest B. Patterson, Jr.

Name: Forrest B. Paterson, Jr.

Title: Senior Vice President

(Signature Page to Second Amendment to Credit Agreement)

CITIZENS BANK OF PENNSYLVANIA

By: /s/ Jonathan H. Sprogell

Name: Jonathan H. Sprogell

Title: Senior Vice President

(Signature Page to Second Amendment to Credit Agreement)

NATIONAL CITY BANK

By: /s/ Anne Marie F. Hughes

Name: Anne Marie F. Hughes

Title: Senior Vice President

(Signature Page to Second Amendment to Credit Agreement)

ABN AMRO BANK N.V.

By: /s/ George Dugan
Name: George Dugan
Title: Managing Director

By: /s/ Patricia Christy
Name: Patricia Christy
Title: Director

(Signature Page to Second Amendment to Credit Agreement)

COMMITMENTS
AND APPLICABLE PERCENTAGES

<u>Lender</u>	<u>Commitment</u>	<u>Applicable Percentage</u>
Bank of America, N.A.	\$ 43,750,000	35%
ABN AMRO Bank N.V.	\$ 31,250,000	25%
PNC Bank, N.A.	\$ 18,750,000	15%
National City Bank	\$ 18,750,000	15%
Citizens Bank of Pennsylvania	\$ 12,500,000	10%
Total	\$125,000,000	100%

Schedule 2.01-1

EXHIBIT AFORM OF AMENDED AND RESTATED NOTE

\$ _____

August __, 2007

FOR VALUE RECEIVED, the undersigned (the "Borrower") hereby promises to pay to _____ or registered assigns (the "Lender"), in accordance with the provisions of the Agreement (as hereinafter defined), the principal amount of each Loan from time to time made by the Lender to the Borrower under that certain Credit Agreement, dated as of October 14, 2005, as amended by the First Amendment to Credit Agreement dated as of October 6, 2006 and the Second Amendment to Credit Agreement dated of August __, 2007 (as amended, restated, extended, supplemented or otherwise modified in writing from time to time, the "Agreement;" the terms defined therein being used herein as therein defined), among Quaker Chemical Corporation, the Designated Borrowers from time to time party thereto, the Lenders from time to time party thereto, and Bank of America, N.A., as Administrative Agent, L/C Issuer and Swing Line Lender.

The Borrower promises to pay interest on the unpaid principal amount of each Loan from the date of such Loan until such principal amount is paid in full, at such interest rates and at such times as provided in the Agreement. Except as otherwise provided in Section 2.04(f) of the Agreement with respect to Swing Line Loans, all payments of principal and interest shall be made to the Administrative Agent for the account of the Lender in the currency in which such Committed Loan was denominated and in Same Day Funds at the Administrative Agent's Office for such currency. If any amount is not paid in full when due hereunder, such unpaid amount shall bear interest, to be paid upon demand, from the due date thereof until the date of actual payment (and before as well as after judgment) computed at the per annum rate set forth in the Agreement.

This Note is one of the Notes referred to in the Agreement, is entitled to the benefits thereof and may be prepaid in whole or in part subject to the terms and conditions provided therein. Upon the occurrence and continuation of one or more of the Events of Default specified in the Agreement, all amounts then remaining unpaid on this Note shall become, or may be declared to be, immediately due and payable all as provided in the Agreement. Loans made by the Lender shall be evidenced by one or more loan accounts or records maintained by the Lender in the ordinary course of business. The Lender may also attach schedules to this Note and endorse thereon the date, amount, currency and maturity of its Loans and payments with respect thereto.

This Amended and Restated Note constitutes the amendment and restatement of that certain Note dated as of October 14, 2005, in the original principal amount of \$ _____ executed by Borrower in favor of Lender (the "Original Note"), and evidences all indebtedness previously advanced and unpaid under the Original Note. Nothing contained herein shall be deemed to constitute a novation, termination, waiver, release, satisfaction, accord or accord and satisfaction of the Original Note or any indebtedness evidenced thereby.

The Borrower, for itself, its successors and assigns, hereby waives diligence, presentment, protest and demand and notice of protest, demand, dishonor and non-payment of this Note.

Exhibit A-1

THIS AMENDED AND RESTATED NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE COMMONWEALTH OF PENNSYLVANIA.

[APPLICABLE DESIGNATED BORROWERS]

By: _____

Name: _____

Title: _____

[COMPANY]

By: _____

Name: _____

Title: _____

ASSIGNMENT AND ASSUMPTION

This Assignment and Assumption (this "Assignment and Assumption") is dated as of the Effective Date set forth below and is entered into by and between [*Insert name of Assignor*] (the "Assignor") and [*Insert name of Assignee*] (the "Assignee"). Capitalized terms used but not defined herein shall have the meanings given to them in the Credit Agreement identified below (the "Credit Agreement"), receipt of a copy of which is hereby acknowledged by the Assignee. The Standard Terms and Conditions set forth in Annex 1 attached hereto are hereby agreed to and incorporated herein by reference and made a part of this Assignment and Assumption as if set forth herein in full.

For an agreed consideration, the Assignor hereby irrevocably sells and assigns to the Assignee, and the Assignee hereby irrevocably purchases and assumes from the Assignor, subject to and in accordance with the Standard Terms and Conditions and the Credit Agreement, as of the Effective Date inserted by the Administrative Agent as contemplated below (i) all of the Assignor's rights and obligations as a Lender under the Credit Agreement and any other documents or instruments delivered pursuant thereto to the extent related to the amount and percentage interest identified below of all of such outstanding rights and obligations of the Assignor under the respective facilities identified below (including, without limitation, the Letters of Credit and the Swing Line Loans included in such facilities) and (ii) to the extent permitted to be assigned under applicable law, all claims, suits, causes of action and any other right of the Assignor (in its capacity as a Lender) against any Person, whether known or unknown, arising under or in connection with the Credit Agreement, any other documents or instruments delivered pursuant thereto or the loan transactions governed thereby or in any way based on or related to any of the foregoing, including, but not limited to, contract claims, tort claims, malpractice claims, statutory claims and all other claims at law or in equity related to the rights and obligations sold and assigned pursuant to clause (i) above (the rights and obligations sold and assigned pursuant to clauses (i) and (ii) above being referred to herein collectively as, the "Assigned Interest"). Such sale and assignment is without recourse to the Assignor and, except as expressly provided in this Assignment and Assumption, without representation or warranty by the Assignor.

1. Assignor: _____
2. Assignee: _____ [and is an Affiliate/ Approved Fund of [*identify Lender*]¹]
3. Borrower(s): Quaker Chemical Corporation and the Designated Borrowers from time to time party to the Credit Agreement
4. Administrative Agent: Bank of America, N.A., as the administrative agent under the Credit Agreement
5. Credit Agreement: Credit Agreement, dated as of October 14, 2005, among Quaker Chemical Corporation, the Designated Borrowers from time to time party thereto, the Lenders from time to time party thereto, and Bank of America, N.A., as Administrative Agent, L/C Issuer and Swing Line Lender

¹ Select as applicable.

6. Assigned Interest:

Facility Assigned	Aggregate Amount of Commitment for all Lenders*	Amount of Commitment Assigned*	Percentage Assigned of Commitment ²	CUSIP Number
	\$ _____	\$ _____	_____%	
	\$ _____	\$ _____	_____%	
	\$ _____	\$ _____	_____%	

[7. Trade Date: _____]³

Effective Date: _____, 20__ [TO BE INSERTED BY ADMINISTRATIVE AGENT AND WHICH SHALL BE THE EFFECTIVE DATE OF RECORDATION OF TRANSFER IN THE REGISTER THEREFOR.]

² Set forth, to at least 9 decimals, as a percentage of the Commitment/Loans of all Lenders thereunder.

³ To be completed if the Assignor and the Assignee intend that the minimum assignment amount is to be determined as of the Trade Date.

The terms set forth in this Assignment and Assumption are hereby agreed to:

ASSIGNOR
[NAME OF ASSIGNOR]

By: _____
Title: _____

ASSIGNEE
NAME OF ASSIGNEE]

By: _____
Title: _____

[Consented to and] Accepted:

BANK OF AMERICA, N.A., as Administrative Agent

By: _____
Title: _____

[Consented to:]⁴

QUAKER CHEMICAL CORPORATION

By: _____
Title: _____

⁴ To be added only if the consent of the Company and/or other parties (e.g. Swing Line Lender, L/C Issuer) is required by the terms of the Credit Agreement.

STANDARD TERMS AND CONDITIONS FOR
ASSIGNMENT AND ASSUMPTION

1. Representations and Warranties.

1.1. Assignor. The Assignor (a) represents and warrants that (i) it is the legal and beneficial owner of the Assigned Interest, (ii) the Assigned Interest is free and clear of any lien, encumbrance or other adverse claim and (iii) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby; and (b) assumes no responsibility with respect to (i) any statements, warranties or representations made in or in connection with the Credit Agreement or any other Loan Document, (ii) the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Documents or any collateral thereunder, (iii) the financial condition of the Company, any of its Subsidiaries or Affiliates or any other Person obligated in respect of any Loan Document or (iv) the performance or observance by the Company, any of its Subsidiaries or Affiliates or any other Person of any of their respective obligations under any Loan Document.

1.2. Assignee. The Assignee (a) represents and warrants that (i) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby and to become a Lender under the Credit Agreement, (ii) it meets all requirements of an Eligible Assignee under the Credit Agreement (subject to receipt of such consents as may be required under the Credit Agreement), (iii)(A) it is a Professional Market Party, and (B) it is aware that a Dutch Borrower may be in breach of Dutch Laws and regulations if the representation and warranty under (iii)(A) were to be untrue, and (iv) from and after the Effective Date, it shall be bound by the provisions of the Credit Agreement as a Lender thereunder and, to the extent of the Assigned Interest, shall have the obligations of a Lender thereunder, (v) it has received a copy of the Credit Agreement, together with copies of the most recent financial statements delivered pursuant to Section 6.01 thereof, as applicable, and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Assumption and to purchase the Assigned Interest on the basis of which it has made such analysis and decision independently and without reliance on the Administrative Agent or any other Lender, and (vi) if it is a Foreign Lender, attached hereto is any documentation required to be delivered by it pursuant to the terms of the Credit Agreement, duly completed and executed by the Assignee; and (b) agrees that (i) it will, independently and without reliance on the Administrative Agent, the Assignor or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents, and (ii) it will perform in accordance with their terms all of the obligations which by the terms of the Loan Documents are required to be performed by it as a Lender.

2. Payments. From and after the Effective Date, the Administrative Agent shall make all payments in respect of the Assigned Interest (including payments of principal, interest, fees and other amounts) to the Assignor for amounts which have accrued to but excluding the Effective Date and to the Assignee for amounts which have accrued from and after the Effective Date.

3. General Provisions. This Assignment and Assumption shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors and assigns. This Assignment and Assumption may be executed in any number of counterparts, which together shall constitute one instrument. Delivery of an executed counterpart of a signature page of this Assignment and Assumption by telecopy shall be effective as delivery of a manually executed counterpart of this Assignment and Assumption. This Assignment and Assumption shall be governed by, and construed in accordance with, the law of the Commonwealth of Pennsylvania.

Exhibit E-5

CLAIM HANDLING AND FUNDING AGREEMENT
FOR SB DECKING, INC.

This Claim Handling and Funding Agreement for SB Decking, Inc. is entered into by SB Decking, Inc., and Employers Insurance Company of Wausau, and is effective as of July 1, 2007.

I. RECITALS

(1) WHEREAS, numerous lawsuits and/or claims have been filed in various states against SB Decking, Inc. ("Selby"), alleging bodily injuries arising out of exposure to asbestos in products sold and/or installed by Selby;

(2) WHEREAS, Employers Insurance Company of Wausau ("Wausau") participated in defending and indemnifying Selby for such asbestos-related bodily injury claims from 1984 to 2006 when Wausau notified Selby of its position that the aggregate policy limits of all of its policies were fully exhausted, a position disputed by Selby. (All of Wausau's liability policies issued to Selby are identified in Schedule A, attached);

(3) WHEREAS, a dispute has arisen between Selby on the one hand, and Wausau on the other;

(4) WHEREAS, Selby believes that all or virtually all of the asbestos bodily injury claims that have been brought against it were or are properly classified as claims falling outside the products/completed operations hazard of the policies, and are not subject to aggregate limits of the Wausau policies;

(5) WHEREAS, Wausau disagrees with Selby's position on the proper classification of Selby's asbestos bodily injury claims, and Wausau believes that all of the asbestos bodily injury claims against Selby were properly classified by Wausau as products claims subject to the aggregate limits of the Wausau policies;

(6) WHEREAS, Selby and Wausau (“the Parties”) seek to resolve their dispute by and between them and to avoid the cost and inconvenience of litigation;

NOW, THEREFORE, in consideration of the foregoing and further mutual covenants contained herein, Selby and Wausau agree as follows:

II. DEFINITIONS

The definitions set forth below are provided for purposes of this Claim Handling and Funding Agreement for SB Decking, Inc. (“Agreement”), only.

“Asbestos Bodily Injury Claims” (“ABIC”) shall mean those pending or future claims, lawsuits or portions of same, wherever located, seeking damages from Selby for bodily injury, sickness, disease or death allegedly caused in whole or in part from exposure to asbestos or asbestos-containing products allegedly sold, distributed, handled, or installed by Selby. ABIC do not include:

- a. claims or lawsuits brought by present or former employees of Selby seeking damages for bodily injuries allegedly resulting from exposure to asbestos or asbestos-containing products sold, distributed, handled or installed by Selby during the course of their employment by Selby;
- b. claims or lawsuits in which the claimant’s first alleged exposure to Selby asbestos-containing product or Selby installation activities is after April 1, 1973;
- c. claims or lawsuits seeking recovery based solely on the alleged intentional torts of Selby;
- d. claims or lawsuits seeking recovery based solely on an alleged conspiracy to suppress information regarding the dangers of asbestos, with no claim for recovery for bodily injury;
- e. claims or lawsuits seeking solely injunctive, declaratory or other prospective or remedial relief, and in no count seeking damages;
- f. claims or lawsuits seeking solely punitive or exemplary damages;

- g. claims or lawsuits alleging solely prospective or the fear of prospective bodily injury in a jurisdiction where such claims are not deemed to state claims for bodily injury;
- h. claims or lawsuits seeking damages solely on account of property damage and in no count seeking damages for asbestos bodily injury; and,
- i. claims or lawsuits seeking damages solely from spoliation of evidence, with no claim for recovery for bodily injury.

“Defense Costs” shall mean all reasonable and necessary fees, costs and expenses incurred in the investigation and defense of ABIC including, but not limited to investigative expenses, attorneys’ fees and expenses, court costs, expert and other witness fees, and fees for consultants or other persons utilized in the investigation or defense of ABIC. Defense Costs shall not include general overhead or administrative expenses, expenses for employees or “in-house” counsel of Selby, expenses for third party claim administrators, or legal fees or costs associated with insurance coverage issues. Defense Costs shall only include fees, costs and expenses, as stated in this paragraph, incurred after the Effective Date.

“Effective Date” shall mean July 1, 2007.

“Indemnity Costs” shall mean, in relation to ABIC, those payments made in:

- a. satisfaction of judgments for compensatory damages for ABIC for which Selby is legally liable, including amounts paid as premiums for appeal bonds as well as pre- or post-judgment interest and,
- b. authorized settlements of ABIC which (1) present reasonable evidence of exposure to Selby asbestos-containing product (such as evidence that would be sufficient to defeat a motion for summary judgment based on product identification in the jurisdiction where the claim is pending or recommendation by defense counsel that such a motion would be fruitless) and (2) present proof of injury, such as: (i) a diagnosis by a licensed physician of a malignancy, (ii) an ILO reading by a certified B reader of 1/1 or above, (iii) a lower ILO reading by a certified B reader, but only in those jurisdictions where such medical evidence is sufficient to support liability, or (iv) a medical diagnosis by a licensed physician of a condition consistent with asbestos exposure, but only in those jurisdictions where such medical evidence is sufficient to support liability; or, in the alternative, (3) are approved based on a judgment, pursuant to a recommendation by defense counsel,

that the settlement is justified by such considerations as cost efficiency, avoidance of defense costs, avoidance of litigation risks, and/or forum concerns.

Indemnity Costs shall only include payments for judgments and settlements, as stated above, entered into after the Effective Date.

“Selby” shall mean SB Decking, Inc., formerly known as Selby, Battersby & Co.

“Termination Date” shall mean the effective date on which this Agreement is terminated, as provided for in Section III(2), below.

“Wausau” shall mean Employers Insurance Company of Wausau and its predecessor Employers Mutual Liability Insurance Company of Wisconsin.

“Wausau Policies” shall mean the policies of Employers Insurance Company of Wausau stated in Schedule A.

III. SCOPE OF AGREEMENT

(1) The only claims and lawsuits covered by this Agreement are ABIC filed against Selby as set forth above.

(2) This Agreement shall continue until terminated by one of the Parties as hereinafter set forth. Any Party may terminate this Agreement by providing, on or after the third annual anniversary of the Effective Date, at least two (2) years written notice of the Party’s intent to terminate this Agreement. No such notice shall be effective prior to the third anniversary of the Effective Date. No termination under this paragraph shall be effective prior to the expiration of the two (2) year notice period.

(3) All confidentiality provisions of this Agreement are ongoing and are not subject to termination.

(4) This Agreement is without prejudice to the following future claims, following the termination of this Agreement: (i) by Selby against Wausau for claims for coverage under the Wausau Policies for those ABIC that are first filed after the Termination Date

(and Wausau reserves all rights to raise defenses to such claims); and (ii) by Wausau against Selby or other insurers for contribution and/or set-off regarding any claims presented by Selby for coverage under the Wausau Policies for those ABIC that are first filed after the Termination Date.

(5) This Agreement is also without prejudice to Selby, at any time, pursuing coverage against Wausau under the Wausau Policies, and Wausau asserting any coverage defenses, with respect to claims other than asbestos-related bodily injury claims.

IV. COST SHARING

During the term of this Agreement, Wausau shall pay twenty-seven (27) percent of all Indemnity Costs and twenty-seven (27) percent of all Defense Costs of ABIC. During the term of this Agreement, Selby shall pay seventy-three (73) percent of all Indemnity Costs and seventy-three (73) percent of all Defense Costs of all ABIC. Under no circumstances will Wausau be responsible for greater than the twenty-seven (27) percent share of Defense Costs and Indemnity Costs of ABIC stated here.

V. CLAIMS HANDLING

(1) Selby shall perform the claim handling for all ABIC, with cooperation from Wausau, and Wausau shall use Nationwide Indemnity Company as its agent for handling all claim matters regarding the Wausau Policies.

(2) Selby shall provide Wausau with reasonable notice of all ABIC and shall direct defense counsel to provide periodic reports and information to Selby and Wausau in order for them to evaluate the claims.

(3) Wausau consents to the use of defense counsel that are retained for the ABIC as of the Effective Date. In the event that it becomes necessary to retain new defense counsel for ABIC, Selby shall have the right to select counsel subject to Wausau's consent, which shall not be unreasonably withheld. Selby shall obtain Wausau's consent to settlements of ABIC that exceed \$1,000; such consent shall not be unreasonably withheld or delayed.

(4) Selby shall direct defense counsel to protect against fraudulent, unverified, excessive or improper ABIC, which shall include a direction to defense counsel to use their reasonable best efforts to review reliable evidence, as reasonably available and as feasible to obtain, establishing in the applicable jurisdiction the criteria for authorized settlements provided in the definition of Indemnity Costs in Section II, above. Selby shall also direct defense counsel to follow reasonable defense counsel guidelines provided by Wausau or its agent. Selby shall require defense counsel to submit billings no less frequently than quarterly. All billings by defense counsel shall contain a description of each service performed, the claimant(s) involved, the date performed, the identity of the attorney or paralegal, the time spent for the service, the rate charged for the service, and an itemization of all disbursements with supporting documentation. Selby shall direct defense counsel to send copies of all defense billings to Wausau for ABIC for payment of Wausau's 27% share directly to defense counsel.

(5) Selby shall be responsible for the administration, direction, management and supervision of the defense of ABIC and of defense counsel representing Selby, with the cooperation of Wausau. Selby and Wausau shall consult with regard to significant developments in the defense of ABIC. Wausau and Selby shall make good faith efforts to resolve any disagreement between them regarding the defense and settlement of ABIC. Selby shall request that defense counsel make quarterly reports and trial reports available to Selby and Wausau, and respond promptly to reasonable inquiries from Wausau. Quarterly litigation reports shall include information, as reasonably available, about the numbers of open, dismissed, and settled claims, the amounts spent for defense costs

and settlements or judgments from January 2007 forward, and any significant developments, such as trial dates, pending dispositive or substantive motions, status of discovery, and any settlement demands or offers. Selby shall direct defense counsel to provide Wausau and Selby with reasonable advance notice of any trials and reasonable notice of any settlement demand/offers.

(6) In the context of a recommendation by defense counsel to settle an ABIC for an amount in excess of \$1,000, Selby shall direct defense counsel to provide information to Wausau and Selby that is reasonably necessary to make an informed judgment about the appropriate resolution of the claim and to respond to reasonable requests for information about the claim.

(7) In the event that a complaint in an ABIC alleges a first alleged date of exposure after April 1, 1973, but evidence in the case subsequently shows that the claimant's first alleged date of exposure is prior to April 1, 1973, Wausau is obligated to begin paying its 27% share for that claim commencing as of the date that the subsequent evidence is presented. In the event that a complaint in an ABIC alleges a first alleged date of exposure before April 1, 1973, but evidence in the case subsequently shows that the claimant's first alleged date of exposure is after April 1, 1973, Wausau may cease paying its 27% share for that claim commencing as of the date that the subsequent evidence is presented; there shall be no reimbursement to Wausau for prior defense costs paid on that claim.

VI. STANDSTILL AND TOLLING

During the term of this Agreement, neither Selby nor its successors or assigns, nor Wausau or its successors or assigns, shall initiate any actions or arbitrations seeking a determination of coverage under the Wausau Policies applicable to ABIC or other asbestos-related bodily injury claims against Selby. During the term of this Agreement, any statute of limitations or other applicable limitation period for defenses, claims, causes of action, and/or counterclaims regarding coverage for asbestos-related bodily injury

claims shall be tolled as to the parties for the term of the Agreement (“Tolling Period”), and neither Party shall put forward or rely upon the Tolling Period as a time bar under the doctrines of laches, waiver, estoppel or any other legal theory, for the purposes of attempting to preclude or defeat any such defenses, claims, causes of action or counterclaims.

VII. RELEASE

Selby and its past, present and future employees, officers, directors, principals, parents, subsidiaries, affiliates, associated corporations, agents, representatives, predecessors, successors and assigns, effective as of the Effective Date, expressly waive, release, acquit and forever discharge any claim, demand, right and cause of action for breach of contract against Wausau or its past, present, or future affiliates with respect to the Wausau Policies for contractual or non-contractual damages, bad faith, insurance code violations, exemplary or punitive damages, economic loss, general damages, attorneys’ fees and costs, and any other tort or statutory liability, whether known or unknown, based upon, arising out of, or in any way connected with any act or omission by Wausau or its agents or representatives, with respect to the Wausau Policies for any actions taken regarding asbestos-related bodily injury claims against Selby prior to the Effective Date.

Notwithstanding anything to the contrary in this Agreement, Selby does not release, and reserves all rights to pursue: (i) claims brought after the Termination Date of this Agreement relating to actions or omissions by Wausau or its agents or representations subsequent to the Termination Date of this Agreement, (ii) claims brought after the Termination Date of this Agreement, with respect to coverage for ABIC brought against Selby after the Termination Date, and (iii) the extent of impairment or exhaustion of limits of the Wausau Policies, as set forth in Section IX below. Selby and Wausau further reserve all rights to enforce the terms of this Agreement pursuant to the dispute resolution provisions in Section VIII below.

Wausau and its past, present and future employees, officers, directors, principals, parents, subsidiaries, affiliates, associated corporations, agents, representatives, predecessors, successors and assigns, effective as of the Effective Date, expressly waive, release, acquit and forever discharge any claim, demand, right and cause of action for breach of contract against Selby or its past, present, or future affiliates with respect to the Wausau Policies for contractual or non-contractual damages, claims for deductibles, self-insured retentions, or premiums payments, bad faith, insurance code violations, exemplary or punitive damages, economic loss, general damages, attorneys' fees and costs, and any other tort or statutory liability, whether known or unknown, based upon, arising out of, or in any way connected with any act or omission by Selby or its affiliates, agents, or representatives, with respect to the Wausau Policies for any actions taken regarding asbestos-related bodily injury claims against Selby prior to the Effective Date.

VIII. DISPUTE RESOLUTION

(1) In the event of a dispute arising under this Agreement with respect to the application, interpretation or performance of this Agreement, the Parties agree to meet and confer to attempt to amicably resolve the dispute.

(2) Should the Parties be unable to resolve such dispute, they agree to submit the dispute to mediation in Washington, D.C., with a mediator from the Center for Public Resources ("CPR") mutually agreed on by the Parties and paid equally by each side. Each Party shall bear its own attorneys' fees and costs incurred as a result of the mediation. All proceedings under this section, the outcome of the mediation proceeding, and all files and records relating thereto shall be confidential as discussed in Section X(1) below.

(3) If the dispute is not resolved by mediation within sixty (60) days after its submission to mediation, it shall be submitted to binding and final arbitration by an arbitrator from the CPR in accordance with the rules of the CPR. Each party shall bear its own attorneys' fees and costs incurred as a result of arbitration. All proceedings under this section, including the outcome of same and all files and records relating thereto, shall be confidential as discussed in Section X(1) below.

IX. PAST CLAIMS AND COSTS

The Parties agree that all claim payments made by Wausau and Selby under this Agreement and prior to the Effective Date of this Agreement shall be final, and there will be no recoupment or reimbursement of any such claim payments. Selby further agrees that it will make no claim against Wausau for any defense or indemnity costs for asbestos-related bodily injury claims against Selby paid or incurred prior to the Effective Date, and Wausau agrees that it will make no claim against Selby in connection with defense or indemnity costs for asbestos-related bodily injury claims against Selby paid or incurred prior to the Effective Date. Notwithstanding the fact that Selby does dispute Wausau's allocation or classification of claim payments prior to the Effective Date to aggregate products/completed operations limits, Selby agrees, for purposes of compromise under this Agreement, that it will not in any future coverage proceeding or other proceeding challenge such allocation or classification of past claim payments or seek a different allocation or classification of those past payments; provided, however, that (i) such agreement is non-precedential and without waiver to any arguments that Selby may make in any future coverage proceeding regarding the proper classification of asbestos bodily injury claims filed after the Effective Date; (ii) Selby's agreement not to challenge Wausau's allocation or classification of claim payments made prior to the Effective Date is not, under any circumstance, relevant, admissible, or precedential in any future coverage

proceeding, and Wausau agrees to waive all rights to take the position that such an agreement is relevant, admissible, or precedential in any future coverage proceeding, other than to enforce this Agreement, and will not reference such agreement in any such proceeding; (iii) Selby reserves all rights to contend that the aggregate limits of the Wausau Policies are not yet exhausted solely on the ground that the dollar amount total of Wausau's payments for Selby losses are insufficient to exhaust the aggregate products/completed operations limits; and (iv) Wausau reserves all rights to contend that the aggregate limits of the Wausau Policies are exhausted. Selby waives any and all rights to contend that the aggregate limits of the Wausau Policies are not exhausted on all other grounds, other than as stated in (iii) above, including, without limitation, that Wausau improperly allocated claims filed before the Effective Date to aggregate limits of the Wausau Policies. Each of the Parties reserve all of their respective rights as to the appropriate classification of defense and indemnity payments made by Wausau under this Agreement as within or without the products or completed operation hazards of the Wausau Policies.

Wausau shall waive and release all indemnity and contribution claims that it may have under the Wausau Policies against any third parties (other than Wausau reinsurers) arising out of or relating to asbestos-related bodily injury claims against Selby brought before the Termination Date of this Agreement; provided, however, that, in the event that any third party asserts a claim against Wausau arising out of or relating to such claims, Wausau shall be free to assert any claim or counterclaim against such party. Wausau reserves all indemnity and contribution rights that it may have under the Wausau Policies against any third parties arising out of or relating to asbestos-related bodily injury claims against Selby brought after the Termination Date of this Agreement.

X. OTHER TERMS

(1) This Agreement, its negotiation and the implementation of its terms are confidential, constitute settlement discussions within the meaning and intent of the Federal Rules of Evidence 408, and may not be disclosed to any third party absent agreement by the Parties or a court order, except to liquidators of insurers, insurance guaranty funds, reinsurers, retrocessionaires, auditors, counsel, accountants, consultants, officers, directors, employees, subsidiaries, affiliates, successor corporations, lenders and underwriters of the Parties, or if disclosure is required by securities or other laws. In the event a Party receives a formal discovery request in a lawsuit or arbitration seeking disclosure or production of this Agreement or its terms, the Party shall give prompt notice of this request to all other Parties. Absent agreement by the Parties, the Agreement or its terms may not be produced in such circumstances except by judicial order.

(2) Except as expressly provided herein, neither this Agreement nor performance by any Party hereunder is intended to be, or shall be, construed to operate as a waiver or a modification of any of the terms, conditions, exclusions, provisions or obligations of any of the Wausau Policies and the Parties specifically reserve all rights, defenses and positions regarding the proper interpretation of and application of the terms, conditions, exclusions, provisions and obligations of the Wausau Policies, except as expressly provided herein.

(3) This Agreement is a compromise and is neither intended to be, nor shall be construed to be, an admission of policy interpretation or an admission by the Parties of any rights, duties, or obligations arising under the Wausau Policies. With the exception of any proceedings under Section VIII above, this Agreement shall not be used or introduced into evidence in any court or dispute resolution proceeding to create, prove or interpret any rights or obligations of the Parties pursuant to the Wausau Policies or any other insurance policies.

(4) All actions taken and statements made by persons or representatives relating to their participation in this Agreement, including its development and implementation, shall be without prejudice or value as precedent, and shall not be taken as a standard by which other matters may be judged.

(5) Neither the negotiation, execution nor performance of this Agreement in accordance with its terms shall be deemed to be or cited as an act of bad faith or as a violation of any statute or duty owed by Selby or Wausau.

(6) This Agreement is not a contract of insurance and those rules applicable to the interpretation or construction of insurance contracts shall not apply hereto. In the event of a breach of this Agreement, no extra-contractual or statutory bad faith or unfair claims practices remedy applicable to a contract of insurance shall be applicable to such breach.

(7) This Agreement is the product of arm's length settlement negotiations between and among the Parties to compromise disputed insurance coverage issues in connection with ABIC and no Party shall be deemed to be the drafter of any provisions or of the entire Agreement, nor shall any part of this Agreement be construed against a Party on the basis of that Party's identity as an insurance company or as the drafter of any part of this Agreement.

(8) Each of the Parties hereto has participated in the drafting of this Agreement, after consulting with counsel.

(9) Paragraph headings contained herein are for the purpose of organization only and shall not constitute a part of this Agreement.

(10) Except as specifically set forth herein, this Agreement constitutes the entire agreement between the Parties. Further, except as explicitly set forth in this Agreement, there are no representations, warranties, or inducements, whether oral, written, expressed or implied, that in any way effect or condition the validity of this Agreement or alter its terms. Accordingly, this Agreement may not be modified, changed, contradicted, augmented or altered in any way by any previous oral or written agreements or any subsequent oral agreements.

(11) This Agreement, and any portion of same, may only be amended or modified by an agreement in writing executed by all of the Parties hereto.

(12) No waiver of any breach of any provision of this Agreement shall be deemed a waiver of any other breach of the same or other provisions. No action designed to minimize or prevent liability to Parties shall be deemed a waiver of any breach of this Agreement.

(13) Should any provision of this Agreement subsequently be found by a court to be invalid or unenforceable, such ruling shall not affect the validity or enforceability of the remainder of the Agreement, which will continue to operate in accordance with its terms.

(14) Each of the Parties represents and warrants that, as of the date of execution of this Agreement, it has not assigned, conveyed or otherwise transferred or encumbered any claims, demands, causes of action, rights or obligations that are the subject matter of this Agreement. None of the Parties shall assign this Agreement without first obtaining written consent of the other Parties; provided, however, that (1) this provision shall not prohibit any assignment by a Party made by merger, consolidation or operation of law or to a person or entity who succeeds to all or substantially all such party's rights and obligations and (2) to the extent such successor does not fulfill the obligations of its predecessor under this Agreement, the predecessor will remain liable.

(15) This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors and assigns.

(16) This Agreement does not and shall not be interpreted to create any rights in any person or entity not a party to this Agreement.

(17) The failure of any Party to perform its obligations under this Agreement shall not relieve any other party of its obligations hereunder.

(18) Neither Wausau on the one hand, nor Selby on the other hand, shall be entitled to reimbursement from one another for the payments of Defense Costs or Indemnity Costs made under this Agreement.

XI. NOTICE

Any notices, billings, payments or other communications provided by this Agreement shall be sent to the following addresses, unless otherwise directed in writing:

- a. Diane Korbisch
Nationwide Indemnity Company
400 Westwood Drive
P.O. Box 8102
Wausau, WI 54402-8102
korbisd@nationwide.com
- b. Florence Larcamp
Robert T. Traub, Esq.
SB Decking, Inc.
c/o Quaker Chemical Corp.
One Quaker Park
901 Hector Street
Conshohocken, PA 19428
rob_traub@quakerchem.com

XII. EXECUTION AND COUNTERPARTS

This Agreement may be executed in counterparts; each of which when so executed shall be deemed to be an original, and all of which together shall constitute the entire Agreement.

IN WITNESS WHEREOF the Parties hereto have caused their duly authorized representatives to execute this Agreement as of the dates indicated.

SB DECKING, INC.

By /s/ Florence J. Larcamp
Date: September 25, 2007

EMPLOYERS INSURANCE COMPANY OF WAUSAU

By /s/ Diane Korbisch
Date: September 25, 2007

SCHEDULE A

**POLICIES OF PRIMARY AND EXCESS LIABILITY INSURANCE ISSUED BY
EMPLOYERS INSURANCE COMPANY OF WAUSAU TO SELBY-BATTERSBY & CO.**

PRIMARY POLICIES

<u>Policy No.</u>	<u>Effective Dates</u>	<u>Named Insured</u>
2229-00-033075	4/1/68 – 4/1/69	Selby-Battersby & Co.
2220-00-033075	4/1/69 – 4/1/70	Selby-Battersby & Co.
2221-00-033075	4/1/70 – 4/1/71	Selby-Battersby & Co.
2222-00-033075	4/1/71 – 4/1/72	Selby-Battersby & Co.
2223-00-033075	4/1/72 – 4/1/73	Selby-Battersby & Co.

EXCESS POLICIES

<u>Policy No.</u>	<u>Effective Dates</u>	<u>Named Insured</u>
2229-03-033075	4/1/68 – 4/1/69	Selby, Battersby & Co.
2220-03-033075	4/1/69 – 4/1/70	Selby, Battersby & Co.
2221-03-033075	4/1/70 – 4/1/71	Selby, Battersby & Co.
2222-03-033075	4/1/71 – 4/1/72	Selby, Battersby & Co.
2223-03-033075	4/1/72 – 4/1/73	Selby, Battersby & Co.

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

I, Ronald J. Naples, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Quaker Chemical Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) 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
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the 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: November 7, 2007

/s/ Ronald J. Naples

Ronald J. Naples
Chief Executive Officer

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

I, Mark A. Featherstone, 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 this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) 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
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the 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: November 7, 2007

/s/ Mark A. Featherstone

Mark A. Featherstone
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 September 30, 2007 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: November 7, 2007

/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 September 30, 2007 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: November 7, 2007

/s/ Mark A. Featherstone

Mark A. Featherstone

Chief Financial Officer of Quaker Chemical Corporation