HORNBECK OFFSHORE SERVICES INC /LA
Form 10-Q
August 09, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2011

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 001-32108

Hornbeck Offshore Services, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**72-1375844**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

103 NORTHPARK BOULEVARD, SUITE 300

COVINGTON, LA 70433

(Address of Principal Executive Offices) (Zip Code)

(985) 727-2000

(Registrant s Telephone Number, Including Area Code)

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files) Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Non-accelerated filer ¨
Accelerated filer x	Smaller reporting company ¨

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

The total number of shares of common stock, par value $.01 per share, outstanding as of July 31, 2011 was 26,912,733.

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HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES

FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2011

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PART I FINANCIAL INFORMATION

Item 1 Financial Statements

HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	June 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 136,538	$ 126,966
Accounts receivable, net of allowance for doubtful accounts of $2,002 and $734, respectively	68,547	71,777
Other current assets	20,658	17,598
Total current assets	225,743	216,341
Property, plant and equipment, net	1,593,090	1,606,121
Deferred charges, net	46,167	41,058
Other assets	14,487	14,905
Total assets	$ 1,879,487	$ 1,878,425
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 38,273	$ 25,100
Accrued interest	9,021	9,024
Accrued payroll and benefits	9,615	13,413
Deferred revenue	3,310	2,197
Other accrued liabilities	9,577	4,451
Total current liabilities	69,796	54,185
Long-term debt, net of original issue discount of $35,671 and $41,767, respectively	764,329	758,233
Deferred tax liabilities, net	215,689	222,413
Other liabilities	1,186	1,717
Total liabilities	1,051,000	1,036,548
Stockholders equity:		
Preferred stock: $0.01 par value; 5,000 shares authorized; no shares issued and outstanding		
Common stock: $0.01 par value; 100,000 shares authorized; 26,911 and 26,584 shares issued and outstanding, respectively	269	266
Additional paid-in-capital	418,345	415,673
Retained earnings	409,573	425,634
Accumulated other comprehensive income	300	304
Total stockholders equity	828,487	841,877
Total liabilities and stockholders equity	$ 1,879,487	$ 1,878,425

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

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HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(Unaudited)		(Unaudited)	
Revenues	$ 80,817	$ 111,885	$ 153,084	$ 198,131
Costs and expenses:				
Operating expenses	48,414	48,507	90,036	92,839
Depreciation	15,320	14,731	30,529	28,263
Amortization	4,773	4,585	10,165	8,896
General and administrative expenses	8,497	9,640	18,361	18,561
	77,004	77,463	149,091	148,559
Gain on sale of assets		95	559	619
Operating income	3,813	34,517	4,552	50,191
Other income (expense):				
Interest income	240	155	419	249
Interest expense	(14,998)	(14,274)	(29,914)	(25,931)
Other income (expense), net	81	257	77	235
	(14,677)	(13,862)	(29,418)	(25,447)
Income (loss) before income taxes	(10,864)	20,655	(24,866)	24,744
Income tax expense (benefit)	(3,839)	7,612	(8,805)	9,146
Net income (loss)	$ (7,025)	$ 13,043	$ (16,061)	$ 15,598
Basic earnings (loss) per common share	$ (0.26)	$ 0.49	$ (0.60)	$ 0.59
Diluted earnings (loss) per common share	$ (0.26)	$ 0.48	$ (0.60)	$ 0.57
Weighted average basic shares outstanding	26,875	26,388	26,799	26,324
Weighted average diluted shares outstanding	26,875	27,156	26,799	27,138

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

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HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (16,061)	$ 15,598
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	30,529	28,263
Amortization	10,165	8,896
Stock-based compensation expense	3,926	4,612
Provision for bad debts	1,268	(157)
Deferred tax expense (benefit)	(9,551)	8,714
Amortization of deferred financing costs	8,015	7,490
Gain on sale of assets	(559)	(619)
Equity in loss from investment		6
Changes in operating assets and liabilities:		
Accounts receivable	3,096	(17,111)
Other receivables and current assets	(3,396)	5,499
Deferred drydocking charges	(10,380)	(12,108)
Accounts payable	3,489	8,291
Accrued liabilities and other liabilities	(780)	(4,720)
Accrued interest	(4)	(766)
Net cash provided by operating activities	19,757	51,888
CASH FLOWS FROM INVESTING ACTIVITIES:		
Costs incurred for MPSV program		(8,533)
Costs incurred for OSV newbuild program #4		(22,670)
Net proceeds from sale of assets	2,055	1,458
Vessel capital expenditures	(12,194)	(20,769)
Non-vessel capital expenditures	(698)	(1,344)
Net cash used in investing activities	(10,837)	(51,858)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Deferred financing costs	(490)	(60)
Net cash proceeds from other shares issued	1,138	730
Net cash provided by (used in) financing activities	648	670
Effects of exchange rate changes on cash	4	81
Net increase in cash and cash equivalents	9,572	781
Cash and cash equivalents at beginning of period	126,966	51,019
Cash and cash equivalents at end of period	$ 136,538	$ 51,800
SUPPLEMENTAL DISCLOSURES OF CASH FLOW ACTIVITIES:		

Cash paid for interest	$ 21,848	$ 22,316
Cash paid for income taxes	$ 499	$ 2,354

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

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HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The accompanying unaudited consolidated financial statements do not include certain information and footnote disclosures required by United States generally accepted accounting principles, or GAAP. The interim financial statements and notes are presented as permitted by instructions to the Quarterly Report on Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments necessary for a fair presentation of the interim financial statements have been included and consist only of normal recurring items. The unaudited quarterly financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Annual Report on Form 10-K of Hornbeck Offshore Services, Inc. (together with its subsidiaries, the Company) for the year ended December 31, 2010. The results of operations for the three and six months ended June 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

The consolidated balance sheet at December 31, 2010 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements.

Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board, or FASB, amended the presentation of comprehensive income. The amendments give the Company the option to present the total comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. These amendments are effective for fiscal years and interim periods within those years, beginning on or after December 15, 2011. The Company has not determined which method of presentation it will elect.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company s financial position, results of operations and cash flows.

2. Earnings Per Share

Basic earnings (loss) per common share was calculated by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per common share was calculated by dividing net income (loss) by the weighted average number of common shares outstanding during the year plus the effect of dilutive stock options and restricted stock unit awards. Weighted average number of common shares outstanding was calculated by using the sum of the shares determined on a daily

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HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

basis divided by the number of days in the period. The table below reconciles the Company s earnings (loss) per share (in thousands, except for per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net income (loss)	$ (7,025)	$ 13,043	$ (16,061)	$ 15,598
Weighted average number of shares of common stock outstanding	26,875	26,388	26,799	26,324
Add: Net effect of dilutive stock options and unvested restricted stock (1)(2)		768		814
Adjusted weighted average number of shares of common stock outstanding (3)	26,875	27,156	26,799	27,138
Earnings (loss) per common share:				
Basic	$ (0.26)	$ 0.49	$ (0.60)	$ 0.59
Diluted	$ (0.26)	$ 0.48	$ (0.60)	$ 0.57

(1) Due to a net loss, the Company excluded, for the calculation of loss per share, the effect of equity awards representing the rights to acquire 1,232 and 1,196 shares of common stock, for the three and six months ended June 30, 2011, respectively, because the effect was anti-dilutive. Stock options representing the rights to acquire 401 shares of common stock for the three and six months ended June 30, 2010, were excluded from the calculation of diluted earnings per share, because the effect was anti-dilutive after considering the exercise price of the options in comparison to the average market price, proceeds from exercise, taxes, and related unamortized compensation expense.

(2) As of June 30, 2011 and 2010, the 1.625% convertible senior notes were not dilutive, as the average price of the Company s stock was less than the effective conversion price of such notes, which is $62.59 per share.

(3) Dilutive restricted stock is expected to fluctuate from quarter to quarter depending on the Company s performance compared to a predetermined set of performance criteria. See Note 4 to these financial statements for further information regarding certain of the Company s restricted stock.

3. Long-Term Debt

As of the dates indicated, the Company had the following outstanding long-term debt (in thousands):

	June 30, 2011	December 31, 2010
6.125% senior notes due 2014, net of original issue discount of $247 and $279	$ 299,753	$ 299,721
8.000% senior notes due 2017, net of original issue discount of $5,946 and $6,305	244,054	243,695
1.625% convertible senior notes due 2026, net of original issue discount of $29,478 and $35,183 (1)	220,522	214,817
Revolving credit facility due 2013		
	764,329	758,233
Less current maturities		
	$ 764,329	$ 758,233

(1) The notes initially bear interest at a fixed rate of 1.625% per year, declining to 1.375% beginning on November 15, 2013.

The Company s 6.125% senior notes due 2014, or 2014 senior notes, have semi-annual cash interest payments of $9.2 million due and payable each June 1 and December 1. The Company s 8.000% senior notes due 2017, or 2017 senior notes, have semi-annual cash interest payments of $10.0 million due and payable each March 1 and September 1. The Company s 1.625% convertible senior notes due 2026, or convertible senior notes, have semi-annual cash interest payments of $2.0 million due each May 15 and November 15, declining to 1.375%, or $1.7 million semi-annually, beginning on November 15, 2013. Subject to certain conversion and redemption features of the convertible senior notes, holders of such notes may require the Company to purchase all or a portion of their notes on each of November 15, 2013, November 15, 2016 and November 15, 2021.

Under the Company s revolving credit facility, it has the option of borrowing at a variable rate of interest equal to either (i) LIBOR, plus an applicable margin, or (ii) the greatest of the Prime Rate, the Federal Funds Effective Rate plus $^{1}/2$ of 1% and the one-month LIBOR plus 1%, plus in each case an applicable margin. The applicable margin for each base rate is determined by a pricing grid, which is based on the Company s leverage ratio, as defined in the credit agreement governing the amended revolving credit facility. Unused commitment fees are payable quarterly at the annual rate of 50.0 basis points of the unused portion of the borrowing base of the amended facility. As of June 30, 2011, there were no amounts drawn under the Company s revolving credit facility and $0.9 million posted as a letter of credit. As of June 30, 2011, the Company was in compliance with all financial covenants required by its revolving credit facility.

The Company estimates the fair value of its 2014 senior notes, its 2017 senior notes and its convertible senior notes by using quoted market prices. The fair value of the Company s revolving credit facility, when there are outstanding balances, approximates its carrying value. The face value, carrying value and fair value of the Company s total debt was $800.0 million, $764.3 million and $789.7 million, respectively, as of June 30, 2011.

Capitalized Interest

During the three and six months ended June 30, 2010, the Company capitalized approximately $0.8 million and $3.4 million of interest costs related to the construction or conversion of vessels. No such interest was capitalized during the same periods in 2011.

4. Incentive Compensation

Stock-Based Incentive Compensation Plan

The Company s stock-based incentive compensation plan covers a maximum of 4.2 million shares of common stock that allows the Company to grant restricted stock awards, restricted stock unit awards, or collectively restricted stock, stock options and stock appreciation rights to employees and directors.

During the six months ended June 30, 2011, the Company granted stock options, time-based and performance-based restricted stock. Time-based restricted stock was granted to directors, executive officers and certain shore-side employees of the Company.

Stock options and performance-based restricted stock were granted to executive officers of the Company. The shares to be received under the performance-based restricted stock are calculated based on the Company s stock price performance relative to a peer group, as

HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

defined by the restricted stock agreements governing such awards. Performance is measured by the change in the Company s stock price measured against the peer group during a measurement period. The actual number of shares that could be received by the award recipients can range from 0% to 200% of the Company s base share awards depending on the Company s performance ranking relative to the peer group. During the six months ended June 30, 2011, the Company granted stock options, time-based restricted stock and performance-based restricted stock representing 490,587 shares, in the aggregate.

Compensation expense related to performance-based restricted stock is recognized over the service period, which is from three to five years. The fair value of the Company s performance-based restricted stock, which is determined using a Monte Carlo simulation, is applied to the total shares that are expected to fully vest and is amortized over the vesting period based on the Company s internal performance measured against pre-determined criteria or relative performance compared to peers, as applicable. The compensation expense related to time-based restricted stock, which is amortized over a vesting period from one to three years, is determined based on the market price of the Company s stock on the date of grant applied to the total shares that are expected to fully vest. Compensation expense for stock options is determined using the Black-Scholes pricing model and is amortized over the vesting period of three years. In addition to the restricted stock granted in 2011, the Company granted performance-based and time-based restricted stock in 2008, 2009 and 2010. The performance-based restricted stock grants issued in 2008 were eligible for vesting in February 2011. Based on the Company s performance, 100% of such restricted stock did not meet the performance criteria and were cancelled.

The stock-based compensation expense charges from previously issued equity grants and the financial impact such grants have on the Company s operating results are reflected in the table below (in thousands, except for per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
Income before taxes	$ 1,725	$ 2,254	$ 3,926	$ 4,612
Net income	$ 1,116	$ 1,422	$ 2,536	$ 2,906
Earnings per common share:				
Basic	$ 0.04	$ 0.05	$ 0.09	$ 0.11
Diluted	$ 0.04	$ 0.05	$ 0.09	$ 0.11

In addition, the Company capitalized approximately $0.1 million and $0.3 million of stock-based compensation expense that related directly to newbuild construction programs and general corporate capital projects for the three and six months ended June 30, 2010, respectively. No such stock-based compensation expense was capitalized during the three and six months ended June 30, 2011.

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HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Contingencies

In the normal course of its business, the Company becomes involved in various claims and legal proceedings in which monetary damages are sought. It is management s opinion that the Company s liability, if any, under such claims or proceedings would not materially affect its financial position or results of operations.

The Company insures against losses relating to its vessels, pollution and third party liabilities, including claims by employees under Section 33 of the Merchant Marine Act of 1920, or the Jones Act. Third-party liabilities and pollution claims that relate to vessel operations are covered by the Company s entry in a mutual protection and indemnity association, or P&I Club, as well as by marine liability policies in excess of the P&I Club s coverage. In February 2010 and 2011, the terms of entry with the P&I Club for the Downstream segment contained an annual aggregate deductible (AAD) for which the Company remains responsible. The P&I Club is responsible for covered amounts that exceed the AAD, after payment by the Company of an additional individual claim deductible. The Company provides reserves for those portions of the AAD and any individual claim deductibles for which the Company remains responsible by using an estimation process that considers Company-specific and industry data, as well as management s experience, assumptions and consultation with outside counsel. As additional information becomes available, the Company will assess the potential liability related to its pending litigation and revise its estimates. Although historically revisions to such estimates have not been material, changes in estimates of the potential liability could materially impact the Company s results of operations, financial position or cash flows.

6. Segment Information

The Company provides marine transportation and logistics services through two business segments. The Company primarily operates new generation offshore supply vessels, or OSVs, and multi-purpose support vessels, or MPSVs, in the U.S. Gulf of Mexico, or GoM, other U.S. coastlines, Latin America and the Middle East and operates a shore-base facility in Port Fourchon, Louisiana through its Upstream segment. The OSVs, MPSVs and the shore-base facility principally support complex exploration and production projects by transporting cargo to offshore drilling rigs and production facilities and provide support for oilfield and non-oilfield specialty services, including military applications. The Downstream segment primarily operates ocean-going tugs and tank barges in the northeastern United States, GoM, Great Lakes and Puerto Rico. The ocean-going tugs and tank barges provide coastwise transportation of refined and bunker grade petroleum products as well as non-traditional downstream services, such as support of deepwater well testing and other specialty applications for the Company s upstream customers.

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HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table shows reportable segment information for the three and six months ended June 30, 2011 and 2010, reconciled to consolidated totals and prepared on the same basis as the Company s consolidated financial statements (in thousands).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Operating revenues:				
Upstream				
Domestic	$ 35,188	$ 85,203	$ 67,758	$ 149,429
Foreign (1)	32,774	15,295	61,547	27,667
	67,962	100,498	129,305	177,096
Downstream				
Domestic	10,705	10,342	20,304	19,628
Foreign (1) (2)	2,150	1,045	3,475	1,407
	12,855	11,387	23,779	21,035
Total	$ 80,817	$ 111,885	$ 153,084	$ 198,131
Operating expenses:				
Upstream	$ 39,924	$ 40,105	$ 74,138	$ 76,724
Downstream	8,490	8,402	15,898	16,115
Total	$ 48,414	$ 48,507	$ 90,036	$ 92,839
Depreciation:				
Upstream	$ 13,198	$ 12,592	$ 26,290	$ 23,986
Downstream	2,122	2,139	4,239	4,277
Total	$ 15,320	$ 14,731	$ 30,529	$ 28,263
Amortization:				
Upstream	$ 3,378	$ 3,475	$ 7,481	$ 7,160
Downstream	1,395	1,110	2,684	1,736
Total	$ 4,773	$ 4,585	$ 10,165	$ 8,896
General and administrative expenses:				
Upstream	$ 7,611	$ 8,899	$ 16,627	$ 17,130
Downstream	886	741	1,734	1,431
Total	$ 8,497	$ 9,640	$ 18,361	$ 18,561
Gain on sale of assets:				
Upstream	$	$ 95	$	$ 615
Downstream			559	4

Total	$	$ 95	$ 559	$ 619
Operating income (loss):				
Upstream	$ 3,851	$ 35,522	$ 4,769	$ 52,711
Downstream	(38)	(1,005)	(217)	(2,520)
Total	$ 3,813	$ 34,517	$ 4,552	$ 50,191
Capital expenditures:				
Upstream	$ 4,645	$ 24,618	$ 11,593	$ 50,881
Downstream	89	134	847	1,091
Corporate	203	944	452	1,344
Total	$ 4,937	$ 25,696	$ 12,892	$ 53,316

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HORNBECK OFFSHORE SERVICES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	As of June 30, 2011	As of December 31, 2010			
Identifiable Assets:					
Upstream	$ 1,643,809	$ 1,647,561			
Downstream	213,156	205,782			
Corporate	22,522	$ 1.53	$	1.18	$ 0.17
Weighted average shares outstanding:					
Basic	9,986	9,779	9,679		
Diluted	10,107	9,854	9,816		

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

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QUAKER CHEMICAL CORPORATION

CONSOLIDATED BALANCE SHEET

	December 31, 2007	December 31, 2006
	(In thousands, except par value and share amounts)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 20,195	$ 16,062
Accounts receivable, net	118,135	107,340
Inventories, net	60,738	51,984
Deferred income taxes	4,042	4,379
Prepaid expenses and other current assets	10,391	6,476
Total current assets	213,501	186,241
Property, plant and equipment, net	62,287	60,927
Goodwill	43,789	38,740
Other intangible assets, net	7,873	8,330
Investments in associated companies	7,323	7,044
Deferred income taxes	30,257	28,573
Other assets	34,019	27,527
Total assets	$ 399,049	$ 357,382
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Short-term borrowings and current portion of long-term debt	$ 4,288	$ 4,950
Accounts payable	65,202	54,212
Dividends payable	2,178	2,133
Accrued compensation	17,287	15,225
Other current liabilities	17,396	13,659
Total current liabilities	106,351	90,179
Long-term debt	78,487	85,237
Deferred income taxes	7,583	5,317
Accrued pension and postretirement benefits	30,699	38,430
Other non-current liabilities	41,023	23,353
Total liabilities	264,143	242,516
Minority interest in equity of subsidiaries	4,513	4,035
Commitments and contingencies		
Shareholders equity		
Common stock, $1 par value; authorized 30,000,000 shares; Issued: 2007-10,147,239 shares, 2006-9,925,976 shares	10,147	9,926
Capital in excess of par value	10,104	5,466
Retained earnings	115,767	114,498
Accumulated other comprehensive loss	(5,625)	(19,059)

Total shareholders equity	130,393	110,831
Total liabilities and shareholders equity	$ 399,049	$ 357,382

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

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QUAKER CHEMICAL CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2007	2006	2005
	(In thousands)		
Cash flows from operating activities			
Net income	$ 15,471	$ 11,667	$ 1,688
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	11,686	10,136	9,163
Amortization	1,197	1,427	1,368
Equity in net income of associated companies, net of dividends	(219)	(348)	(384)
Minority interest in earnings of subsidiaries	1,379	1,322	2,209
Deferred income taxes	(354)	404	(4,476)
Uncertain tax positions (non-deferred portion)	1,577		
Deferred compensation and other, net	(85)	(507)	(747)
Stock-based compensation	1,550	857	771
Restructuring and related activities, net			6,018
Environmental charges	3,300		
Gain on sale of partnership assets			(2,989)
(Gain) Loss on disposal of property, plant and equipment	(40)	34	
Insurance settlement realized	(1,854)	(544)	
Pension and other postretirement benefits	(3,596)	(4,247)	(439)
Increase (decrease) in cash from changes in current assets and current liabilities, net of acquisitions:			
Accounts receivable	(4,093)	(8,947)	(9,600)
Inventories	(5,182)	(4,146)	(5,821)
Prepaid expenses and other current assets	122	(140)	161
Accounts payable and accrued liabilities	7,612	5,440	15,726
Change in restructuring liabilities		(4,033)	(2,798)
Estimated taxes on income	(970)	(192)	1,722
Net cash provided by operating activities	27,501	8,183	11,572
Cash flows from investing activities			
Capital expenditures	(9,165)	(12,379)	(6,989)
Payments related to acquisitions	(2,373)	(1,684)	(6,700)
Proceeds from partnership disposition of assets			2,989
Proceeds from disposition of assets	259	64	1,918
Insurance settlement received and interest earned	5,705	7,836	7,508
Change in restricted cash, net	(3,851)	(7,292)	(7,508)
Net cash used in investing activities	(9,425)	(13,455)	(8,782)
Cash flows from financing activities			
Proceeds from short-term debt	2,250	1,897	
Net decrease in short-term borrowings	(3,198)	(3,384)	(52,703)
Proceeds from long-term debt		15,283	59,525
Repayment of long-term debt	(8,345)	(940)	(9,566)
Dividends paid	(8,654)	(8,444)	(8,340)
Stock options exercised, other	3,309	1,235	387
Distributions to minority shareholders	(1,265)	(1,490)	(4,198)
Net cash (used in) provided by financing activities	(15,903)	4,157	(14,895)
Effect of exchange rate changes on cash	1,960	1,056	(852)
Net increase (decrease) in cash and cash equivalents	4,133	(59)	(12,957)
Cash and cash equivalents at beginning of the period	16,062	16,121	29,078

Cash and cash equivalents at end of the period	$ 20,195	$ 16,062	$ 16,121
Supplemental cash flow disclosures			
Cash paid during the year for:			
Income taxes	$ 6,819	$ 6,315	$ 5,584
Interest	5,716	4,944	3,354
Non-cash activities:			
Restricted insurance receivable (See also Note 18 of Notes to Consolidated Financial Statements)	$ 5,000	$ 7,500	$ 7,500

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

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QUAKER CHEMICAL CORPORATION

CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY

	Common stock	Capital in excess of par value	Retained earnings	Unearned compensation	Accumulated other comprehensive income (loss)	Total
Balance at December 31, 2004	$ 9,669	$ 2,632	$ 117,981	$ (355)	$ (7,340)	$ 122,587
Net income			1,688			1,688
Currency translation adjustments					(7,897)	(7,897)
Minimum pension liability					(3,449)	(3,449)
Current period changes in fair value of derivatives					(71)	(71)
Unrealized gain on available-for-sale securities					47	47
Comprehensive loss						(9,682)
Dividends ($0.86 per share)			(8,352)			(8,352)
Shares issued upon exercise of options	33	273				306
Shares issued for employee stock purchase plan	17	260				277
Equity-based compensation plans	7	409				416
Amortization of unearned compensation				355		355
Balance at December 31, 2005	9,726	3,574	111,317		(18,710)	105,907
Net income			11,667			11,667
Currency translation adjustments					7,396	7,396
Minimum pension liability					1,250	1,250
Current period changes in fair value of derivatives					155	155
Unrealized gain on available-for-sale securities					143	143
Comprehensive income						20,611
Adjustment to initially apply FASB Statement No. 158					(9,293)	(9,293)
Dividends ($0.86 per share)			(8,486)			(8,486)
Shares issued upon exercise of options	104	942				1,046
Shares issued for employee stock purchase plan	11	178				189
Equity-based compensation plans	85	772				857
Balance at December 31, 2006	9,926	5,466	114,498		(19,059)	110,831
Net income			15,471			15,471
Currency translation adjustments					10,861	10,861
FASB Statement No. 158:						
Net gain (loss) arising during the period, other					2,555	2,555
Amortization of actuarial (gain) loss					1,049	1,049
Amortization of prior service cost (credit)					(11)	(11)
Amortization of initial net asset					(138)	(138)
Current period changes in fair value of derivatives					(799)	(799)
Unrealized gain on available-for-sale securities					(83)	(83)
Comprehensive income						28,905
Adjustment to initially apply FIN 48			(5,503)			(5,503)
Dividends ($0.86 per share)			(8,699)			(8,699)
Shares issued upon exercise of options	170	2,909				3,079
Shares issued for employee stock purchase plan	12	218				230
Equity-based compensation plans	39	1,511				1,550
Balance at December 31, 2007	$ 10,147	$ 10,104	$ 115,767	$	$ (5,625)	$ 130,393

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

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QUAKER CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share amounts)

Note 1 Significant Accounting Policies

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

In January 2003, the Financial Accounting Standards Board (FASB), issued FASB Interpretation No. 46 (FIN 46), Consolidation of Certain Variable Interest Entities, (VIEs), which is an interpretation of Accounting Research Bulletin (ARB) No. 51, Consolidated Financial Statements. FIN 46, as revised by FIN 46 (revised December 2003), addresses the application of ARB No. 51 to VIEs, and generally would require that assets, liabilities and results of the activities of a VIE be consolidated into the financial statements of the enterprise that is considered the primary beneficiary. The consolidated financial statements include the accounts of the Company and all of its subsidiaries in which a controlling interest is maintained and would include any VIEs if the Company was the primary beneficiary pursuant to the provisions of FIN 46 (revised December 2003). The Company determined that its real estate joint venture, which was always accounted for under the equity method, was a VIE but that the Company was not the primary beneficiary. In February 2005, the Venture sold its real estate assets, which resulted in $4,187 of proceeds to the Company after payment of the partnership obligations. The proceeds included, a gain of $2,989 related to the sale by the Venture of its real estate holdings as well as $1,198 of preferred distributions. These proceeds are included in other income. See also Note 5 of Notes to Consolidated Financial Statements.

Translation of foreign currency: Assets and liabilities of non-U.S. subsidiaries and associated companies are translated into U.S. dollars at the respective rates of exchange prevailing at the end of the year. Income and expense accounts are translated at average exchange rates prevailing during the year. Translation adjustments resulting from this process are recorded directly in shareholders equity and will be included in income only upon sale or liquidation of the underlying investment. All non-U.S. subsidiaries use their local currency as its functional currency.

Cash and cash equivalents: The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Inventories: Inventories are valued at the lower of cost or market value. Inventories are valued using the first-in, first-out (FIFO) method. See also Note 7 of Notes to Consolidated Financial Statements.

Long-lived assets: Property, plant and equipment are stated at cost. Depreciation is computed using the straight-line method on an individual asset basis over the following estimated useful lives: buildings and improvements, 10 to 45 years; and machinery and equipment, 3 to 15 years. The carrying value of long-lived assets is periodically evaluated whenever changes in circumstances or current events indicate the carrying amount of such assets may not be recoverable. An estimate of undiscounted cash flows produced by the asset, or the appropriate group of assets, is compared with the carrying value to determine whether an impairment exists. If necessary, the Company recognizes an impairment loss for the difference between the carrying amount of the assets and their estimated fair value. Fair value is based on current and anticipated future undiscounted cash flows. Upon sale or other dispositions of long-lived assets, the applicable amounts of asset cost and accumulated depreciation are removed from the accounts and the net amount, less proceeds from disposals is recorded to income. Expenditures for renewals and betterments, which increase the estimated useful life or capacity of the assets, are capitalized; expenditures for repairs and maintenance are expensed when incurred.

QUAKER CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

Capitalized software: The Company applies the Accounting Standards Executive Committee Statement of Position (SOP) 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. This SOP requires the capitalization of certain costs incurred in connection with developing or obtaining software for internal use. In connection with the implementation of the Company s global transaction system, approximately $1,685 and $3,817 of net costs were capitalized at December 31, 2007 and 2006, respectively. These costs are amortized over a period of five years once the assets are placed into service.

Goodwill and other intangible assets: On January 1, 2002, the Company adopted SFAS No. 142, Goodwill and Other Intangible Assets. The standard requires that goodwill and indefinite-lived intangible assets no longer be amortized. In addition, goodwill and indefinite-lived intangible assets are tested for impairment at least annually. These tests will be performed more frequently if there are triggering events. Definite-lived intangible assets are amortized over their estimated useful lives, generally for periods ranging from 5 to 20 years. The Company continually evaluates the reasonableness of the useful lives of these assets. See also Note 17 of Notes to Consolidated Financial Statements.

Revenue recognition: The Company recognizes revenue in accordance with the terms of the underlying agreements, when title and risk of loss have been transferred, collectibility is reasonably assured, and pricing is fixed or determinable. This generally occurs for product sales when products are shipped to customers or, for consignment arrangements, upon usage by the customer and when services are performed. License fees and royalties are recognized in accordance with agreed-upon terms, when performance obligations are satisfied, the amount is fixed or determinable, and collectibility is reasonably assured, and are included in other income. 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 $52,702, $62,777 and $38,840 for 2007, 2006 and 2005, respectively.

Research and development costs: Research and development costs are expensed as incurred. Research and development expenses are included in selling, general and administrative expenses, and during 2007, 2006 and 2005 were $14,608, $12,989 and $14,148, respectively.

Concentration of credit risk: Financial instruments, which potentially subject the Company to a concentration of credit risk, principally consist of cash equivalents, short-term investments, and trade receivables. The Company invests temporary and excess funds in money market securities and financial instruments having maturities typically within 90 days. The Company has not experienced losses from the aforementioned investments. See also Note 6 of Notes to Consolidated Financial Statements.

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

QUAKER CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

Comprehensive income (loss): The Company presents comprehensive income (loss) in its Statement of Shareholders Equity. The components of accumulated other comprehensive loss at December 31, 2007 include: accumulated foreign currency translation adjustments of $13,264, minimum pension liability of $(18,399), unrealized holding gains on available-for-sale securities of $226, and the fair value of derivative instruments of $(716). The components of accumulated other comprehensive loss at December 31, 2006 include: accumulated foreign currency translation adjustments of $1,848, minimum pension liability of $(21,300), unrealized holding gains on available-for-sale securities of $308 and the fair value of derivative instruments of $85.

Income taxes and uncertain tax positions: The provision for income taxes is determined using the asset and liability approach of accounting for income taxes. Under this approach, deferred taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. The provision for income taxes represents income taxes paid or payable for the current year plus the change in deferred taxes during the year. Deferred taxes result from differences between the financial and tax bases of the Company s assets and liabilities and are adjusted for changes in tax rates and tax laws when changes are enacted. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. The Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48) on January 1, 2007. FIN 48 applies to all income tax positions taken on previously filed tax returns or expected to be taken on a future tax return. FIN 48 prescribes a benefit recognition model with a two-step approach, a more-likely-than-not recognition criterion, and a measurement attribute that measures the position as the largest amount of tax benefit that is greater than 50% likely of being realized upon effective settlement. FIN 48 also requires that the amount of interest expense and income to be recognized related to uncertain tax positions be computed by applying the applicable statutory rate of interest to the difference between the tax position recognized in accordance with FIN 48, including timing differences, and the amount previously taken or expected to be taken in a tax return. The Company s continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense.

Derivatives: The Company uses derivative financial instruments primarily for purposes of hedging exposures to fluctuations in interest rates. The Company does not enter into derivative contracts for trading or speculative purposes. In accordance with SFAS 133, Accounting for Derivative Instruments and Hedging Activities, as amended and interpreted, all derivatives are recognized on the balance sheet at fair value. For derivative instruments designated as cash flow hedges, the effective portion of any hedge is reported in Accumulated Other Comprehensive Income (Loss) until it is cleared to earnings during the same period in which the hedged item affects earnings. The Company uses no derivative instruments designated as fair value hedges.

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 $35,000 and $25,000 and a fair value of $(1,102) and $85 at December 31, 2007 and December 31, 2006, respectively. The counterparties to the swaps are major financial institutions.

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 this standard on its consolidated financial statements.

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QUAKER CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB 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 comparison 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 application of SFAS No. 159 is elective and the Company has chosen not to measure any additional financial instruments or any other items at fair value. The Company is currently assessing the impact of this standard on its consolidated financial statements.

In September 2007, EITF Issue 06-11 Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards (EITF 06-11) was issued. EITF 06-11 should be applied prospectively to the income tax benefits that result from dividends on equity-classified employee share-based payment awards that are declared in fiscal years beginning after December 15, 2007, and interim periods within those years. The Company is currently assessing the impact of this standard on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (FAS 141(R)) and SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, as amendment of ARB No. 51 (FAS 160). FAS 141(R) will significantly change how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. Some of the changes, such as the accounting for contingent consideration, will introduce more volatility into earnings. FAS 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. FAS 141(R) will be applied prospectively. FAS 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. All other requirements of FAS 160 shall be applied prospectively. FAS 141(R) and FAS 160 are effective for fiscal years beginning on or after December 15, 2008. The Company is currently assessing the impact of these standards on its financial statements.

Accounting estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingencies at the date of the financial statements and the reported amounts of net sales and expenses during the reporting period. Actual results could differ from such estimates.

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

Note 2 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 in 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-month period 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, 2006 or 2007 and, therefore, has not restated any prior period amounts.

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QUAKER CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

Note 3 Restructuring and Related Activities

In the first quarter of 2005, Quaker s management approved a restructuring plan (2005 1st Quarter Program). Included in the first quarter 2005 restructuring charge were provisions for severance for 16 employees totaling $1,408. At December 31, 2005, all severance payments were completed. The Company reversed $96 of unused restructuring charges related to this program, which completed all actions contemplated by the 2005 1st Quarter Program.

In the fourth quarter of 2005, Quaker s management approved a restructuring plan (2005 4th Quarter Program) with the goal of significantly reducing operating costs in the U.S. and Europe. The restructuring plan included involuntary terminations, a freeze of the Company s U.S. pension plan, a voluntary early retirement window to certain U.S. employees, with enhanced pension and other postretirement benefits. Included in the restructuring charges were provisions for severance (voluntary and involuntary) of 55 employees. Restructuring and related charges of $9,344 were recognized in the fourth quarter of 2005. The charge comprised $4,024 related to severance for involuntary terminations, $1,017 related to one-time payments for voluntary early retirement, $2,668 related to the U.S. pension plan freeze, and $1,635 for the enhanced pension and other postretirement benefits related to voluntary early retirement participants. The Company completed the initiatives contemplated under this program during 2006. The charges related to the U.S. pension plan freeze and the enhanced pension and other postretirement benefits were included as part of the accrued pension and other postretirement balances. See also Note 11 of Notes to Consolidated Financial Statements.

Note 4 Uncertain Tax Positions

In June 2006, the Financial Accounting Standards Board issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 prescribes the recognition threshold and measurement attributes for financial statement recognition and measurement of tax positions taken or expected to be taken on a tax return. FIN 48 requires the determination of whether the benefits of tax positions will be more likely than not sustained upon audit based upon the technical merits of the tax position. For tax positions that are determined to be more likely than not sustained upon audit, a company recognizes the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement in the financial statements. For tax positions that are not determined to be more likely than not sustained upon audit, a company does not recognize any portion of the benefit in the financial statements.

FIN 48 also provides guidance on de-recognition, classification, penalties and interest, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company adopted the provisions of FIN 48, effective January 1, 2007.

As a result of the implementation of FIN 48, the Company recognized a $5,503 increase in 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. The Company had accrued $592 for penalties and $728 for interest at January 1, 2007.

As of December 31, 2007, the Company s cumulative liability for gross unrecognized tax benefits was $10,861. The Company had accrued $809 for penalties and $1,211 for interest at December 31, 2007. The

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QUAKER CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

Company continues to recognize interest and penalties associated with uncertain tax positions as a component of Taxes on Income in its Consolidated Statement of Income. The Company has recognized $160 for penalties and $443 for interest on its Consolidated Statement of Income for the twelve-month period ended December 31, 2007.

The Company estimates that during the year ended December 31, 2008 it will reduce its cumulative liability for gross unrecognized tax benefits by approximately $600 to $700 due to the expiration of the statute of limitations with regard to certain tax positions. This estimated reduction in the cumulative liability for unrecognized tax benefits does not consider any increase in liability for unrecognized tax benefits with regard to existing tax positions or any increase in cumulative liability for unrecognized tax benefits with regard to new tax positions for the year ended December 31, 2008.

The Company and its subsidiaries are subject to U.S. Federal income tax, as well as the income tax of various state and foreign tax jurisdictions. Tax years that remain subject to examination by major tax jurisdictions include the United Kingdom from 2001, Brazil from 2002, the Netherlands and Spain from 2003, Italy, India and the United States from 2004, China from 2005, and various domestic state tax jurisdictions from 1993.

In 2007, the Internal Revenue Service commenced a routine examination of the Company s U.S. corporate income tax returns for the tax years ended December 31, 2005 and December 31, 2006. Based on the outcome of this examination, the Company may recognize changes to its unrecognized tax benefit.

In addition, the Company is currently under audit by French taxing authorities for tax years 2000 through 2004. As of December 31, 2007, the French tax authorities have proposed certain adjustments to the Company s transfer pricing transactions. Management is currently evaluating the proposed adjustments. While the outcome of such adjustments would cause the Company to recognize changes to its unrecognized benefits, the Company does not anticipate that the adjustments would result in a material change to its financial position.

	Tabular Reconciliation December 31, 2007	
Unrecognized tax benefits at January 1, 2007	$	$ 8,902
Increase unrecognized tax benefits taken in prior periods	367	
(Decrease) unrecognized tax benefits taken in prior periods	(510)	
Increase foreign exchange rates	880	
		737
Increase unrecognized tax benefits taken in current period	1,333	
(Decrease) unrecognized tax benefits taken in current period		
Increase foreign exchange rates	95	
		1,428
Increase unrecognized tax benefits due to settlements		
(Decrease) unrecognized tax benefits due to settlements		
Increase (Decrease) foreign exchange rates		
(Decrease) in unrecognized tax benefits due to lapse of statute of limitations	(206)	
Increase (Decrease) foreign exchange rates		
		(206)

Unrecognized tax benefits at December 31, 2007	$ 10,861

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QUAKER CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

Note 5 Investments in Associated Companies

Investments in associated (less than majority-owned) companies are accounted for under the equity method. Summarized financial information of the associated companies, in the aggregate, is as follows:

	December 31,	
	2007	2006
Current assets	$ 28,130	$ 24,129
Noncurrent assets	5,351	5,400
Current liabilities	11,320	13,062
Noncurrent liabilities	247	233

	Year Ended December 31,		
	2007	2006	2005
Net sales	$ 51,248	$ 46,062	$ 44,507
Gross margin	18,660	17,662	17,677
Operating income	3,735	3,920	3,430
Net income	1,658	1,574	1,202

In January 2001, the Company contributed its Conshohocken, Pennsylvania property and buildings (the Site) into a real estate joint venture (the Venture) in exchange for a 50% interest in the Venture. The Venture did not assume any debt or other obligations of the Company and the Company did not guarantee nor was it obligated to pay any principal, interest or penalties on any of the Venture s indebtedness. The Venture renovated certain of the existing buildings at the Site, as well as built new office space. In December 2000, the Company entered into an agreement with the Venture to lease approximately 38% of the Site s available office space for a 15-year period commencing February 2002, with multiple renewal options. The Company believes the terms of this lease were no less favorable than the terms it would have obtained from an unaffiliated third party. In February 2005, the Venture sold its real estate assets to an unrelated third party, which resulted in $4,187 of proceeds to the Company after payment of the Venture s obligations. The proceeds include a gain of $2,989 related to the sale by the Venture of its real estate holdings as well as $1,198 of preferred distributions. These proceeds are included in other income.

Note 6 Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable are recorded at the invoiced amount and generally do not bear interest. The allowance for doubtful accounts is the Company s best estimate of the amount of probable credit losses in existing accounts receivable. Reserves for customers filing for bankruptcy protection are generally established at 75-100% of the amount owed at the filing date, dependent on the Company s evaluation of likely proceeds from the bankruptcy process. Large and/or financially distressed customers are generally reserved for on a specific review basis while a general reserve is established for other customers based on historical experience. The Company performs a formal review of its allowance for doubtful accounts quarterly. Account balances are charged off against the allowance when the Company feels it is probable the receivable will not be recovered. The Company does not have any off-balance-sheet credit exposure related to its customers. During 2007, the Company s five largest customers accounted for approximately 29% of its consolidated net sales with the largest customer (Arcelor-Mittal Group) accounting for approximately 10% of consolidated net sales.

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QUAKER CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

At December 31, 2007 and 2006, the Company had gross trade accounts receivable totaling $121,207 and $110,525 with trade accounts receivable greater than 90 days past due of $5,178 and $5,565, respectively. Following are the changes in the allowance for doubtful accounts during the years ended December 31, 2007, 2006 and 2005.

	Balance at Beginning of Period	Charged to Costs and Expenses	Write-Offs Charged to Allowance	Effect of Exchange Rate Changes	Balance at End of Period
ALLOWANCE FOR DOUBTFUL ACCOUNTS					
Year ended December 31, 2007	$ 3,185	$ 41	$ (413)	$ 259	$ 3,072
Year ended December 31, 2006	$ 4,066	$	$ (961)	$ 80	$ 3,185
Year ended December 31, 2005	$ 6,773	$ 1,216	$ (3,828)	$ (95)	$ 4,066

Note 7 Inventories

Total inventories comprise:

	December 31, 2007	2006
Raw materials and supplies	$ 24,447	$ 21,589
Work in process and finished goods	36,291	30,395
	$ 60,738	$ 51,984

Note 8 Property, Plant and Equipment

Property, plant and equipment comprise:

	December 31, 2007	2006
Land	$ 6,630	$ 5,768
Building and improvements	50,530	40,446
Machinery and equipment	116,325	104,427
Construction in progress	2,393	8,293
	175,878	158,934
Less accumulated depreciation	(113,591)	(98,007)
	$ 62,287	$ 60,927

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QUAKER CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

The Company leases certain equipment under capital leases in Europe and the U.S., including its manufacturing facility in Tradate, Italy. Gross property, plant, and equipment includes $3,736 and $3,398 of capital leases with $947 and $672 of accumulated depreciation at December 31, 2007 and 2006, respectively. The following is a schedule by years of future minimum lease payments:

For the year ended December 31,	
2008	$ 431
2009	$ 369
2010	$ 558
2011	$ 17
2012	$
2013 and beyond	$
Total net minimum lease payments	1,375
Less amount representing interest	(174)
Present value of net minimum lease payments	$ 1,201

Note 9 Asset Retirement Obligations

In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations (SFAS No. 143). SFAS No. 143 addresses accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated retirement costs. The Company adopted the standard as of January 1, 2003 and there was no material impact to the financial statements. In March 2005, the FASB issued its FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143. The interpretation clarifies that the term conditional asset retirement obligation (CARO) as used in SFAS No.143, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. A liability is recorded when there is enough information regarding the timing of the CARO to perform a probability weighted discounted cash flow analysis.

The Company s CAROs consist primarily of asbestos contained in certain manufacturing facilities and decommissioning costs related to its aboveground storage tanks. In the fourth quarter of 2005, due to a change in facts and circumstances at one of its manufacturing facilities, the Company determined enough information regarding the timing of cash flows was available to record a liability for $250. During 2007 and 2006, the Company accrued interest on this liability, which is included in other non-current liabilities, of $15 and $15, respectively.

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QUAKER CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

Note 10 Taxes on Income

Taxes on income consist of the following:

	Year Ended December 31,		
	2007	**2006**	**2005**
Current:			
Federal	$ 1,577	$	$ (443)
State	20	21	20
Foreign	5,425	5,799	8,235
	7,022	5,820	7,812
Deferred:			
Federal	(951)	792	(3,194)
Foreign	597	(388)	(1,282)
Total	$ 6,668	$ 6,224	$ 3,336

The components of earnings (losses) before income taxes were as follows:

	2007	**2006**	**2005**
Domestic	$ (1,259)	$ 395	$ (12,249)
Foreign	23,994	18,045	18,864
Total	$ 22,735	$ 18,440	$ 6,615

Domestic earnings (losses) before income taxes do not include foreign earnings that are included in U.S. taxable income. During the fourth quarter of 2005, the Company elected to repatriate substantial accumulated foreign earnings and implemented other tax planning strategies, which enabled the Company to utilize all domestic operating loss carryforwards, and improved its global capital structure. This repatriation was the primary reason for the increase in the Company s effective tax rate in 2005 and resulted in a net $1,000 charge to tax expense.

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(Dollars in thousands except per share amounts)

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

	2007		2006	
	Current	Non-current	Current	Non-current
Retirement benefits	$ 582	$ 7,771	$ 609	$ 10,918
Allowance for doubtful accounts	403		628	
Insurance and litigation reserves	539	700	826	
Postretirement benefits		2,467		2,634
Supplemental retirement benefits		1,692		1,460
Performance incentives	1,830	1,301	1,884	1,204
Equity-based compensation	132	591		332
Alternative minimum tax carryforward		2,092		2,092
Vacation pay	452		432	
Insurance settlement		6,524		5,176
Operating loss carryforward		4,908		5,098
Foreign tax credit		3,237		2,161
Deferred compensation		429		352
Uncertain tax positions	104	2,406		
Other		300		45
	4,042	34,418	4,379	31,472
Valuation allowance		(4,161)		(2,899)
Total deferred income tax assets, net	$ 4,042	$ 30,257	$ 4,379	$ 28,573
Depreciation		$ 2,056		$ 1,275
Europe pension and other		5,527		4,042
Total deferred income tax liabilities		$ 7,583		$ 5,317

The following is a reconciliation of income taxes at the Federal statutory rate with income taxes recorded by the Company for the years ended December 31:

	2007	2006	2005
Income tax provision at the Federal statutory tax rate	$ 7,957	$ 6,454	$ 2,315
State income tax provisions, net	13	13	13
Non-deductible entertainment and business meal expense	213	136	151
Differences in tax rates on foreign earnings and remittances	(169)	59	3,777
Uncertain tax positions	458		
Out-of-period adjustment	(993)		
Foreign tax refunds	(665)	(425)	
Excess FTC utilization			(2,429)
Settlement of tax contingencies			(446)

Miscellaneous items, net	(146)	(13)	(45)
Taxes on income	$ 6,668	$ 6,224	$ 3,336

At December 31, 2007, the Company domestically had a net deferred tax asset of $16,773 inclusive of alternative minimum tax (AMT) credits of $2,092. Additionally, the Company has foreign tax credit carryovers of $3,237 which have the following expiration dates: $100 in 2012, $763 in 2013, $535 in 2014, $762 in 2016

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(Dollars in thousands except per share amounts)

and $1,077 in 2017. A full valuation allowance has been taken against these foreign tax credits. Finally, the Company has foreign tax loss carryforwards of $14,206 of which $676 expires in 2011; the remaining foreign tax losses have no expiration dates. A partial valuation allowance has been established with respect to the tax benefit of these losses for $924.

U.S. income taxes have not been provided on the undistributed earnings of non-U.S. subsidiaries because it is the Company s intention to continue to reinvest these earnings in those subsidiaries to support growth initiatives. U.S. and foreign income taxes that would be payable if such earnings were distributed may be lower than the amount computed at the U.S. statutory rate due to the availability of tax credits. The amount of such undistributed earnings at December 31, 2007 was approximately $57,000. Any income tax liability which might result from ultimate remittance of these earnings is expected to be substantially offset by foreign tax credits.

Note 11 Pension and Other Postretirement Benefits

The Company maintains various noncontributory retirement plans, the largest of which is in the U.S., covering substantially all of its employees in the U.S. and certain other countries. The plans of the Company s subsidiaries in The Netherlands and in the United Kingdom are subject to the provisions of SFAS No. 87, Employers Accounting for Pensions. The plans of the remaining non-U.S. subsidiaries are, for the most part, either fully insured or integrated with the local governments plans and are not subject to the provisions of SFAS No. 87. The Company s U.S. pension plan year ends on November 30, which serves as the measurement date. The measurement date for the Company s other postretirement benefits is December 31.

As part of the Company s 2005 fourth quarter restructuring program, the Company implemented a freeze of its U.S. pension plan for non-union employees and offered a voluntary early retirement window with enhanced pension and other postretirement benefits. The freeze of the Company s U.S. pension plan resulted in a plan curtailment charge of $2,668. The pension and other postretirement benefits enhancements resulted in special termination benefits charges of $1,205 and $430, respectively. See also Note 3 of Notes to Consolidated Financial Statements.

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS No. 158). SFAS No. 158 requires that employers recognize on a prospective basis the funded status of their defined benefit pension and other postretirement plans on their consolidated balance sheet and recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost. SFAS No. 158 also requires additional disclosures in the Notes to Consolidated Financial Statements, which have been incorporated below.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

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

							Other Postretirement Benefits	
	Pension Benefits							
	2007			2006			2007	2006
	Foreign	Domestic	Total	Foreign	Domestic	Total	Domestic	Domestic
Change in benefit obligation								
Benefit obligation at beginning of year	$ 46,639	$ 65,958	$ 112,597	$ 44,464	$ 66,207	$ 110,671	$ 10,283	$ 10,902
Service cost	1,913	660	2,573	2,025	586	2,611	25	15
Interest cost	2,295	3,629	5,924	1,920	3,575	5,495	522	551
Employee contributions	138		138	111		111		
Amendments					(111)	(111)		
Curtailment (gain)/loss				(2,748)		(2,748)		
Benefits paid	(1,296)	(4,422)	(5,718)	(1,132)	(5,756)	(6,888)	(1,207)	(1,153)
Plan expenses and premiums paid	(370)	(80)	(450)	(285)	(80)	(365)		
Actuarial (gain)/loss	(4,917)	456	(4,461)	(2,875)	1,537	(1,338)	(443)	(32)
Translation difference	4,151		4,151	5,159		5,159		
Benefit obligation at end of year	$ 48,553	$ 66,201	$ 114,754	$ 46,639	$ 65,958	$ 112,597	$ 9,180	$ 10,283
Change in plan assets								
Fair value of plan assets at beginning of year	$ 41,160	$ 40,861	82,021	$ 34,514	$ 37,873	$ 72,387	$	$
Actual return on plan assets	1,174	3,435	4,609	1,187	3,838	5,025		
Employer contributions	1,359	5,947	7,306	2,553	4,906	7,459	1,207	1,153
Employee contributions	138		138	111		111		
Benefits paid	(1,296)	(4,422)	(5,718)	(1,132)	(5,756)	(6,888)	(1,207)	(1,153)
Plan expenses and premiums paid	(370)	(80)	(450)	(285)		(285)		
Translation difference	4,038		4,038	4,212		4,212		
Fair value of plan assets at end of year	$ 46,203	$ 45,741	$ 91,944	$ 41,160	$ 40,861	$ 82,021	$	$
Funded status	$ (2,350)	$ (20,460)	$ (22,810)	$ (5,479)	$ (25,097)	$ (30,576)	$ (9,180)	$ (10,283)
Adjustments for contributions in December		1,250	1,250		1,119	1,119		
Net amount recognized	$ (2,350)	$ (19,210)	$ (21,560)	$ (5,479)	$ (23,978)	$ (29,457)	$ (9,180)	$ (10,283)
Amounts recognized in the balance sheet consist of:								
Non-current asset/Prepaid benefit cost	$ 1,685	$	$ 1,685	$ 430	$	$ 430	$	$
Current liabilities	(231)	(495)	(726)	(145)	(495)	(640)	(1,000)	(1,100)
Non-current liabilities	(3,804)	(18,715)	(22,519)	(5,764)	(23,483)	(29,247)	(8,180)	(9,183)
Net amount recognized	$ (2,350)	$ (19,210)	$ (21,560)	$ (5,479)	$ (23,978)	$ (29,457)	$ (9,180)	$ (10,283)

Amounts not yet reflected in net periodic benefit costs and included in accumulated other comprehensive income:

Transition asset (obligation)	$ 401	$	$ 401	$ 538	$	$ 538	$	$
Prior service credit (cost)	(244)	(106)	(350)	(252)	(119)	(371)	93	159
Accumulated gain (loss)	(7,565)	(18,070)	(25,635)	(11,602)	(18,435)	(30,037)	(1,802)	(2,328)
Accumulated other comprehensive income (AOCI)	(7,408)	(18,176)	(25,584)	(11,316)	(18,554)	(29,870)	(1,709)	(2,169)
Cumulative employer contributions in excess of net period benefit cost	5,058	(1,034)	4,024	5,837	(5,424)	413	(7,471)	(8,114)
Net amount recognized	$ (2,350)	$ (19,210)	$ (21,560)	$ (5,479)	$ (23,978)	$ (29,457)	$ (9,180)	$ (10,283)

The accumulated benefit obligation for all defined benefit pension plans was $108,324 ($65,722 Domestic, $42,602 Foreign) and $105,210 ($64,560 Domestic, $40,650 Foreign) at December 31, 2007 and 2006, respectively.

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QUAKER CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

Information for pension plans with accumulated benefit obligation in excess of plan assets:

	2007			2006		
	Foreign	Domestic	Total	Foreign	Domestic	Total
Projected benefit obligation	$ 11,944	$ 66,201	$ 78,145	$ 13,142	$ 65,958	$ 79,100
Accumulated benefit obligation	10,500	65,722	76,222	10,556	64,560	75,116
Fair value of plan assets	7,909	45,742	53,651	7,233	40,861	48,094

Information for pension plans with a projected benefit obligation in excess of plan assets:

	2007			2006		
	Foreign	Domestic	Total	Foreign	Domestic	Total
Projected benefit obligation	$ 11,944	$ 66,201	$ 78,145	$ 13,142	$ 65,958	$ 79,100
Fair value of plan assets	7,909	45,742	53,651	7,233	40,861	48,094

Components of net periodic benefit cost pension plans:

	2007			2006		
	Foreign	Domestic	Total	Foreign	Domestic	Total
Service cost	$ 1,913	$ 660	$ 2,573	$ 2,025	$ 586	$ 2,611
Interest cost	2,295	3,629	5,924	1,920	3,575	5,495
Expected return on plan assets	(1,802)	(3,556)	(5,358)	(1,596)	(3,222)	(4,818)
Pension plan curtailment				(983)		(983)
Other, amortization, net	365	955	1,320	679	831	1,510
Net periodic benefit cost	$ 2,771	$ 1,688	$ 4,459	$ 2,045	$ 1,770	$ 3,815

	2005		
	Foreign	Domestic	Total
Service cost	$ 2,025	$ 1,735	$ 3,760
Interest cost	1,898	3,394	5,292
Expected return on plan assets	(1,529)	(2,888)	(4,417)
Pension plan curtailment		2,668	2,668
Special termination benefits		1,205	1,205
Other, amortization, net	656	855	1,511
Net periodic benefit cost	$ 3,050	$ 6,969	$ 10,019

QUAKER CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

Other changes recognized in other comprehensive income:

	2007			2006		
	Foreign	Domestic	Total	Foreign	Domestic	Total
Net (gain) loss arising during period	$ (4,289)	$ 578	$ (3,711)	$	$	$
Recognition of amortizations in net periodic benefit cost						
Transition (obligation) asset	185		185			
Prior service (cost) credit	(32)	(13)	(45)			
Actuarial gain (loss)	(518)	(943)	(1,461)			
Effect of exchange rates on amounts included in AOCI	746		746			
Total recognized in other comprehensive income	(3,908)	(378)	(4,286)	9,312	318	9,630
Total recognized in net periodic benefit cost and other comprehensive income	$ (1,137)	$ 1,310	$ 173	$ 11,357	$ 2,088	$ 13,445

Components of net periodic benefit cost other postretirement plan:

	2007	2006	2005
Service cost	$ 25	$ 15	$ 20
Interest cost and other	539	570	616
Special termination benefits			430
Net periodic benefit cost	$ 564	$ 585	$ 1,066

Other changes recognized in other comprehensive income:

	2007	2006
Net (gain) loss arising during period	$ (444)	$
Recognition of amortizations in net periodic benefit cost		
Prior service (cost) credit	67	
Actuarial gain (loss)	(84)	
Total recognized in other comprehensive income	(461)	2,169
Total recognized in net periodic benefit cost and other comprehensive income	$ 103	$ 2,754

Estimated amounts that will be amortized from accumulated other comprehensive loss over the next fiscal year:

	Pension Plans			Other Postretirement
	Foreign	Domestic	Total	Benefits
Transition obligation (asset)	$ (198)	$	$ (198)	$
Actuarial (gain) loss	194	804	998	70
Prior service cost (credit)	34	11	45	(70)
	$ 30	$ 815	$ 845	$

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(Dollars in thousands except per share amounts)

Weighted-average assumptions used to determine benefit obligations at December 31:

	Pension Benefits		Other Postretirement Benefits	
	2007	2006	2007	2006
U.S. Plans:				
Discount rate	5.75%	5.50%	5.75%	5.50%
Rate of compensation increase	3.375%	3.375%	N/A	N/A
Foreign Plans:				
Discount rate	5.55%	4.81%	N/A	N/A
Rate of compensation increase	3.95%	3.19%	N/A	N/A

Weighted-average assumptions used to determine net periodic benefit costs for years ended December 31:

	Pension Benefits		Other Postretirement Benefits	
	2007	2006	2007	2006
U.S. Plans:				
Discount rate	5.500%	5.500%	5.500%	5.50%
Expected long-term return on plan assets	8.500%	8.500%	N/A	N/A
Rate of compensation increase	3.375%	3.375%	N/A	N/A
Foreign Plans:				
Discount rate	4.81%	4.35%	N/A	N/A
Expected long-term return on plan assets	4.19%	4.17%	N/A	N/A
Rate of compensation increase	3.19%	3.10%	N/A	N/A

The long-term rates of return on assets were selected from within the reasonable range of rates determined by (a) historical real returns for the asset classes covered by the investment policy and (b) projections of inflation over the long-term period during which benefits are payable to plan participants.

Assumed health care cost trend rates at December 31:

	2007	2006
Health care cost trend rate for next year	8.75%	9.5%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	2014	2014

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1% point Increase	1% point Decrease
Effect on total service and interest cost	$ 23	$ (20)
Effect on postretirement benefit obligations	430	(390)

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Plan Assets

The Company s pension plan target asset allocation and the weighted-average asset allocations at December 31, 2007 and 2006 by asset category were as follows:

	Plan Assets at December 31,		
	Target	2007	2006
Asset Category			
U.S. Plans			
Equity securities	61%	60%	62%
Debt securities	32%	14%	12%
Other	7%	26%	26%
Total	100%	100%	100%
Foreign Plans			
Equity securities	14%	15%	11%
Debt securities	86%	85%	89%
Total	100%	100%	100%

As of December 31, 2007 and 2006, Other consisted principally of hedge funds (approximately 5% of plan assets) and cash and cash equivalents (approximately 21% of plan assets). Based upon prevailing interest rates available for money market funds, a temporary addendum to the investment policy was approved in May 2006. This addendum allowed for a greater range of the mix between debt securities and cash and cash equivalents around the stated long-term target allocation percentages presented in the above table. The Company was in compliance with all approved ranges of asset allocations.

The general principles guiding investment of U.S. pension assets are those embodied in the Employee Retirement Income Security Act of 1974 (ERISA). These principles include discharging the Company s investment responsibilities for the exclusive benefit of plan participants and in accordance with the prudent expert standard and other ERISA rules and regulations. The Company establishes strategic asset allocation percentage targets and appropriate benchmarks for significant asset classes with the aim of achieving a prudent balance between return and risk. The interaction between plan assets and benefit obligations is periodically studied to assist in establishing such strategic asset allocation targets. The Company s pension investment professionals have discretion to manage the assets within established asset allocation ranges approved by senior management of the Company.

The total value of plan assets for the Company s pension plans is $91,944 and $82,021 as of December 31, 2007 and 2006, respectively. U.S. pension assets include Company common stock in the amounts of $220 (less than 1% of total U.S. plan assets), and $221 (less than 1% of total U.S. plan assets) at December 31, 2007 and 2006, respectively.

Cash Flows

Contributions

The Company expects to make minimum cash contributions of $6,669 to its pension plans ($3,595 Domestic, $3,074 Foreign) and $1,000 to its other postretirement benefit plan in 2008.

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(Dollars in thousands except per share amounts)

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension Benefits			Other Postretirement Benefits
	Foreign	Domestic	Total	
2008	$ 1,370	$ 4,165	$ 5,535	$ 1,000
2009	1,547	4,059	5,606	950
2010	1,616	4,377	5,993	960
2011	1,785	5,050	6,835	930
2012	1,846	5,129	6,975	910
2013 and beyond	10,503	26,996	37,499	3,930

The Company maintains a plan under which supplemental retirement benefits are provided to certain officers. Benefits payable under the plan are based on a combination of years of service and existing postretirement benefits. Included in total pension costs are charges of $1,297, $1,076 and $725 in 2007, 2006 and 2005, respectively, representing the annual accrued benefits under this plan.

Defined Contribution Plan

The Company has a 401(k) plan with an employer match covering substantially all domestic employees. Effective January 1, 2006, the plan added a nonelective contribution on behalf of participants who have completed one year of service equal to 3% of the eligible participants compensation. Total Company contributions were $1,634, $1,402 and $625 for 2007, 2006 and 2005, respectively.

Note 12 Debt

Debt consisted of the following:

	December 31, 2007	2006
Industrial development authority monthly 5.10% fixed rate demand bonds maturing 2018	$ 5,000	$ 5,000
Credit facilities (5.8% weighted average borrowing rate at December 31, 2007)	73,848	79,212
Other debt obligations (including capital leases)	3,927	5,975
	82,775	90,187
Short-term debt	(2,533)	(3,261)
Current portion of long-term debt	(1,755)	(1,689)
	$ 78,487	$ 85,237

The long-term financing agreements require the maintenance of certain financial covenants with which the Company is in compliance. During the next five years, payments on the Company s debt, including capital lease maturities, are due as follows: $4,288 in 2008, $1,467 in 2009, $537 in 2010, $21 in 2011, $71,462 in 2012 and $5,000 beyond 2012.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

On August 13, 2007, Quaker and certain of its wholly owned subsidiaries entered into a second amendment to the 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 increased 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. In general, borrowings under the credit facility bear interest at either a base rate or LIBOR rate plus a margin based on the Company s consolidated leverage ratio. In February 2007, the Company completed a refinancing of its existing industrial development bonds to fix the interest rate on an additional $5,000 of debt.

The provisions of the agreements require that the Company maintain certain financial ratios and covenants, all of which the Company was in compliance with as of December 31, 2007 and 2006. Under its most restrictive covenants, the Company could have borrowed an additional $67,583 at December 31, 2007. At December 31, 2007 and 2006, the Company had approximately $73,848 and $79,212 outstanding on these credit lines at a weighted average borrowing rate of 5.8% and 5.69%, respectively. 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 at December 31, 2007.

At December 31, 2007 and 2006, the amounts at which the Company s debt are recorded are not materially different from their fair market value.

Note 13 Shareholders Equity and Stock-Based Compensation

The Company has 30,000,000 shares of common stock authorized, with a par value of $1, and 10,147,239 shares issued as of December 31, 2007.

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

The Company is authorized to issue 10,000,000 shares of preferred stock, $1 par value, subject to approval by the Board of Directors. The Board of Directors may designate one or more series of preferred stock and the number of shares, rights, preferences, and limitations of each series. No preferred stock has been issued.

On March 6, 2000, the Company s Board of Directors approved a new Rights Plan and declared a dividend of one new right (the Rights) for each outstanding share of common stock to shareholders of record on March 20, 2000.

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

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

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

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

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*.

SFAS 123R requires the Company to present pro forma information for the comparative periods prior to the adoption as if the Company had accounted for all employee stock options under the fair value method of the original SFAS 123. The following table illustrates the effect on net income and net income per common share if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation in the prior-year period:

	December 31, 2005
Net Income as reported	$ 1,688
Add: Stock-based employee compensation expense included in net income, net of related tax effects	347
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of tax	(832)
Pro forma net income	$ 1,203
Earnings per share:	
Basic as reported	$ 0.17
Basic pro forma	$ 0.12
Diluted as reported	$ 0.17
Diluted pro forma	$ 0.12

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

The Company recognized approximately $1,550 of share based compensation expense and $543 of related tax benefits in our consolidated statement of income for the year ended December 31, 2007. The compensation expense was comprised of $408 related to stock options, $980 related to nonvested stock awards, $41 related to the Company s Employee Stock Purchase Plan, and $121 related to the Company s Director Stock Ownership Plan. The Company recognized approximately $857 of share-based compensation expense and $300 of related tax benefits in our consolidated statement of income for the year ended December 31, 2006. The compensation expense was comprised of $224 related to stock options, $474 related to nonvested stock awards, $34 related to the Company s Employee Stock Purchase Plan, and $125 related to the Company s Director Stock Ownership Plan.

Approximately $91 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 stock-based awards. The estimated fair value of the Company s stock-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 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 $91 due to the accrual of compensation expense on the unvested stock options for the year ended December 31, 2006.

No compensation expense related to stock option grants had been recorded in the condensed consolidated statement of income for 2005, as all of the options granted had an exercise price equal to the market value of the underlying stock on the date of grant. Accordingly, results for prior periods have not been restated.

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 derived from Company performance over a three-year period. In the fourth quarter of 2007, the Company recorded equity-based compensation expense of $378 as it became probable that the performance condition regarding the Company s 2005 grant would be achieved. Common stock awards issued in 2006 and 2007 under the LTIP program are subject only to time vesting over a three 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, which generally vest over a two to five-year period.

QUAKER CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

Stock option activity under all plans is as follows:

	2007			2006		
	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (years)	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (years)
Options outstanding at January 1,	1,092,420	20.69		1,183,485	19.88	
Options granted	166,065	23.13		120,600	19.98	
Options exercised	(183,335)	18.46		(175,750)	14.57	
Options forfeited	(29,956)	23.16		(2,375)	23.08	
Options expired	(12,019)	24.04		(33,540)	21.77	
Options outstanding at December 31,	1,033,175	21.36	3.1	1,092,420	20.69	3.2
Options exercisable at December 31,	808,035	21.16	2.3	948,010	20.65	2.8

	2005		
	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (years)
Options outstanding at January 1,	1,237,425	19.49	
Options granted	158,360	21.97	
Options exercised	(156,775)	17.97	
Options forfeited	(2,500)	23.22	
Options expired	(53,025)	22.38	
Options outstanding at December 31,	1,183,485	19.88	3.3
Options exercisable at December 31,	1,066,274	19.55	3.2

The total intrinsic value of options exercised during 2007 was approximately $735. 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 December 31, 2007, the total intrinsic value of options outstanding was approximately $1,411, and the total intrinsic value of exercisable options was approximately $1,263.

A summary of the Company s outstanding stock options at December 31, 2007 is as follows:

Range of Exercise Prices		Options Outstanding Number Outstanding at 12/31/2007	Weighted Average Contractual Life	Weighted Average Exercise Price	Options Exercisable Number Exercisable at 12/31/2007	Weighted Average Exercise Price
$13.30	$15.96	1,000	1.25	14.13	1,000	14.13
15.97	18.62	127,600	0.20	17.55	127,600	17.55
18.63	21.28	437,075	2.56	20.10	362,675	20.12
21.29	23.94	318,700	4.94	22.46	167,960	21.85
23.95	26.60	148,800	2.88	26.06	148,800	26.06
		1,033,175	3.10	21.36	808,035	21.16

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

As of December 31, 2007, unrecognized compensation expense related to options granted in 2006 was $208 and for options granted during 2007 was $517.

During the second quarter of 2006, the Company granted 120,600 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 4.1%, expected volatility of 27.1%, risk free interest rate of 5.0%, an expected term of 6 years, and a forfeiture rate of 3% over the remaining life of the options. Approximately $209 and $133 of expense was recorded on these options during 2007 and 2006, respectively. The fair value of these awards is amortized on a straight-line basis over the awards vesting period.

During the first quarter of 2007, the Company granted 166,065 stock options under the Company s LTIP plan 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 $199 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 vested, 15,680 shares were forfeited and 72,110 shares were outstanding as of December 31, 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 December 31, 2007, unrecognized compensation expense related to these awards was $836, to be recognized over a weighted average remaining period of 1.9 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 December 31, 2007, 12,750 shares vested and were issued, no shares were forfeited and 27,500 shares were outstanding. As of December 31, 2007, unrecognized compensation expense related to these awards was $126 to be recognized over a weighted average remaining period of 1.6 years.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands except per share amounts)

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 December 31, 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. Currently, 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. The Company recorded approximately $121, $125 and $116 of expense in 2007, 2006 and 2005, respectively.

Restricted Stock Bonus

As part of the Company s 2001 Global Annual Incentive Plan (GAIP), approved by shareholders on May 9, 2001, a restricted stock bonus of 100,000 shares of the Company s stock was granted to an executive of the Company. The shares were issued in April 2001, in accordance with the terms of the GAIP, and registered in the executive s name. The shares vested over a five-year period, with the first installment vesting at the end of 2001 on achieving certain performance targets and the four remaining installments vesting annually in January thereafter, subject to the executive s continued employment by the Company. In 2005, 20,000 shares were earned and $355 was charged to selling, general, and administrative expenses, respectively.

Note 14 Earnings Per Share

The following table summarizes earnings per share (EPS) calculations for the years ended December 31, 2007, 2006 and 2005:

	December 31, 2007	2006	2005
Numerator for basic EPS and diluted EPS net income	$ 15,471	$ 11,667	$ 1,688
Denominator for basic EPS weighted average shares	9,986,347	9,778,745	9,679,013
Effect of dilutive securities, primarily employee stock options	120,571	75,355	136,572
Denominator for diluted EPS weighted average shares and assumed conversions	10,106,918	9,854,100	9,815,585
Basic EPS	$ 1.55	$ 1.19	$ 0.17
Diluted EPS	$ 1.53	$ 1.18	$ 0.17

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(Dollars in thousands except per share amounts)

The following number of stock options are not included in dilutive earnings per share since in each case the exercise price is greater than the market price: 413,753, 787,020 and 769,670 in 2007, 2006 and 2005, respectively.

Note 15 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, including depreciation, allocated to each segment based on net sales. Inter-segment transactions are immaterial.

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

	Metalworking Process Chemicals	Coatings	Other Chemical Products	Total
2007				
Net sales	$ 506,033	$ 36,646	$ 2,918	$ 545,597
Operating income	74,285	8,305	102	82,692
Depreciation	9,747	706	56	10,509
Segment assets	377,770	20,012	1,267	399,049
2006				
Net sales	$ 425,777	$ 32,684	$ 1,990	$ 460,451
Operating income	61,944	7,818	71	69,833
Depreciation	8,458	649	40	9,147
Segment assets	337,329	19,055	998	357,382
2005				
Net sales	$ 393,762	$ 26,486	$ 3,785	$ 424,033
Operating income	49,357	6,574	470	56,401
Depreciation	7,346	494	71	7,911
Segment Assets	312,776	18,196	1,023	331,995

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

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A reconciliation of total segment operating income to total consolidated income before taxes for the years ended December 31, 2007, 2006 and 2005 is as follows:

	2007	2006	2005
Total operating income for reportable segments	$ 82,692	$ 69,833	$ 56,401
Restructuring and related charges, net			(10,320)
Environmental charges	(3,300)		
Non-operating charges	(51,811)	(45,785)	(40,307)
Depreciation of corporate assets and amortization	(2,374)	(2,416)	(2,620)
Interest expense	(6,426)	(5,520)	(3,681)
Interest income	1,376	1,069	1,022
Other income, net	2,578	1,259	6,120
Consolidated income before taxes	$ 22,735	$ 18,440	$ 6,615

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

	2007	2006	2005
Net sales			
North America	$ 232,550	$ 202,979	$ 190,735
Europe	168,982	141,444	130,080
Asia/Pacific	82,059	63,600	53,763
South America	58,538	49,281	43,939
South Africa	3,468	3,147	5,516
Consolidated	$ 545,597	$ 460,451	$ 424,033

	2007	2006	2005
Long-lived assets			
North America	$ 80,170	$ 79,206	$ 80,555
Europe	40,701	36,455	41,553
Asia/Pacific	13,687	10,203	5,283
South America	20,694	16,671	14,181
South Africa	39	33	45
Consolidated	$ 155,291	$ 142,568	$ 141,617

Note 16 Business Acquisitions and Divestitures

In May 2007, the Company s Q2 Technologies, (Q2T) joint venture acquired the oil and gas field chemical 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 were recorded to be amortized over five years.

In the fourth quarter of 2006, the Company acquired the remaining interest in its Chinese joint venture. In accordance with the purchase agreement, payments for the acquisition occur as follows: $614 within five business days of closing, $825 one year from the closing date, $825 two years from the closing date, and $889 three years from the closing date. The Company recorded the present value of the remaining payments as debt.

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The Company made the first payment in the fourth quarter of 2006; the second payment in the fourth quarter of 2007. In addition, the Company allocated $797 to intangible assets, comprising customer lists to be amortized over ten years and a non-compete agreement to be amortized over two years. The Company also recorded $230 of goodwill, which was assigned to the metalworking process chemicals segment. The following table shows the allocation of purchase price of assets and liabilities recorded at the acquisition date. The pro forma results of operations have not been provided because the effects were not material:

	December 31, 2006
Current assets	$ 3,114
Fixed assets	237
Intangibles	797
Goodwill	230
Other non current assets	34
Total assets	4,412
Current liabilities	1,538
Current portion of long-term debt	1,393
Long-term debt	1,481
Total liabilities	4,412
Cash Paid	$

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. In connection with the acquisition, the Company allocated $1,475 to intangible assets, comprising customer lists of $600 to be amortized over 20 years and non-compete agreements of $875 to be amortized over five years. The Company also recorded $610 of goodwill, which was assigned to the metalworking process chemicals segment. The first $1,000 payment was made in March 2006, and the second payment of $1,000 was made in February 2007. Both payments were recorded as goodwill and assigned to the metalworking process chemicals segment.

Note 17 Goodwill and Other Intangible Assets

The Company completed its annual impairment assessment as of the end of the third quarter of 2007 and no impairment charge was warranted. The changes in carrying amount of goodwill for the years ended December 31, 2007 and 2006 are as follows:

	Metalworking Process Chemicals	Coatings	Total
Balance as of December 31, 2005	$ 28,149	$ 7,269	$ 35,418
Goodwill additions	1,535		1,535
Currency translation adjustments	1,787		1,787

Balance as of December 31, 2006	$ 31,471	$ 7,269	$ 38,740
Goodwill additions	1,016		1,016
Currency translation adjustments and other	3,221	812	4,033
Balance as of December 31, 2007	$ 35,708	$ 8,081	$ 43,789

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

	Gross Carrying Amount		Accumulated Amortization	
	2007	2006	2007	2006
Amortized intangible assets				
Customer lists and rights to sell	$ 8,391	$ 7,682	$ 3,340	$ 2,812
Trademarks and patents	1,788	1,788	1,788	1,781
Formulations and product technology	3,278	3,278	1,931	1,645
Other	3,384	3,143	2,509	1,923
Total	$ 16,841	$ 15,891	$ 9,568	$ 8,161

The Company recorded $1,197, $1,427 and $1,368 of amortization expense in 2007, 2006 and 2005, respectively. Estimated annual aggregate amortization expense for the subsequent five years is as follows:

For the year ended December 31, 2008	$ 1,143
For the year ended December 31, 2009	$ 1,079
For the year ended December 31, 2010	$ 879
For the year ended December 31, 2011	$ 814
For the year ended December 31, 2012	$ 716

The Company has one indefinite-lived intangible asset of $600 for trademarks.

Note 18 Other Assets

Other assets comprise:

	December 31,	
	2007	2006
Restricted insurance settlement	$ 18,651	$ 14,800
Pension assets	1,684	430
Deferred compensation assets	5,214	5,489
Supplemental retirement income program	3,915	3,323
Uncertain tax positions	1,860	
Other	2,695	3,485
Total	$ 34,019	$ 27,527

In December 2005, an inactive subsidiary of the Company reached a settlement agreement and release with one of its insurance carriers for $15,000. In accordance with the agreement, the subsidiary received $7,500 cash in December 2005 and the remaining $7,500 in December of 2006. In the first quarter of 2007, the subsidiary reached a settlement agreement and release with another one of its insurance carriers for

$20,000 payable in four annual installments of $5,000, the first of which was received in the second quarter of 2007. Under the latest settlement and release agreement, the subsequent installments are contingent upon whether or not Federal asbestos litigation 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

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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. The proceeds of the settlement and release agreements have been deposited into an interest bearing account which earned approximately $705 and $336 in 2007 and 2006, respectively, offset by $1,854 and $544 of payments in 2007 and 2006, respectively. Due to the restricted nature of the proceeds, a corresponding deferred credit was established in Other non-current liabilities for an equal and offsetting amount, and will remain until the restrictions lapse or the funds are exhausted via payments of claims and costs of defense. See Notes 19 and 20 of Notes to Consolidated Financial Statements.

Note 19 Other Non-Current Liabilities

	December 31,	
	2007	**2006**
Restricted insurance settlement	$ 18,651	$ 14,800
Uncertain tax positions	11,872	
Environmental reserves	2,000	800
Fair value of interest rate swaps	1,102	
Other (primarily deferred compensation agreements)	7,398	7,753
Total	$ 41,023	$ 23,353

See also Notes 18 and 20 of Notes to Consolidated Financial Statements.

Note 20 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 $2,000 in two equal payments of $1,000 (the first payment paid October 31, 2007 and the second payment paid on February 15, 2008). In addition to the $2,000 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 $3,300 charge made up of $2,000 for the settlement of the litigation, plus an increase in its reserve for its soil and water remediation program of $1,300. As of December 31, 2007, the Company believes that the range of potential-known liabilities associated with ACP contamination including the water and soil remediation program, is approximately $3,700 to $5,600, 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

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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 well to be installed and 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. As mentioned above, a significantly higher maintenance expense was factored into the range if the system operates for the longer period. 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.

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 December 31, 2007 and December 31, 2006, respectively, to provide for such anticipated future environmental assessments and remediation costs.

An inactive subsidiary of the Company that was acquired in 1978 sold certain products containing asbestos, primarily on an installed basis, and is among the defendants in numerous lawsuits alleging injury due to exposure to asbestos. The subsidiary discontinued operations in 1991 and has no remaining assets other than the proceeds from insurance settlements received in late 2005, late 2006 and 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 $13,800 (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 has 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

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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 18 and 19 of Notes to Consolidated Financial Statements.

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

The Company leases certain manufacturing and office facilities and equipment under non-cancelable operating leases with various terms from one to 15 years expiring in 2016. Rent expense for 2007, 2006 and 2005 was $4,239, $4,475 and $5,165, respectively. The Company s minimum rental commitments under non-cancelable operating leases at December 31, 2007, were approximately $4,220 in 2008, $3,060 in 2009, $2,376 in 2010, $1,864 in 2011, $1,822 in 2012, and $5,846 thereafter.

Note 21 Quarterly Results (unaudited)

	First	Second	Third(1)	Fourth
2007				
Net sales	$ 124,891	$ 137,598	$ 140,715	$ 142,393
Gross profit	38,546	42,612	43,168	43,610
Operating income	6,627	7,203	3,266	8,111
Net income	3,537	4,151	3,160	4,623
Net income per share basic	$ 0.36	$ 0.42	$ 0.32	$ 0.46
Net income per share diluted	$ 0.35	$ 0.41	$ 0.31	$ 0.46
2006				
Net sales	$ 109,816	$ 118,683	$ 116,425	$ 115,527
Gross profit	32,485	36,065	36,775	37,276
Operating income	5,123	6,276	5,290	4,943
Net income	2,542	2,992	3,139	2,994
Net income per share basic	$ 0.26	$ 0.31	$ 0.32	$ 0.30
Net income per share diluted	$ 0.26	$ 0.30	$ 0.32	$ 0.30

(1) See Note 2 of Notes to Consolidated Financial Statements.

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

None.

Item 9A. ***Controls and Procedures.***

Conclusion regarding the Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the 1934 Act). Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report.

Management s Report on Internal Control over Financial Reporting

The management of Quaker is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Rule 13a-15(f) promulgated under the 1934 Act. Internal control over financial reporting is a process designed 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.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Our management, with the participation of our principal executive officer and principal financial officer, assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2007. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control Integrated Framework*. Based on its assessment, Quaker s management has concluded that as of December 31, 2007, the Company s internal control over financial reporting is effective based on those criteria.

The effectiveness of the Company s internal control over financial reporting as of December 31, 2007 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included in Item 8. Financial Statements and Supplementary Data.

Changes in Internal Controls Over Financial Reporting

The Company is in the process of implementing a global ERP system. At the end of 2007, subsidiaries representing more than 75% of consolidated revenue were operational on the global ERP system. Additional subsidiaries and CMS sites are planned to be implemented during 2008. The Company is taking the necessary steps to monitor and maintain the appropriate internal controls during this period of change.

Item 9B. ***Other Information.***

None.

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PART III

Item 10. ***Directors, Executive Officers and Corporate Governance.***

Incorporated by reference is (i) the information beginning immediately following the caption Proposal 1 Election of Directors and Nominee Biographies in the Registrant s definitive Proxy Statement relating to the Annual Meeting of Shareholders to be held May 7, 2008 to be filed with the SEC no later than 120 days after the close of its fiscal year ended December 31, 2007 (the 2008 Proxy Statement) to, but not including the caption Corporate Governance, (ii) the information appearing in Item 4(a) of this Report, (iii) the information in the 2008 Proxy Statement beginning with and including the sub-caption, Section 16(a) Beneficial Ownership Reporting Compliance to, but not including the caption Certain Relationships and Related Transactions, and (iv) the information in the 2008 Proxy Statement beginning with and including the sub-caption Code of Conduct to, but not including the caption Compensation Committee Interlocks and Insider Participation.

Item 11. ***Executive Compensation.***

Incorporated by reference is the information in the 2008 Proxy Statement beginning with and including the caption Compensation Committee Interlocks and Insider Participation to, but not including the caption Stock Ownership of Certain Beneficial Owners and Management.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.***

Incorporated by reference is the information in the 2008 Proxy Statement beginning immediately following the caption Stock Ownership of Certain Beneficial Owners and Management to, but not including the sub-caption Section 16(a) Beneficial Ownership Reporting Compliance.

The following table sets forth certain information relating to the Company s equity compensation plans as of December 31, 2007. Each number of securities reflected in the table is a reference to shares of Quaker common stock.

Equity Compensation Plans

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	1,033,175	21.36	1,096,626(1)
Equity compensation plans not approved by security holders			
Total	1,033,175	21.36	1,096,626

(1) As of December 31, 2007, 359,750 of these shares were available for issuance as restricted stock awards under the Company s 2001 Global Annual Incentive Plan, 690,550 shares were available for issuance upon the exercise of stock options and/or as restricted stock awards under the Company s 2006 Long-Term Performance Incentive Plan, and 46,326 shares were available for issuance under the 2003 Director Stock Ownership Plan.

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Item 13. ***Certain Relationships and Related Transactions and Director Independence.***

Incorporated by reference is the information in the 2008 Proxy Statement beginning immediately following the sub-caption Certain Relationships and Related Transactions to, but not including, the caption Proposal 2 Ratification of Independent Registered Public Accounting Firm, and the additional information in the 2008 Proxy Statement beginning with and including the sub-caption Director Independence to, but not including the sub-caption Governance Committee Procedures for Selecting Director Nominees.

Item 14. ***Principal Accountant Fees and Services.***

Incorporated by reference is the information in the 2008 Proxy Statement beginning with and including the sub-caption Audit Fees to, but not including the statement recommending a vote for ratification of the Company s independent registered public accounting firm.

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PART IV

Item 15. ***Exhibits and Financial Statement Schedules.***

(a) Exhibits and Financial Statement Schedules

1. Financial Statements and Supplementary Data.

2. Financial Statement Schedules

All schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto. Financial statements of 50% or less owned companies have been omitted because none of the companies meets the criteria requiring inclusion of such statements.

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

3(i)	Amended and Restated Articles of Incorporation dated July 16, 1990. Incorporated by reference to Exhibit 3(a) as filed by Registrant with Form 10-K for the year 1996.
3(ii)	By-laws as amended through May 6, 1998. Incorporated by reference to Exhibit 3(b) as filed by Registrant with Form 10-K for the year 1998.
4	Shareholder Rights Plan dated March 6, 2000. Incorporated by reference to Exhibit 1 to Form 8-K as filed by the Registrant on March 7, 2000.
10.1	Long-Term Performance Incentive Plan as approved May 5, 1993. Incorporated by reference to Exhibit 10(a) as filed by the Registrant with Form 10-K for the year 1993.*
10.2	Employment Agreement by and between the Registrant and Ronald J. Naples dated August 14, 1995. Incorporated by reference to Exhibit 10(i) as filed by Registrant with Form 10-Q for the quarter ended September 30, 1995.*
10.3	Amendment to the Stock Option Agreement dated October 2, 1995 by and between the Registrant and Ronald J. Naples. Incorporated by reference to Exhibit 10(j) as filed by Registrant with Form 10-Q for the quarter ended September 30, 1995.*
10.4	Employment Agreement by and between Registrant and Jos Luiz Bregolato dated June 14, 1993. Incorporated by reference to Exhibit 10(k) as filed by Registrant with Form 10-K for the year 1995.*
10.5	Amendment No. 1 to Employment Agreement dated January 1, 1997 by and between Registrant and Ronald J. Naples. Incorporated by reference to Exhibit 10(o) as filed by Registrant with Form 10-K for the year 1997.*
10.6	Amendment No. 1 to 1995 Naples Restricted Stock Plan and Agreement dated January 21, 1998 by and between Registrant and Ronald J. Naples. Incorporated by reference to Exhibit 10(p) as filed by Registrant with Form 10-K for the year 1997.*

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10.7	Employment Agreement by and between Registrant and Ronald J. Naples dated March 11, 1999. Incorporated by reference to Exhibit 10(t) as filed by Registrant with Form 10-K for the year 1998.*
10.8	Employment Agreement by and between Registrant and Michael F. Barry dated November 30, 1998. Incorporated by reference to Exhibit 10(u) as filed by Registrant with Form 10-K for the year 1998.*
10.9	1999 Long-Term Performance Incentive Plan as approved May 12, 1999, effective January 1, 1999. Incorporated by reference to Exhibit 10(dd) as filed by Registrant with Form 10-K for the year 1999.*
10.10	Deferred Compensation Plan as adopted by the Registrant dated December 17, 1999, effective July 1, 1997. Incorporated by reference to Exhibit 10(ff) as filed by Registrant with Form 10-K for the year 1999.*
10.11	Supplemental Retirement Income Program adopted by the Registrant on November 6, 1984, as amended November 8, 1989. Incorporated by reference to Exhibit 10(gg) as filed by Registrant with Form 10-K for the year 1999.*
10.12	2001 Global Annual Incentive Plan as approved May 9, 2001, effective January 1, 2001. Incorporated by reference to Exhibit10(hh) as filed by Registrant with Form 10-K for the year 2001.*
10.13	2001 Long-Term Performance Incentive Plan as approved May 9, 2001, effective January 1, 2001. Incorporated by reference to Exhibit 10(ii) as filed by Registrant with Form 10-K for the year 2001.*
10.14	Agreement of Lease between Quaker Park Associates, L.P. and Quaker Chemical Corporation dated December 19, 2000. Incorporated by reference to Exhibit 10(jj) as filed by Registrant with Form 10-K for the year 2001.*
10.15	2003 Director Stock Ownership Plan as approved May 14, 2003. Incorporated by reference to Exhibit 10(ww) as filed by the Registrant with Form 10-K for the year 2003.*
10.16	Change in Control Agreement by and between Registrant and D. Jeffry Benoliel dated June 10, 2004, effective May 14, 2004. Incorporated by reference to Exhibit 10(yy) as filed by the Registrant with Form 10-Q for the quarter ended June 30, 2004.*
10.17	Change in Control Agreement by and between Registrant and Mark Featherstone dated June 10, 2004, effective May 14, 2004. Incorporated by reference to Exhibit 10(zz) as filed by the Registrant with Form 10-Q for the quarter ended June 30, 2004.*
10.18	Change in Control Agreement by and between Registrant and Jose Luiz Bregolato, dated June 23, 2004, effective May 14, 2004. Incorporated by reference to Exhibit 10(aaa) as filed by the Registrant with Form 10-Q for the quarter ended June 30, 2004.*
10.19	Amendment No. 1 to Employment Agreement dated March 11, 1999 between Registrant and Ronald J. Naples, effective July 21, 2004. Incorporated by reference to Exhibit 10(ccc) as filed by the Registrant with Form 10-Q for the quarter ended June 30, 2004.*
10.20	Employment Agreement by and between Registrant and Neal E. Murphy, effective July 22, 2004. Incorporated by reference to Exhibit 10(ddd) as filed by the Registrant with Form 10-Q for the quarter ended June 30, 2004.*

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10.21	Change in Control Agreement by and between Registrant and Neal E. Murphy, effective July 22, 2004. Incorporated by reference to Exhibit 10(eee) as filed by the Registrant with Form 10-Q for the quarter ended June 30, 2004.*
10.22	1995 Naples Supplemental Retirement Income Program and Agreement (as amended and restated effective May 14, 2004) between Registrant and Ronald J. Naples dated August 4, 2004. Incorporated by reference to Exhibit 10(fff) as filed by the Registrant with Form 10-Q for the quarter ended June 30, 2004.*
10.23	Change in Control Agreement by and between Registrant and Michael F. Barry, effective May 14, 2004. Incorporated by reference to Exhibit 10(hhh) as filed by the Registrant with Form 10-Q for the quarter ended June 30, 2004.*
10.24	Credit Agreement between Registrant and Bank of America, N.A. and ABN AMRO Bank, N.V. and Banc of America Securities, in the amount of $100,000,000, dated October 14, 2005. Incorporated by reference to Exhibit 10(jjj) as filed by the Registrant with Form 10-Q for the quarter ended September 30, 2005.
10.25	Directors Deferred Compensation Plan (Amended and Restated as of May 5, 2004). Incorporated by reference to Exhibit 10(kkk) as filed by the Registrant with Form 10-K for the year 2005.*
10.26	Amendment One to Registrant s 2001 Long-Term Performance Incentive Plan, effective February 22, 2005. Incorporated by reference to Exhibit 10.1 as filed by Registrant with Form 8-K filed on March 15, 2005.*
10.27	Form of Stock Option Agreement for associates under Registrant s 2001 Long-Term Performance Incentive Plan. Incorporated by reference to Exhibit 10.2 as filed by Registrant with Form 8-K filed on March 15, 2005.*
10.28	Settlement Agreement and Release between Registrant, an inactive subsidiary of the Registrant, and Hartford Accident and Indemnity Company dated December 12, 2005. Incorporated by reference to Exhibit 10(nnn) as filed by the Registrant with Form 10-K for the year 2005.
10.29	Amendment to Registrant s Deferred Compensation Plan for key officers dated December 20, 2005. Incorporated by reference to Exhibit 10 as filed by Registrant with Form 8-K filed on December 22, 2005.*
10.30	Form of Restricted Stock Award Agreement for executive officers and other employees under Registrant s 2001 Long-Term Performance Incentive Plan. Incorporated by reference to Exhibit 10 as filed by Registrant with Form 8-K filed on March 6, 2006.*
10.31	2001 Global Annual Incentive Plan, as amended and restated incorporated by reference to Appendix D to the Corporation s definitive proxy statement filed on March 31, 2006.*
10.32	2006 Long-Term Performance Incentive Plan. Incorporated by reference to Appendix E to the Corporation s definitive proxy statement filed on March 31, 2006.*
10.33	Form of Stock Option Agreement provided for associates under the Registrant s 2006 Long-Term Performance Incentive Plan. Incorporated by reference to Exhibit 10.3 as filed by Registrant with Form 8-K filed on May 12, 2006.*
10.34	Form of Restricted Stock Award Agreement for executive officers and other employees under Registrant s 2006 Long-Term Performance Incentive Plan. Incorporated by reference to Exhibit 10 as filed by Registrant with Form 8-K filed on June 27, 2006.*

10.35	Employment Agreement by and between Quaker Chemical Limited, a UK company and a subsidiary of Registrant, and Mark A. Harris, dated August 8, 2006. Incorporated by reference to Exhibit 10 as filed by the Registrant with Form 8-K filed on August 8, 2006.*
10.36	Employment Agreement by and between L. Willem Platzer and Quaker Chemical B.V., a Netherlands corporation and a subsidiary of Registrant, dated August 21, 2006. Incorporated by reference to Exhibit 10 as filed by the Registrant with Form 8-K filed on August 22, 2006.*
10.37	2006 Long-Term Performance Incentive Plan (amended and restated effective November 8, 2006). Incorporated by reference to Exhibit 10(www) as filed by the Registrant with Form 10-K for the year coded 2006.*
10.38	Amended and Restated Supplemental Retirement Income Program approved on November 8, 2006, to be effective January 1, 2005. Incorporated by reference to Exhibit 10(xxx) as filed by the Registrant with Form 10-K for the year ended 2006.*
10.39	Financing Agreement by and among Montgomery County Industrial Development Authority and Registrant and Brown Brothers Harriman & Co. dated February 1, 2007. Incorporated by reference to Exhibit 10(yyy) as filed by the Registrant with Form 10-K for the year ended 2006.
10.40	Settlement Agreement and Release between Registrant, an inactive subsidiary of Registrant and Federal Insurance Company dated March 26, 2007. Incorporated by reference to Exhibit 10(zzz) as filed by the Registrant with Form 10-Q for the quarter ended March 31, 2007.
10.41	Change in Control Agreement by and between Registrant and L. Willem Platzer dated April 2, 2007, effective January 1, 2007. Incorporated by reference to Exhibit 10(aaaa) as filed by the Registrant with Form 10-Q for the quarter ended March 31, 2007.*
10.42	Change in Control Agreement by and between Quaker Chemical Limited, a UK company and a subsidiary of Registrant, and Mark A. Harris dated April 10, 2007, effective January 1, 2007. Incorporated by reference to Exhibit 10(bbbb) as filed by the Registrant with Form 10-Q for the quarter ended March 31, 2007.*
10.43	Change in Control Agreement by and between Registrant and Jan F. Nieman dated June 27, 2007, effective January 1, 2007. Incorporated by reference to Exhibit 10 (cccc) as filed by the Registrant with Form 10-Q for the quarter ended June 30, 2007.*
10.44	Memorandum of Employment dated June 28, 2007 between Registrant and Mark A. Featherstone, effective April 9, 2007. Incorporated by reference to Exhibit 10 as filed by the Registrant with Form 8-K filed on July 2, 2007.*
10.45	Second Amendment to Syndicated Multicurrency Credit Agreement between Registrant and Bank of America, N.A. and certain other financial institutions. Incorporated by reference to Exhibit 10(eeee) as filed by the Registrant with Form 10-Q for the quarter ended September 30, 2007.
10.46	Claim Handling and Funding Agreement between SB Decking, Inc., an inactive subsidiary of Registrant, and Employers Insurance Company of Wausau dated September 25, 2007. Incorporated by reference to Exhibit 10(ffff) as filed by the Registrant with Form 10-Q for the quarter ended September 30, 2007.
10.47	Settlement Agreement and Mutual Release entered into between AC Products, Inc., wholly owned subsidiary of Registrant, and Orange County Water District, effective November 8, 2007.
21	Subsidiaries and Affiliates of the Registrant

23	Consent of Independent Registered Public Accounting Firm
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.

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

(b) *Exhibits required by Regulation 601 S-K*

See (a) 3 of this Item 15

(c) *Financial Statement Schedules*

See (a) 2 of this Item 15

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SIGNATURES

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

QUAKER CHEMICAL CORPORATION
Registrant

By: /s/ RONALD J. NAPLES
Ronald J. Naples

Chairman of the Board and Chief Executive Officer

Date: March 7, 2008

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

Signatures	Capacity	Date
/s/ RONALD J. NAPLES **Ronald J. Naples** **Chairman of the Board and Chief Executive Officer**	Principal Executive Officer and Director	March 5, 2008
/s/ MARK A. FEATHERSTONE **Mark A. Featherstone** **Vice President, Chief Financial Officer and Treasurer**	Principal Financial Officer	March 5, 2008
/s/ GEORGE H. HILL **George H. Hill** **Global Controller**	Principal Accounting Officer	March 5, 2008
/s/ JOSEPH B. ANDERSON, JR. **Joseph B. Anderson, Jr.**	Director	March 5, 2008
/s/ PATRICIA C. BARRON **Patricia C. Barron**	Director	March 5, 2008
/s/ DONALD R. CALDWELL **Donald R. Caldwell**	Director	March 5, 2008
	Director	March , 2008

Robert E. Chappell

/s/ William R. Cook	Director	March 5, 2008
William R. Cook		
/s/ Edwin J. Delattre	Director	March 5, 2008
Edwin J. Delattre		
/s/ Jeffry D. Frisby	Director	March 5, 2008
Jeffry D. Frisby		
/s/ Robert H. Rock	Director	March 5, 2008
Robert H. Rock		