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

FORM 10-K

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

For the fiscal year ended December 31, 2006

or

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

For the transition period from to

Commission file number 001-12019

QUAKER CHEMICAL CORPORATION
(Exact name of Registrant as specified in its charter)

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

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

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

Title of each class	Name of each Exchange on which registered
Common Stock, $1.00 par value	**New York Stock Exchange**
Stock Purchase Rights	**New York Stock Exchange**

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

None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

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

State aggregate market value of common stock held by non-affiliates of the Registrant. (The aggregate market value is computed by reference to the last reported sale on the New York Stock Exchange on June 30, 2006): $184,494,293.

Indicate the number of shares outstanding of each of the Registrant's classes of common stock as of the latest practicable date: 10,020,588 shares of Common Stock, $1.00 Par Value, as of February 28, 2007.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement relating to the Annual Meeting of Shareholders to be held on May 9, 2007 are incorporated by reference into Part III.

PART I

As used in this Report, the terms “Quaker,” the “Company,” “we” and “our” refer to Quaker Chemical Corporation, its subsidiaries, and associated companies, unless the context otherwise requires.

Item 1. *Business.*

General Description

Quaker develops, produces, and markets a broad range of formulated chemical specialty products for various heavy industrial and manufacturing applications and, in addition, offers and markets chemical management services (“CMS”). Quaker’s principal products and services include: (i) rolling lubricants (used by manufacturers of steel in the hot and cold rolling of steel and by manufacturers of aluminum in the hot rolling of aluminum); (ii) corrosion preventives (used by steel and metalworking customers to protect metal during manufacture, storage, and shipment); (iii) metal finishing compounds (used to prepare metal surfaces for special treatments such as galvanizing and tin plating and to prepare metal for further processing); (iv) machining and grinding compounds (used by metalworking customers in cutting, shaping, and grinding metal parts which require special treatment to enable them to tolerate the manufacturing process, achieve closer tolerance and improve tool life); (v) forming compounds (used to facilitate the drawing and extrusion of metal products); (vi) hydraulic fluids (used by steel, metalworking, and other customers to operate hydraulically activated equipment); (vii) technology for the removal of hydrogen sulfide in various industrial applications; (viii) chemical milling maskants for the aerospace industry and temporary and permanent coatings for metal and concrete products; (ix) construction products such as flexible sealants and protective coatings for various applications; and (x) programs to provide chemical management services. Individual product lines representing more than 10% of consolidated revenues for any of the past three years are as follows:

	2006	2005	2004
Rolling lubricants	21.0%	21.3%	22.3%
Machining and grinding compounds	16.6%	16.4%	15.0%
Chemical management services	10.3%	11.7%	13.6%
Hydraulic fluids	10.8%	10.4%	10.1%
Corrosion preventives	10.6%	9.5%	9.8%

A substantial portion of Quaker’s sales worldwide are made directly through its own employees and its CMS programs with the balance being handled through value-added resellers and agents. Quaker employees visit the plants of customers regularly and, through training and experience, identify production needs which can be resolved or alleviated either by adapting Quaker’s existing products or by applying new formulations developed in Quaker’s laboratories. Quaker makes little use of advertising but relies heavily upon its reputation in the markets which it serves. Generally, separate manufacturing facilities of a single customer are served by different personnel. 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 the 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 $62.8 million, $38.8 million, and $35.2 million for 2006, 2005 and 2004, respectively. 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.

Competition

The chemical specialty industry comprises a number of companies of similar size as well as companies larger and smaller than Quaker. Quaker cannot readily determine its precise position in every industry it serves. Based on information available to Quaker, however, it is estimated that Quaker holds a leading and significant global position (among a group in excess of 25 other suppliers) in the market for process fluids to produce sheet steel. It is also believed that Quaker holds significant global positions in the markets for process fluids in portions of the automotive and industrial markets. Many competitors are in fewer and more specialized product classifications or provide different levels of technical services in terms of specific formulations for individual customers. Competition in the industry is based primarily on the ability to provide products that meet the needs of the customer and render technical services and laboratory assistance to customers and, to a lesser extent, on price.

Major Customers and Markets

In 2006, Quaker's five largest customers (each composed of multiple subsidiaries or divisions with semi-autonomous purchasing authority) accounted for approximately 23% of its consolidated net sales with the largest customer (General Motors) accounting for approximately 6% of consolidated net sales. A significant portion of Quaker's revenues are realized from the sale of process fluids and services to manufacturers of steel, automobiles, appliances, and durable goods, and, therefore, Quaker is subject to the same business cycles as those experienced by these manufacturers and their customers. Furthermore, steel customers typically have limited manufacturing locations as compared to metalworking customers and generally use higher volumes of products at a single location. Accordingly, the loss or closure of a steel mill of a significant customer can have a material adverse effect on Quaker's business.

Raw Materials

Quaker uses over 1,000 raw materials, including mineral oils and derivatives, animal fats and derivatives, vegetable oils and derivatives, ethylene derivatives, solvents, surface active agents, chlorinated paraffinic compounds, and a wide variety of other organic and inorganic compounds. In 2006, only three raw material groups (mineral oil and derivatives, animal fats and derivatives, and vegetable oils and derivatives) each accounted for as much as 10% of the total cost of Quaker's raw material purchases. The price of mineral oil can be affected by the price of crude oil and refining capacity. Accordingly, significant fluctuations in the price of crude oil can have a material effect upon the Company's business. Many of the raw materials used by Quaker are "commodity" chemicals, and, therefore, Quaker's earnings can be affected by market changes in raw material prices. Quaker has multiple sources of supply for most materials, and management believes that the failure of any single supplier would not have a material adverse effect upon its business. Reference is made to the disclosure contained in Item 7A of this Report.

Patents and Trademarks

Quaker has a limited number of patents and patent applications, including patents issued, applied for, or acquired in the United States and in various foreign countries, some of which may prove to be material to its business. Principal reliance is placed upon Quaker's proprietary formulae and the application of its skills and experience to meet customer needs. Quaker's products are identified by trademarks that are registered throughout its marketing area.

Research and Development—Laboratories

Quaker's research and development laboratories are directed primarily toward applied research and development since the nature of Quaker's business requires continual modification and improvement of formulations to provide chemical specialties to satisfy customer requirements. Research and development costs are expensed as incurred. Research and development expenses during 2006, 2005 and 2004 were $13.0 million, $14.2 million and $13.8 million, respectively.

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

Most of Quaker's subsidiaries and associated companies also have laboratory facilities. Although not as complete as the Conshohocken or Uithoorn laboratories, these facilities are generally sufficient for the requirements of the customers being served. If problems are encountered which cannot be resolved by local laboratories, such problems may be referred to the laboratory staff in Conshohocken or Uithoorn.

Regulatory Matters

In order to facilitate compliance with applicable Federal, state, and local statutes and regulations relating to occupational health and safety and protection of the environment, the Company has an ongoing program of site assessment for the purpose of identifying capital expenditures or other actions that may be necessary to comply with such requirements. The program includes periodic inspections of each facility by Quaker and/or independent experts, as well as ongoing inspections and training by on-site personnel. Such inspections are addressed to operational matters, record keeping, reporting requirements, and capital improvements. In 2006, capital expenditures directed solely or primarily to regulatory compliance amounted to approximately $0.8 million compared to $0.7 million and $1.1 million in 2005 and 2004, respectively. In 2007, the Company expects to incur approximately $1.2 million for capital expenditures directed primarily to regulatory compliance. Incorporated by reference is the information regarding AC Products, Inc. contained in Note 18 of Notes to Consolidated Financial Statements included in Item 8 of this Report.

Number of Employees

On December 31, 2006, Quaker's consolidated companies had 1,287 full-time employees of whom 540 were employed by the parent company and its U.S. subsidiaries and 747 were employed by its non-U.S. subsidiaries. Associated companies of Quaker (in which it owns 50% or less) employed 159 people on December 31, 2006.

Product Classification

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.

Incorporated by reference is the segment information contained in Note 13 of Notes to Consolidated Financial Statements included in Item 8 of this Report.

Non-U.S. Activities

Since significant revenues and earnings are generated by non-U.S. operations, Quaker's financial results are affected by currency fluctuations, particularly between the U.S. dollar, the E.U. euro, the Brazilian real, and the Chinese renminbi and the impact of those currency fluctuations on the underlying economies. Incorporated by reference is the foreign exchange risk information contained in Item 7A of this Report and the geographic information in Note 13 of Notes to Consolidated Financial Statements included in Item 8 of this Report.

Quaker on the Internet

Financial results, news and other information about Quaker can be accessed from the Company's Web site at http://www.quakerchem.com. This site includes important information on products and services, financial reports, news releases, and career opportunities. The Company's periodic and current reports, including exhibits and supplemental schedules filed therewith, and amendments to those reports, filed with the Securities and Exchange Commission ("SEC") are available on the Company's Web site, free of charge, as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. Information that can be accessed through the Company's Web site is not incorporated by reference in this Report and accordingly you should not consider that information part of this Report.

Factors that May Affect Our Future Results

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

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

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

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

Any or all of the forward-looking statements in this Report, in Quaker's Annual Report to Shareholders for 2006, and in any other public statements we make may turn out to be wrong. This can occur as a result of inaccurate assumptions or as a consequence of known or unknown risks and uncertainties. Many factors discussed in this Report will be important in determining our future performance. Consequently, actual results may differ materially from those that might be anticipated from our forward-looking statements.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. However, any further disclosures made on related subjects in Quaker's subsequent reports on Forms 10-K, 10-Q and 8-K should be consulted. These forward-looking statements are subject to risks, uncertainties and assumptions about us and our operations that are subject to change based on various important factors, some of which are beyond our control. A major risk is that the Company's demand is largely derived from the demand for its customers' products, which subjects the Company to uncertainties related to downturns in a customer's business and unanticipated customer production shutdowns. Other major risks and uncertainties include, but are not limited to, significant increases in raw material costs, worldwide economic and political conditions, foreign currency fluctuations, and terrorist attacks such as those that occurred on September 11, 2001, each of which is discussed in greater detail in Item 1A of this Report. Furthermore, the Company is subject to the same business cycles as those experienced by steel, automobile, aircraft, appliance, and durable goods manufacturers. These risks, uncertainties, and possible inaccurate assumptions relevant to our business could cause our actual results to differ materially from expected and historical results. Other factors

beyond those discussed in this Report could also adversely affect us. Therefore, we caution you not to place undue reliance on our forward-looking statements. This discussion is provided as permitted by the Private Securities Litigation Reform Act of 1995.

Item 1A. ***Risk Factors***

Changes to the industries and markets that Quaker serves could have a material adverse effect on the Company's liquidity, financial position and results of operations.

The chemical specialty industry comprises a number of companies of similar size as well as companies larger and smaller than Quaker. It is estimated that Quaker holds a leading global position in the markets for process fluids to produce sheet steel and in portions of the automotive and industrial markets. The industry is highly competitive, and a number of companies with significant financial resources and/or customer relationships compete with us to provide similar products and services. Our competitors may be positioned to offer more favorable pricing and service terms, resulting in reduced profitability and loss of market share for us. Historically, competition in the industry has been based primarily on the ability to provide products that meet the needs of the customer and render technical services and laboratory assistance to the customer and, to a lesser extent, on price. Success factors critical to the Company's business include successfully differentiating the Company's offering from its competition, operating efficiently and profitably as a globally integrated whole, and increasing market share and customer penetration through internally developed business programs and strategic acquisitions.

The business environment in which the Company operates remains challenging. The Company is subject to the same business cycles as those experienced by steel, automobile, aircraft, appliance, and durable goods manufacturers. A major risk is that the Company's demand is largely derived from the demand for its customers' products, which subjects the Company to uncertainties related to downturns in our customers' business and unanticipated customer production shutdowns or curtailments. Customer production within the steel and automotive industries has been recently slowing especially in the U.S., South American and European markets. This is further impacted by the loss of market share of certain of the Company's automotive customers in these markets. In addition, consolidation in the steel industry is concentrating sales among certain of the Company's key customers. The Company has limited ability to adjust its cost level contemporaneously with changes in sales and gross margins. Thus, a significant downturn in sales or gross margins due to weak end-user markets, loss of a significant customer, and/or rising raw material costs could have a material adverse effect on the Company's liquidity, financial position and results of operations.

Our business depends on attracting and retaining qualified management personnel.

The unanticipated departure of any key member of our management team could have an adverse effect on our business. Given the relative size of the Company and the breadth of its global operations, there are a limited number of qualified management personnel to assume the responsibilities of management level employees should there be management turnover. In addition, because of the specialized and technical nature of our business, our future performance is dependent on the continued service of, and our ability to attract and retain qualified management, commercial and technical personnel. Competition for such personnel is intense, and we may be unable to continue to attract or retain such personnel.

Inability to obtain sufficient price increases or contract concessions to offset increases in the costs of raw material could have a material adverse effect on the Company's liquidity, financial position and results of operations. Price increases implemented could result in the loss of sales.

Quaker uses over 1,000 raw materials, including mineral oils and derivatives, animal fats and derivatives, vegetable oils and derivatives, ethylene derivatives, solvents, surface active agents, chlorinated paraffinic compounds, and a wide variety of other organic and inorganic compounds. In 2006, three raw material groups (mineral oil and derivatives, animal fats and derivatives, and vegetable oils and derivatives) each accounted for

as much as 10% of the total cost of Quaker's raw material purchases. The price of mineral oil can be affected by the price of crude oil and refining capacity. In addition, many of the raw materials used by Quaker are "commodity" chemicals. Accordingly, Quaker's earnings can be affected by market changes in raw material prices.

Over the past three years, Quaker has experienced significant increases in its raw material costs, particularly crude-oil derivatives. For example, the price of crude oil averaged $66 per barrel in 2006 versus $57 in 2005 and $42 in 2004. In addition, refining capacity has also been constrained by various factors, which further contributed to higher raw material costs and negatively impacted margins. In response, the Company has aggressively pursued price increases to offset the increased raw material costs. Although the Company has been successful in recovering a substantial amount of the raw material cost increases, it has experienced competitive as well as contractual constraints limiting pricing actions. In addition, as a result of the Company's pricing actions, customers may become more likely to consider competitor's products, some of which may be available at a lower cost. Significant loss of customers could result in a material adverse effect on the Company's results of operations.

Bankruptcy of a significant customer could have a material adverse effect on our liquidity, financial position and results of operations.

During 2006, our five largest customers (each composed of multiple subsidiaries or divisions with semi-autonomous purchasing authority) together accounted for approximately 23% of our consolidated net sales with the largest customer (General Motors) accounting for approximately 6% of consolidated net sales.

A significant portion of Quaker's revenues is derived from sales to customers in the U.S. steel industry, where a number of bankruptcies occurred during recent years. In addition, certain large industrial customers have also experienced financial difficulty. As part of the bankruptcy process, the Company's pre-petition receivables may not be realized, customer manufacturing sites may be closed or contracts voided. The bankruptcy of a major customer could have a material adverse effect on the Company's liquidity, financial position and results of operations. Steel customers typically have limited manufacturing locations as compared to metalworking customers and generally use higher volumes of products at a single location. The loss or closure of a steel mill or other major customer site of a significant customer could have a material adverse effect on Quaker's business.

Failure to comply with any material provisions of our credit facility could have a material adverse effect on our liquidity, financial position and results of operations.

The Company maintains a $100.0 million unsecured credit facility (the "Credit Facility") with a group of lenders, which can be increased to $125.0 million at the Company's request if lenders agree to increase their commitments and the Company satisfies certain conditions. The Credit Facility, which matures on September 30, 2010, provides the availability of revolving credit borrowings. In general, the 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.

The Credit Facility contains limitations on capital expenditures, investments, acquisitions and liens, as well as default provisions customary for facilities of its type. While these covenants and restrictions are not currently considered to be overly restrictive, they could become more difficult to comply with as our business or financial conditions change. In addition, deterioration in the Company's results of operations or financial position could significantly increase borrowing costs.

Quaker is exposed to market rate risk for changes in interest rates, due to the variable interest rate applied to the Company's borrowings under its credit facilities. Accordingly, if interest rates rise significantly, the cost of debt to Quaker will increase, perhaps significantly, depending on the extent of Quaker's borrowings under the Credit Facility. At December 31, 2006, the Company had $79.2 million outstanding under its credit facilities. 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 $25.0 million at December 31, 2006. In February 2007, the Company completed a refinancing of its existing industrial development bonds to fix the interest rate of an additional $5.0 million of debt.

Failure to generate taxable income could have a material adverse effect on our financial position and results of operations.

At the end of 2006, the Company had net U.S. deferred tax assets totaling $15.5 million, excluding deferred tax assets relating to additional minimum pension liabilities. In addition, the Company has $5.1 million in operating loss carryforwards primarily related to certain of its foreign operations. The Company records valuation allowances when necessary to reduce its deferred tax assets to the amount that is more likely than not to be realized. The Company considers future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for a valuation allowance. However, in the event the Company were to determine that it would not be able to realize all or part of its net deferred tax assets in the future, an adjustment to the deferred tax asset would be a non-cash charge to income in the period such determination was made, which could have a material adverse effect on the Company's financial statements. The Company continues to closely monitor this situation as it relates to its net deferred tax assets and the assessment of valuation allowances. The Company is implementing actions that could positively impact taxable income.

Environmental laws and regulations and pending legal proceedings may materially and adversely affect the Company's liquidity, financial position and results of operations.

The Company is a party to proceedings, cases, and requests for information from, and negotiations with, various claimants and Federal and state agencies relating to various matters, including environmental matters. An adverse result in any such matters may materially and adversely affect the Company's liquidity, financial position and results of operations. Incorporated herein by reference is the information concerning pending asbestos-related litigation against an inactive subsidiary and amounts accrued associated with certain environmental investigatory and non-capital remediation costs in Note 18 of Notes to Consolidated Financial Statements which appears in Item 8 of this Report.

Ability to rapidly develop, manufacture and gain market acceptance of new and enhanced products required to maintain or expand our business.

We believe that our continued success depends on our ability to continuously develop and manufacture new products and product enhancements on a timely and cost-effective basis, in response to customers' demands for higher performance process chemicals, coatings and other chemical products. Our competitors may develop new products or enhancements to their products that offer performance, features and lower prices that may render our products less competitive or obsolete and, as a consequence, we may lose business and/or significant market share. The development and commercialization of new products requires significant expenditures over an extended period of time, and some products that we seek to develop may never become profitable. In addition, we may not be able to develop and introduce products incorporating new technologies in a timely manner that will satisfy our customers' future needs or achieve market acceptance.

The scope of our international operations subjects the Company to risks, including risks from changes in trade regulations, currency fluctuations, and political and economic instability.

Since significant revenues and earnings are generated by non-U.S. operations, Quaker's financial results are affected by currency fluctuations, particularly between the U.S. dollar, the E.U. euro, the Brazilian real, and the Chinese renminbi and the impact of those currency fluctuations on the underlying economies. During the past three years, sales by non-U.S. subsidiaries accounted for approximately 53% to 56% of the annual consolidated net sales. All of these operations use the local currency as their functional currency. The Company generally does not use financial instruments that expose it to significant risk involving foreign currency transactions; however,

the size of non-U.S. activities has a significant impact on reported operating results and attendant net assets. Therefore, as exchange rates vary, Quaker's results can be materially affected. Incorporated by reference is the foreign exchange risk information contained in Item 7A of this Report and the geographic information in Note 13 of Notes to Consolidated Financial Statements included in Item 8 of this Report.

Additional risks associated with the Company's international operations include but are not limited to the following:

- Changes in economic conditions from country to country,
- Changes in a country's political condition,
- Trade protection measures,
- Licensing and other legal requirements,
- Local tax issues,
- Longer payment cycles in certain foreign markets,
- Restrictions on the repatriation of our assets, including cash,
- Significant foreign and United States taxes on repatriated cash,
- The difficulties of staffing and managing dispersed international operations,
- Less protective foreign intellectual property laws, and
- Legal systems which may be less developed and predictable than those in the United States.

Terrorist attacks, or other acts of violence or war may affect the markets in which we operate and our profitability.

Terrorist attacks may negatively affect our operations. There can be no assurance that there will not be further terrorist attacks against the United States or United States businesses. Terrorist attacks or armed conflicts may directly impact our physical facilities or those of our suppliers or customers. Additional terrorist attacks may disrupt the global insurance and reinsurance industries with the result that we may not be able to obtain insurance at historical terms and levels for all of our facilities. Furthermore, additional attacks may make travel and the transportation of our supplies and products more difficult and more expensive and ultimately affect the sales of our products. The consequences of terrorist attacks or armed conflicts are unpredictable, and we may not be able to foresee events that could have an adverse effect on our business.

Item 1B. *Unresolved Staff Comments.*

None.

Item 2. *Properties.*

Quaker's corporate headquarters and a laboratory facility are located in Conshohocken, Pennsylvania. Quaker's other principal facilities are located in Detroit, Michigan; Middletown, Ohio; Placentia, California; Santa Fe Springs, California; Uithoorn, The Netherlands; Santa Perpetua de Mogoda, Spain; Rio de Janeiro, Brazil; Tradate, Italy; and Qingpu, China, which commenced operations in January 2007. All of the properties except Placentia, California and Santa Fe Springs, California are used by the metalworking segment. The Placentia, California and Santa Fe Springs, California properties are used by the coatings segment. With the exception of the Conshohocken, Placentia, Santa Fe Springs and Tradate sites, which are leased, all of these principal facilities are owned by Quaker and as of December 31, 2006 were mortgage free. Quaker also leases sales, laboratory, manufacturing, and warehouse facilities in other locations.

Quaker's aforementioned principal facilities (excluding Conshohocken) consist of various manufacturing, administrative, warehouse, and laboratory buildings. Substantially all of the buildings (including Conshohocken) are of fire-resistant construction and are equipped with sprinkler systems. All facilities are primarily of masonry and/or steel construction and are adequate and suitable for Quaker's present operations. The Company has a program to identify needed capital improvements that are implemented as management considers necessary or desirable. Most locations have various numbers of raw material storage tanks ranging from 7 to 66 at each location with a capacity ranging from 1,000 to 82,000 gallons and processing or manufacturing vessels ranging in capacity from 15 to 16,000 gallons.

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 $4.2 million of proceeds to the Company after payment of the Venture's obligations.

In 2005, the Company completed the sale of its Villeneuve, France site. Quaker had ceased manufacturing operations at this facility in March 2002. Production was consolidated into its facilities in Uithoorn, The Netherlands and Santa Perpetua de Mogoda, Spain. In November 2006, the Company's former Chinese joint venture partner purchased the Wuxi joint venture's manufacturing facility, with production scheduled to be transferred to the Company's Qingpu, China facility during 2007.

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

Item 3. ***Legal Proceedings.***

The Company is a party to proceedings, cases, and requests for information from, and negotiations with, various claimants and Federal and state agencies relating to various matters, including environmental matters. Incorporated herein by reference is the information concerning pending asbestos-related litigation against an inactive subsidiary and amounts accrued associated with certain environmental investigatory and non-capital remediation costs in Note 18 of Notes to Consolidated Financial Statements, which appears in Item 8 of this Report. The Company is a party to other litigation which management currently believes will not have a material adverse effect on the Company's results of operations, cash flow, or financial condition.

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

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

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

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

Name, Age, and Present Position with the Company	Business Experience During Past Five Years and Period Served as an Officer
Ronald J. Naples, 61 Chairman of the Board and Chief Executive Officer, and Director	Mr. Naples has served in his current position since 1997.
Neal E. Murphy, 49 Vice President, Chief Financial Officer and Treasurer	Mr. Murphy was elected Vice President in July 2004 and was elected Chief Financial Officer and Treasurer in August 2004. Prior to joining the Company, he was Senior Vice President and Chief Financial Officer of International Specialty Products from February 2002 to July 2004.
Michael F. Barry, 48 Senior Vice President and Managing Director—North America	Mr. Barry assumed his current position in January 2006. He was Senior Vice President and Global Industry Leader—Metalworking and Coatings from July 2005 through December 2005. He was Vice President and Global Industry Leader—Industrial Metalworking and Coatings from January 2004 through June 2005 and Vice President and Chief Financial Officer from 1998 to August 2004.
D. Jeffry Benoliel, 48 Vice President, Secretary and General Counsel	Mr. Benoliel has served in his current position since 2001.
José Luiz Bregolato, 61 Vice President and Managing Director—South America	Mr. Bregolato has served in his current position since 1993.
Mark A. Featherstone, 45 Vice President and Global Controller	Mr. Featherstone was elected Vice President in March 2005, and has held the position of Global Controller since May 2001.
Mark Harris, 52 Senior Vice President—Global Strategy and Marketing	Mr. Harris assumed his current position in January 2006. He was Senior Vice President and Global Industry Leader—Steel from July 2005 through December 2005. He was Vice President and Global Industry Leader—Steel from January 2001 through June 2005.
Jan F. Nieman, 46 Vice President and Managing Director—Asia/Pacific	Mr. Nieman was elected Vice President in February 2005, and has held the position of Managing Director, Asia/Pacific since August 2003. He was also Global Business Unit Manager Value Added Resellers—Metalworking, Quaker Chemical B.V., the Company's Dutch affiliate, from October 2000 to August 2003.
Wilbert Platzer, 45 Vice President and Managing Director—Europe	Mr. Platzer assumed his current position in January 2006. He was Vice President – Global Industrial Metalworking from July 2005 through December 2005. He was Vice President—Worldwide Operations from January 2001 through June 2005.

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PART II

Item 5. ***Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.***

The Company's common stock is listed on the New York Stock Exchange ("NYSE") under the trading symbol KWR. The following table sets forth, for the calendar quarters during the past two most recent fiscal years, the range of high and low sales prices for the common stock as reported on the NYSE composite tape (amounts rounded to the nearest penny), and the quarterly dividends declared and paid:

	Price Range				Dividends Declared		Dividends Paid	
	2006		2005					
	High	Low	High	Low	2006	2005	2006	2005
First quarter	$ 21.75	$ 18.90	$ 25.07	$ 20.03	$ 0.215	$ 0.215	$ 0.215	$ 0.215
Second quarter	21.94	16.70	22.00	17.30	0.215	0.215	0.215	0.215
Third quarter	20.29	18.04	19.11	16.57	0.215	0.215	0.215	0.215
Fourth quarter	22.49	18.25	19.34	15.80	0.215	0.215	0.215	0.215

As of January 17, 2007, there were 918 shareholders of record of the Company's common stock, its only outstanding class of equity securities.

Every holder of Quaker common stock is entitled to one vote or ten votes for each share held of record on any record date depending on how long each share has been held. As of January 17, 2007, 9,948,053 shares of Quaker common stock were issued and outstanding. Based on the information available to the Company, on January 17, 2007, the holders of 1,054,298 shares of Quaker common stock would have been entitled to cast ten votes for each share, or approximately 54% of the total votes that would have been entitled to be cast as of that record date and the holders of 8,893,755 shares of Quaker common stock would have been entitled to cast one vote for each share, or approximately 46% of the total votes that would have been entitled to be cast as of that date. The number of shares that are indicated as entitled to one vote includes those shares presumed to be entitled to only one vote. Because the holders of these shares may rebut this presumption, the total number of votes entitled to be cast as of January 17, 2007 could be more than 19,436,735.

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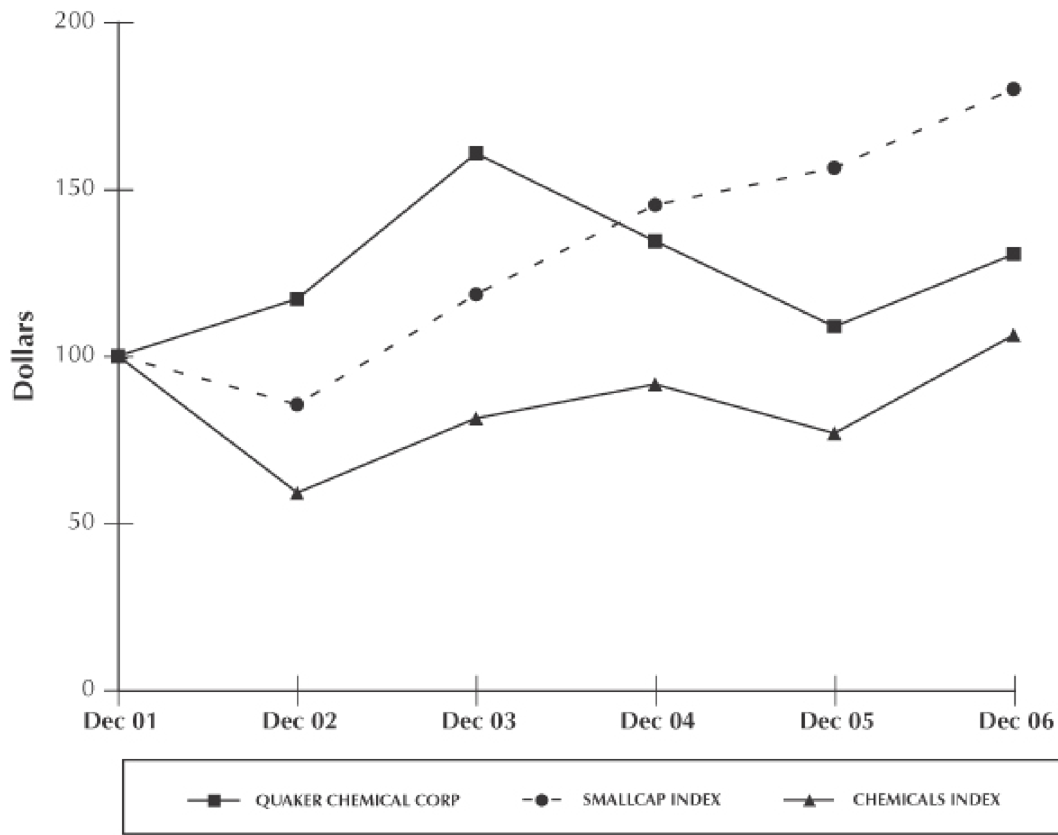
The following graph compares the cumulative total return (assuming reinvestment of dividends) from December 31, 2001 to December 31, 2006 for (i) Quaker's common stock, (ii) the S&P SmallCap 600 Stock Index (the "SmallCap Index") and (iii) the S&P Chemicals (Specialty) Index-SmallCap (the "Chemicals Index"). The graph assumes the investment of $100 on December 31, 2001 in each of Quaker's common stock, the stocks comprising the SmallCap Index, and the stocks comprising the Chemicals Index.

COMPARISON OF CUMULATIVE FIVE YEAR TOTAL RETURN



	12/31/01	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06
Quaker	$100	$117.04	$160.74	$134.42	$108.88	$130.54
SmallCap Index	100	85.37	118.48	145.32	156.48	180.14
Chemicals Index	100	58.81	81.17	91.41	76.79	106.19

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Item 6. ***Selected Financial Data.***

The following table sets forth selected financial information for the Company and its consolidated subsidiaries:

	2006	2005[1]	2004	2003	2002
		(In thousands, except per share amounts)			
Summary of Operations:					
Net sales	$ 460,451	$ 424,033	$ 400,695	$ 340,192	$ 274,521
Income before taxes, equity income and minority interest	18,440	6,615	17,457	24,118	24,318
Net income	11,667	1,688	8,974	14,833	14,297
Per share:					
Net income-basic	$ 1.19	$ 0.17	$ 0.93	$ 1.58	$ 1.56
Net income-diluted	$ 1.18	$ 0.17	$ 0.90	$ 1.52	$ 1.51
Dividends declared	0.86	0.86	0.86	0.84	0.84
Dividends paid	0.86	0.86	0.855	0.84	0.835
Financial Position:					
Working capital	$ 96,062	$ 79,105	$ 45,569	$ 37,137	$ 37,529
Total assets	357,382	331,995	324,893	289,467	213,858
Long-term debt	85,237	67,410	14,848	15,827	16,590
Shareholders' equity	110,831	105,907	122,587	112,352	88,055

Following amounts in thousands

(1) The results of operation for 2005 include a net pre-tax charge for restructuring and related activities of $10,320, proceeds from the sale of real estate by the Company's real estate joint venture of $4,187, and a $1,000 tax charge associated with the repatriation of accumulated earnings of its foreign subsidiaries.

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

Executive Summary

Quaker Chemical Corporation is a worldwide developer, producer, and marketer of chemical specialty products and a provider of chemical management services ("CMS") for various heavy industrial and manufacturing applications around the globe, with significant sales to the steel and automotive industries. The improved 2006 results largely reflect the continued execution of the Company's actions taken throughout 2005 in response to its challenging business environment.

The revenue growth in 2006 was primarily due to increased selling prices, as well as higher volume in China. Higher selling prices, combined with improved CMS profitability, offset higher raw material and third-party finished product costs, resulting in significantly higher gross margin dollars with only a slight improvement in gross margin as a percentage of sales as compared to 2005. Raw material costs, primarily crude oil derivatives, continued to increase during 2006 compared to the prior year, mitigating pricing actions intended to improve gross margins as a percentage of sales. While oil prices have recently declined from a peak early in the third quarter of 2006, to date, the oil price reductions have not yet resulted in any significant reduction in raw material prices. Selling, general and administrative expenses for 2006 increased $4.6 million compared to 2005. Cost savings from restructuring efforts completed in 2005 enabled increased spending in higher growth areas, higher variable compensation and higher professional fees.

Earnings per diluted share of $1.18 represent a considerable improvement over the $0.17 for 2005. The principal factors impacting 2006 earnings included a 9% growth in revenues and improved performance from CMS. The Company's 2005 earnings included a $10.3 million pre-tax charge for restructuring and related activities and a $1.0 million tax charge attributable to the repatriation of accumulated earnings of its foreign subsidiaries, which were offset in part by $4.2 million of pre-tax income from the sale of property by the Company's real estate joint venture and lower minority interest primarily as a result of the Company's first quarter 2005 acquisition of the remaining 40% interest in its Brazilian affiliate. The Company's 2005 restructuring efforts are positively impacting the bottom line as resources have been shifted to higher growth areas like China, CMS and coatings. However, any improvements in gross margin as a percentage of sales will depend upon a sustained period of stable or declining raw material costs. The Company remains focused on pursing revenue opportunities, managing its raw material and other costs and pursuing pricing initiatives. Most recently, in the fourth quarter of 2006 the Company acquired the remaining minority interest in its China affiliate.

Notwithstanding the improved performance, the business environment in which the Company operates remains challenging. While demand in China is expected to continue to remain strong, volume in other markets was limited by customer end-market issues, including higher inventory levels in the U.S. steel industry and reduced vehicle sales experienced by some automotive customers, with indications that these conditions would continue for the foreseeable future. Raw material and third party product costs continue to remain higher as compared to the prior year. In certain instances, the Company faces competitive or contractual constraints limiting pricing actions to recover these higher costs.

Critical Accounting Policies and Estimates

Quaker's discussion and analysis of its financial condition and results of operations are based upon Quaker's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires Quaker to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, Quaker evaluates its estimates, including those related to customer sales incentives, product returns, bad debts, inventories, property, plant, and equipment, investments, intangible assets, income taxes, financing operations, restructuring, incentive compensation plans, pensions and other postretirement benefits, and contingencies and litigation. Quaker bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the

circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Quaker believes the following critical accounting policies describe the more significant judgments and estimates used in the preparation of its consolidated financial statements:

1. Accounts receivable and inventory reserves and exposures—Quaker establishes allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of Quaker's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. As part of its terms of trade, Quaker may custom manufacture products for certain large customers and/or may ship product on a consignment basis. Further, a significant portion of Quaker's revenues is derived from sales to customers in the U.S. steel industry, where a number of bankruptcies have occurred during recent years. In recent years, certain large industrial customers have also experienced financial difficulty. When a bankruptcy occurs, Quaker must judge the amount of proceeds, if any, that may ultimately be received through the bankruptcy or liquidation process. These matters may increase the Company's exposure should a bankruptcy occur, and may require writedown or disposal of certain inventory due to its estimated obsolescence or limited marketability. Reserves for customers filing for bankruptcy protection are generally established at 75-100% of the amount outstanding 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's consolidated allowance for doubtful accounts was $3.2 million and $4.1 million at December 31, 2006 and 2005, respectively. Further, the Company recorded provisions for doubtful accounts of $0.0 million, $1.2 million and $0.5 million in 2006, 2005 and 2004 respectively. An increase of 10% to the recorded provisions would have decreased the Company's pre-tax earnings by $0.0 million, $0.12 million and $0.05 million in 2006, 2005 and 2004, respectively.

2. Environmental and litigation reserves—Accruals for environmental and litigation matters are recorded when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated. Accrued liabilities are exclusive of claims against third parties and are not discounted. Environmental costs and remediation costs are capitalized if the costs extend the life, increase the capacity or improve the safety or efficiency of the property from the date acquired or constructed, and/or mitigate or prevent contamination in the future. Estimates for accruals for environmental matters are based on a variety of potential technical solutions, governmental regulations and other factors, and are subject to a large range of potential costs for remediation and other actions. A considerable amount of judgment is required in determining the most likely estimate within the range, and the factors determining this judgment may vary over time. Similarly, reserves for litigation and similar matters are based on a range of potential outcomes and require considerable judgment in determining the most probable outcome. If no amount within the range is considered more probable than any other amount, the Company accrues the lowest amount in the range in accordance with generally accepted accounting principles. An inactive subsidiary of the Company is involved in asbestos litigation. If the Company ever concludes that it is probable it will be liable for any of the obligations of such subsidiary, then it will record the associated liabilities if they can be reasonably estimated. The Company will reassess this situation periodically in accordance with SFAS No. 5, "Accounting for Contingencies." See Note 18 of Notes to Consolidated Financial Statements which appears in Item 8 of this Report.

3. Realizability of equity investments—Quaker holds equity investments in various foreign companies, whereby it has the ability to influence, but not control, the operations of the entity and its future results. Quaker records an investment impairment charge when it believes an investment has experienced a decline in value that is other than temporary. Future adverse changes in market conditions, poor operating results of underlying investments, or devaluation of foreign currencies could result in losses or an inability to recover the carrying value of the investments that may not be reflected in an investment's current carrying value.

These factors may result in an impairment charge in the future. The carrying amount of the Company's equity investments at December 31, 2006 was $7.0 million and was comprised of three investments totaling $3.6 million, $2.3 million and $1.1 million, respectively.

4. Tax exposures and valuation allowances—Quaker records expenses and liabilities for taxes based on estimates of amounts that will be ultimately determined to be deductible in tax returns filed in various jurisdictions. The filed tax returns are subject to audit, often several years subsequent to the date of the financial statements. Disputes or disagreements may arise during audits over the timing or validity of certain items or deductions, which may not be resolved for extended periods of time. Quaker establishes reserves for potential tax audit and other exposures as transactions occur and reviews these reserves on a regular basis; however, actual exposures and audit adjustments may vary from these estimates. Quaker also records valuation allowances when necessary to reduce its deferred tax assets to the amount that is more likely than not to be realized. While Quaker has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event Quaker were to determine that it would be able to realize its deferred tax assets in the future in excess of its net recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made. Likewise, should Quaker determine that it would not be able to realize all or part of its net deferred tax assets in the future, an adjustment to the deferred tax asset would be charged to income in the period such determination was made which could have a material adverse impact on the Company's financial statements. U.S. income taxes have not been provided on the undistributed earnings of non-U.S. subsidiaries since it is the Company's intention to continue to reinvest these earnings in those subsidiaries for working capital needs and 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 foreign tax credits.

5. Restructuring liabilities—Restructuring charges may consist of charges for employee severance, rationalization of manufacturing facilities and other items. In 2001, Quaker recorded restructuring and other exit costs, including involuntary termination of certain employees, in accordance with the Financial Accounting Standards Board's ("FASB") Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." Certain of these items, particularly those involving impairment charges for assets to be sold or closed, require significant estimates and assumptions in terms of estimated sale proceeds, date of sale, transaction costs and other matters, and these estimates can change based on market conditions and other factors. In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which nullified EITF Issue No. 94-3. The Company adopted the provisions of SFAS No. 146 effective for exit or disposal activities initiated after December 31, 2002. The principal difference between SFAS No. 146 and EITF 94-3 relates to its requirements for recognition of a liability for a cost associated with an exit or disposal activity. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF 94-3, a liability for exit costs is recognized at the date of an entity's commitment to an exit plan.

6. Goodwill and other intangible assets—Goodwill and other intangible assets are evaluated in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets." Intangible assets, which do not have indefinite lives, are recorded at fair value and amortized over a straight-line basis based on third party valuations of the assets. Goodwill and intangible assets, which have indefinite lives, are no longer amortized and are required to be assessed at least annually for impairment. The Company compares the assets' fair value to their carrying value primarily based on future discounted cash flows in order to determine if an impairment charge is warranted. The estimates of future cash flows involve considerable management judgment and are based upon assumptions about expected future operating performance. Assumptions used in these forecasts are consistent with internal planning. The actual cash flows could differ from management's estimates due to changes in business conditions, operating performance, and economic conditions. The Company completed its annual impairment assessment as of the end of the third quarter 2006, and no impairment charge was warranted. The Company's consolidated goodwill and indefinite-lived intangible assets at December 31, 2006 and 2005 were $39.3 million and $36.0 million, respectively. The

Company's assumption of weighted average cost of capital and estimated future net operating profit after tax (NOPAT) are particularly important in determining whether an impairment charge has been incurred. The Company currently uses a weighted average cost of capital of 12% and, at September 30, 2006, this assumption would have had to increase by more than 2.5 percentage points before any of the Company's reporting units would fail step one of the SFAS No. 142 impairment analysis. Further, at September 30, 2006, the Company's estimate of future NOPAT would have had to decrease by more than 17% before any of the Company's reporting units would be considered potentially impaired.

7. Postretirement benefits—The Company provides certain pension and other postretirement benefits to employees and retirees. Independent actuaries, in accordance with accounting principles generally accepted in the United States, perform the required valuations to determine benefit expense and, if necessary, non-cash charges to equity for additional minimum pension liabilities. Critical assumptions used in the actuarial valuation include the weighted average discount rate, rates of increase in compensation levels, and expected long-term rates of return on assets. If different assumptions were used, additional pension expense or charges to equity might be required. For 2006, the Company incurred such a non-cash charge to equity of $9.3 million, in connection with the adoption of SFAS No. 158, "Employers' Accounting for Defined Benefit and Other Postretirement Plans." The Company's pension plan year-end is November 30, which serves as the measurement date. The following table highlights the potential impact on the Company's pre-tax earnings due to changes in assumptions with respect to the Company's pension plans, based on assets and liabilities at December 31, 2006:

	1/2 Percentage Point Increase			1/2 Percentage Point Decrease		
	Foreign	Domestic	Total	Foreign	Domestic	Total
	(Dollars in millions)					
Discount rate	$ (0.6)	$ (0.1)	$(0.7)	$ 0.4	$ 0.1	$0.5
Expected rate of return on plan assets	$ (0.2)	$ (0.2)	$(0.4)	$ 0.2	$ 0.2	$0.4

Recently Issued Accounting Standards

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The cumulative effects, if any, of applying FIN 48 will be recorded as an adjustment to retained earnings as of the beginning of the period of adoption. The Company is currently evaluating the effect that the adoption of FIN 48 will have on its consolidated results of operations and financial condition and is not yet in a position to determine such effects.

In September 2006, the FASB issued FASB Staff Position ("FSP") AUG AIR-1 "Accounting for Planned Major Maintenance Activities" (FSP AUG AIR-1). FSP AUG AIR-1 amends the guidance on the accounting for planned major maintenance activities; specifically, it precludes the use of the previously acceptable "accrue in advance" method. FSP AUG AIR-1 is effective for fiscal years beginning after December 15, 2006. The adoption of FSP AUG AIR-1 did not have a material effect on our consolidated financial position or results of operations.

In September 2006, the SEC staff issued Staff Accounting Bulletin ("SAB") 108 "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" (SAB 108). SAB 108 requires that public companies utilize a "dual-approach" to assessing the quantitative effects of financial misstatements. This dual approach includes both an income statement focused assessment and a balance sheet focused assessment. The guidance in SAB 108 must be applied to annual financial statements for fiscal years ending after November 15, 2006. The adoption of SAB 108 did not have a material effect on our consolidated financial position or results of operations.

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 US GAAP guidance requiring use of fair

value, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact of SFAS No. 157 on its consolidated financial position and results of operations.

Liquidity and Capital Resources

Quaker's cash and cash equivalents remained at $16.1 million at December 31, 2006 and 2005. Operating and financing activities provided $8.2 million and $4.2 million, respectively, which were offset by $13.5 million of net cash used in investing activities.

Net cash flows provided by operating activities were $8.2 million in 2006 versus $11.6 million in 2005. The Company's higher net income was more than offset by the change in working capital accounts, increased net pension plan contributions and higher restructuring payments in 2006, as a result of the actions taken in the fourth quarter of 2005. The change in working capital accounts was largely driven by higher incentive compensation accruals in 2006 on higher earnings and the timing of accounts payable in the U.S. and Europe in the prior year.

Net cash flows used in investing activities were $13.5 million in 2006 compared to $8.8 million in 2005. The primary factors affecting the change in cash flows were higher capital expenditures in 2006 for expansion, primarily in Asia/Pacific, and lower payments related to acquisitions, and lower proceeds from the disposition of assets. In March 2005, the Company acquired the remaining 40% interest in its Brazilian joint venture for $6.7 million. In accordance with the purchase agreement, the Company made the first of four $1.0 million contingent annual payments in the first quarter of 2006. In addition, in the fourth quarter of 2006, the Company paid $0.6 million in connection with the acquisition of the remaining minority interest in its China joint venture. See also Note 14 of Notes to Consolidated Financial Statements. In the first quarter of 2005, the Company recorded a gain of $3.0 million in connection with the sale of real estate assets by the Company's real estate joint venture, discussed below. In 2005, the Company received $1.9 million of cash proceeds from the sale of its Villeneuve, France site.

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 $4.2 million of proceeds to the Company after payment of the Venture's obligations. The proceeds include a gain of $3.0 million related to the sale by the Venture of its real estate holdings as well as $1.2 million of preferred distributions.

In December 2005, an inactive subsidiary of the Company reached a settlement agreement and release with one of its insurance carriers for $15.0 million. The proceeds of the settlement are restricted and can only be used to pay claims and costs of defense associated with this subsidiary's asbestos litigation. In accordance with the agreement, the subsidiary received $7.5 million cash in December 2005 and the remaining $7.5 million in December of 2006, which were deposited into an interest bearing account, which earned approximately $0.3 million in 2006, offset by $0.5 million of payments in 2006. The restrictions regarding the use of proceeds lapse after a period of 15 years. 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 16, 17 and 18 of Notes to Consolidated Financial Statements.

Net cash flows provided by financing activities were $4.2 million in 2006 compared to a $14.9 million use of cash in 2005. The change was caused primarily by net borrowings in 2006 compared to net repayments in 2005. The borrowings in 2006 were used to fund the Company's working capital needs, construction of a new manufacturing

and research facility in China, and the fourth quarter 2006 acquisition of the remaining interest in the Company's China affiliate. The fourth quarter 2005 restructuring actions were funded during 2006. In addition, lower distributions were paid to the minority shareholders in 2006 due to the acquisition of minority shareholders' interests. The prior year distributions to minority shareholders were driven in large part by a distribution made prior to the Company's acquisition of the remaining 40% interest in its Brazilian joint venture described above.

In September 2005, the Company prepaid its senior unsecured notes due in 2007. The total amount of principal prepaid was $8.6 million. In October 2005, the Company entered into a new syndicated multi-currency credit agreement that provides for financing in the United States and The Netherlands. This facility enabled the Company to consolidate the majority of its short-term debt into a longer-term facility. The new facility terminates on September 30, 2010. The new facility allows for revolving credit borrowings in a principal amount of up to $100.0 million, which can be increased to $125.0 million at the Company's request if lenders agree to increase their commitments and the Company satisfies certain conditions. 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. The provisions of the agreement require that the Company maintain certain financial ratios and covenants, all of which the Company was in compliance with as of December 31, 2006 and 2005. Under its most restrictive covenants, the Company could have borrowed an additional $18.8 million at December 31, 2006. At December 31, 2006 and 2005, the Company had approximately $79.2 million and $63.8 million outstanding on these credit lines at a weighted average borrowing rate of 5.69% and 4.42%, 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 $25.0 million at December 31, 2006. In February 2007, the Company completed a refinancing of its existing industrial development bonds to fix the interest rate of an additional $5.0 million of debt.

The Company's net debt-to-total capital ratio was 40% at December 31, 2006, compared to 35% at December 31, 2005. In connection with the adoption of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," the Company recorded a non-cash charge to "Shareholders' equity" of $9.3 million, which negatively impacted the Company's net debt-to-total capital ratio by approximately two percentage points. The Company believes that in 2007 it is capable of supporting its operating requirements including pension plan contributions, payments of dividends to shareholders, possible acquisition and business opportunities, capital expenditures and possible resolution of contingencies, through internally generated funds supplemented with debt as needed.

The following table summarizes the Company's contractual obligations at December 31, 2006, and the effect such obligations are expected to have on its liquidity and cash flow in future periods. Pension and other postretirement plan contributions beyond 2007 are not determinable since the amount of any contribution is heavily dependent on the future economic environment and investment returns on pension trust assets. The timing of payments related to other long-term liabilities, which consist primarily of deferred compensation agreements, cannot be readily determined due to their uncertainty. Interest obligations on the Company's short and long-term debt are excluded as the majority of the Company's debt is subject to variable interest rates. (Amounts in millions)

	Payments due by period						
Contractual Obligations	Total	2007	2008	2009	2010	2011	2012 and beyond
Short-term debt	$ 3.261	$ 3.261	$ —	$ —	$ —	$ —	$ —
Long-term debt	85.501	1.369	1.405	0.942	76.785	—	5.000
Capital lease obligations	1.717	0.446	0.407	0.338	0.508	0.018	—
Non-cancelable operating leases	20.012	4.073	3.623	2.667	1.991	1.733	5.925
Purchase obligations	3.503	3.070	0.433	—	—	—	—
Pension and other postretirement plan contributions	7.983	7.983	—	—	—	—	—
Other long-term liabilities (primarily deferred compensation agreements)	8.553	—	—	—	—	—	8.553
Total contractual cash obligations	$ 130.530	$ 20.202	$ 5.868	$ 3.947	$ 79.284	$ 1.751	$ 19.478

Operations

CMS Discussion

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

Under this alternative pricing structure, the Company was awarded a series of multi-year CMS contracts primarily at General Motors Powertrain, DaimlerChrysler and Ford manufacturing sites in 2003, 2004, 2005 and 2006. This business was an important step in building the Company's share and leadership position in the automotive process fluids market and has positioned the Company well for penetration of CMS opportunities in other metalworking manufacturing sites. This alternative approach had a dramatic impact on the Company's revenue and margins. Under the traditional CMS approach, where the Company effectively acts as an agent, revenues and costs from these sales are reported on a net sales or "pass-through" basis. As discussed above, the alternative structure is different in that the Company's revenue received from the customer is a fee for products and services provided to the customer, which are indirectly related to the actual costs incurred. As a result, the Company recognizes in the alternative structure in reported revenues the gross revenue received from the CMS site customer, and in cost of goods sold, the third-party product purchases, which substantially offset each other until the Company achieves significant product conversions. As some contracts have been renewed or renegotiated, some of the contracts reverted to a "pass through" basis. Currently, the Company has a mix of contracts with both the traditional product pass through structure and fixed priced contracts covering all services and products. The Company's offerings will continue to include both approaches to CMS depending on customer requirements and business circumstances.

Comparison of 2006 with 2005

Net sales for 2006 were $460.5 million, up 8.6% from $424.0 million for 2005. The increase in net sales was attributable to higher sales prices and volume growth. Volume growth was mainly attributable to market share growth and increased demand in the U.S. and China offset by softening demand in Europe. Selling price increases were broadly implemented across all regions and market segments to offset significantly higher raw material costs.

Gross profit (net sales less cost of goods sold) as a percentage of sales was 31.0% for 2006, as compared to 30.6% for 2005. Higher selling prices and a stronger performance from the Company's CMS channel helped maintain margins notwithstanding continued increases in raw material prices, particularly crude oil derivatives.

Selling, general and administrative expenses ("SG&A") for 2006 increased $4.6 million compared to 2005. Cost savings from restructuring efforts completed in 2005 enabled increased spending in higher growth areas, higher variable compensation, and higher professional fees. In addition, due to a legislative change, effective January 1, 2006, the Company recorded a pension gain in the first quarter of 2006 of $0.9 million relating to one of its European pension plans. SG&A as a percentage of sales decreased from 27.4% to 26.3%.

In the first quarter of 2005, the Company incurred a net pre-tax charge of $1.2 million related to a reduction in its workforce. During the fourth quarter of 2005, the Company furthered this restructuring effort with the goal of significantly reducing operating costs in the U.S. and Europe. The fourth quarter program included involuntary terminations, a freeze of the Company's U.S. pension plan, and a voluntary early retirement offering to eligible U.S. employees. These actions resulted in a net pre-tax charge of $9.1 million.

The decrease in other income is largely due to $4.2 million of pre-tax gain relating to the Company's real estate joint venture recorded in 2005. The remainder of the decrease was the result of foreign exchange losses in 2006 compared to gains in 2005. The increase in net interest expense is attributable to higher average borrowings and higher interest rates.

The effective tax rate was 33.8% for 2006 compared to 50.4% in 2005, with the decrease primarily due to the tax charge taken in 2005 associated with the repatriation of accumulated foreign earnings.

At the end of 2006, the Company had net U.S. deferred tax assets totaling $15.5 million, excluding deferred tax assets relating to additional minimum pension liabilities. The Company records valuation allowances when necessary to reduce its deferred tax assets to the amount that is more likely than not to be realized. The Company considers future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for a valuation allowance. However, in the event the Company were to determine that it would not be able to realize all or part of its U.S. net deferred tax assets in the future, an adjustment to the deferred tax asset would be a non-cash charge to income in the period such determination were made, which could have a material adverse impact on the Company's financial statements. The continued upward pressure in the prices for the Company's crude-oil based raw materials has negatively impacted U.S. profitability. The Company continues to closely monitor this situation as it relates to its net deferred tax assets and the assessment of valuation allowances. The Company is continuing to evaluate alternatives that could positively impact taxable income.

The decrease in minority interest expense for the year is due to the acquisition of the remaining 40% interest in the Company's Brazilian affiliate in March of 2005, the fourth quarter 2006 acquisition of the remaining interest in the Company's China affiliate, and lower financial performance from most of the Company's minority affiliates.

Segment Reviews—Comparison of 2006 with 2005

Metalworking Process Chemicals:

Metalworking Process Chemicals consist of industrial process fluids for various heavy industrial and manufacturing applications and represented approximately 92% of the Company's net sales in 2006. Net sales for this segment were up $32.0 million, or 8%, compared to 2005. Foreign currency translation positively impacted net sales by approximately 1%, driven by the Brazilian real to U.S. dollar exchange rate. The average Brazilian real to U.S. dollar rate was 0.46 in 2006 compared to 0.41 in 2005. Net sales were positively impacted by 4% growth in North America, 5% growth in Europe, 20% growth in Asia/Pacific and 2% growth in South America, all on a constant currency basis. The growth in net sales was attributable to both higher sales and volume growth. The majority of the volume growth came from increased demand in China, while price increases implemented across all regions helped to restore margins despite higher raw material costs. The $12.6 million increase in this segment's operating income compared to 2005 is largely reflective of the Company's pricing actions, improved performance from the Company's U.S. CMS channel, and savings generated from the Company's 2005 restructuring actions.

Coatings:

The Company's Coatings segment, which represented approximately 7% of the Company's net sales for 2006, contains products that provide temporary and permanent coatings for metal and concrete products and chemical milling maskants. Net sales for this segment were up $6.2 million, or 23% in 2006, compared with the

prior year. The increase in net sales was the result of increased demand for both coatings and chemical milling maskants to the aerospace industry. This segment's operating income increased $1.2 million, consistent with the noted volume increases.

Other Chemical Products:

Other Chemical Products, which represented approximately 1% of the Company's net sales for 2006, consists of sulfur removal products for industrial gas streams sold by the Company's Q2 Technologies joint venture. Net sales for 2006 decreased $1.8 million, or 47%, due to a variety of market conditions, including reduced demand in the hydrocarbon and wastewater markets. This segment's operating income decreased $0.4 million, as a result of the noted volume decreases.

Comparison of 2005 with 2004

Net sales for 2005 increased to $424.0 million, up 6% from $400.7 million for 2004. Approximately 4% of the increase was attributable to higher sales prices, while foreign exchange rate translation favorably impacted net sales by approximately 2%. Volume increases in Asia/Pacific were partially offset by softer demand in North America and Europe.

Gross profit as a percentage of sales declined from 32.7% in 2004 to 30.6% in 2005. Higher prices for the Company's raw materials, particularly crude oil derivatives, and higher third-party product purchase costs with respect to the Company's CMS contracts, exceeded the pace at which price increases could be implemented through the year. Unfavorable product and regional mix also contributed to the decline in gross profit percentage.

Selling, general and administrative expenses ("SG&A") for 2005 increased $2.8 million or approximately 3% from 2004. Foreign exchange rate translation accounted for approximately half of the increase with the remainder attributable to inflation, investments in growth initiatives, and higher pension costs offset by other cost reduction efforts. SG&A as a percentage of sales decreased from 28.3% to 27.4%.

In the first quarter of 2005, the Company incurred a net pre-tax charge of $1.2 million related to a reduction in its workforce. During the fourth quarter of 2005, the Company furthered this restructuring effort with the goal of significantly reducing operating costs in the U.S. and Europe. The fourth quarter program included involuntary terminations, a freeze of the Company's U.S. pension plan, and a voluntary early retirement offering to eligible U.S. employees. These actions resulted in a net pre-tax charge of $9.1 million.

The increase in other income for 2005 was largely due to the $4.2 million of proceeds received from the sale by the Company's real estate joint venture of its holdings. The proceeds included a $3.0 million gain relating to the sale by the venture of its real estate holdings, as well as $1.2 million of preferred return distributions. Preferred distributions in 2004 totaled $0.9 million. Foreign exchange gains in 2005 also contributed to the increase in other income. The increase in net interest expense in 2005 was due to higher average borrowings and higher interest rates on the Company's debt.

The effective tax rate was 50.4% versus 31.5% in 2004. The increase was primarily due to the Company's election, in the fourth quarter of 2005, to repatriate substantial accumulated foreign earnings primarily to improve its global capital structure, which resulted in a $1.0 million charge in tax expense.

The $1.7 million decrease in minority interest in 2005 was primarily due to the Company's first quarter 2005 acquisition of the remaining 40% interest in its Brazilian affiliate.

Segment Reviews—Comparison of 2005 with 2004

Metalworking Process Chemicals:

Metalworking Process Chemicals consists of industrial process fluids for various heavy industrial and manufacturing applications and represented approximately 93% of the Company's net sales in 2005. Net sales were up $23.0 million, or 6%, compared with 2004. Favorable currency translation represented approximately 2 percentage

points of the growth in this segment, driven by the Brazilian real to U.S. dollar exchange rate. The average Brazilian real to U.S. dollar rate was 0.41 in 2005 compared to 0.34 in 2004. The remaining net sales increase of 4% was due to 35% growth in Asia/Pacific, 7.2% growth in South America, 1% growth in North America, partially offset by decreases in our European net sales, which were down 3%, all on a constant currency basis. The growth in net sales is primarily attributable to the pricing actions taken by the Company throughout 2004 and 2005 to help in offsetting the escalation in raw material costs. Volume increases in Asia/Pacific were offset by volume declines in the Company's North American and European regions. The $6.4 million decrease in this segment's operating income compared to 2004 is largely reflective of the pace at which raw material costs have escalated beyond the Company's pricing actions. This segment's operating income was also impacted by higher selling costs compared to the prior year.

Coatings:

The Company's Coatings segment, which represented approximately 6% of Company's net sales for 2005, contains products that provide temporary and permanent coatings for metal and concrete products and chemical milling maskants. Net sales for this segment were up $2.0 million, or 8%, in 2005, compared with the prior year, primarily due to higher chemical milling maskant sales to the aerospace industry. Operating income decreased by $0.1 million in 2005 compared to 2004 due to higher raw material and selling costs.

Other Chemical Products:

Other Chemical Products, which represented approximately 1% of net sales in 2005, consists of sulfur removal products for industrial gas streams sold by the Company's Q2 Technologies joint venture. Net sales for 2005 decreased $1.7 million or 31% due to a variety of market conditions, including special one-time sales to this segment's largest customer in 2004 affecting the yearly net sales comparison. This segment's operating income decreased by $0.4 million, consistent with the noted volume decreases and higher raw material costs.

Restructuring and Related Activities

In 2001, Quaker's management approved restructuring plans to realign the organization, primarily in Europe, and reduce operating costs (2001 Program). Included in the restructuring charges were provisions for severance of 53 employees. The charge comprised $2.807 million related to employee separations, $2.450 million related to facility rationalization charges, and $0.597 million related to abandoned acquisitions. In January of 2005, the last severance payment under the 2001 program was made and the Company reversed $0.117 million of unused restructuring accruals related to this program. In 2005, the Company completed the sale of its Villeneuve, France site for $1.907 million, which completed all actions contemplated by the 2001 Program. The Company reversed $0.159 million of unused restructuring accruals related to this program in the fourth quarter of 2005.

In 2003, Quaker's management approved a restructuring plan (2003 Program). Included in the 2003 restructuring charge were provisions for severance for 9 employees totaling $0.273 million. As of March 31, 2005, all severance payments were completed and the Company reversed $0.059 million of unused restructuring accruals related to this program, which completed all actions contemplated by the 2003 Program.

In 2004, Quaker's management approved a restructuring plan by announcing the consolidation of its administrative facilities in Hong Kong with its Shanghai headquarters (2004 Program). Included in the 2004 restructuring charge were severance provisions for 5 employees totaling $0.119 million and an asset impairment related to the Company's previous plans to implement its global ERP system at this location totaling $0.331 million. As of March 31, 2005, all severance payments were completed, which completed all actions contemplated by the 2004 Program.

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 million. At December 31, 2005, all severance payments were completed. The Company reversed $0.096 million of unused restructuring charges related to this program, which completed all actions contemplated by the 2005 1st Quarter Program.

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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, and 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 million were recognized in the fourth quarter of 2005. The charge comprised $4.024 million related to severance for involuntary terminations, $1.017 million related to one-time payments for voluntary early retirement, $2.668 million related to the U.S. pension plan freeze, and $1.635 million for the enhanced pension and other postretirement benefits related to voluntary early retirement participants. The charges related to the U.S. pension plan freeze and the enhanced pension and postretirement benefits are not included in the following table, and are included as part of the accrued pension and other post retirement balances. See also Note 9 of Notes to Consolidated Financial Statements which appears in Item 8 of this Report. The Company completed the initiatives contemplated under this program during 2006.

	Employee Separations
2005 4th Quarter Program:	
Restructuring charges	$ 5.041
Payments	(1.006)
Currency translation and other	(0.002)
December 31, 2005 ending balance	4.033
Payments	(4.033)
December 31, 2006 ending balance	$ 0

Environmental Clean-up Activities

The Company is involved in environmental clean-up activities in connection with an existing plant location and former waste disposal sites. In April of 1992, the Company identified certain soil and groundwater contamination at AC Products, Inc. ("ACP"), a wholly owned subsidiary. Voluntarily in coordination with the Santa Ana California Regional Water Quality Board, ACP is remediating the contamination. The Company believes that the remaining potential-known liabilities associated with these matters range from approximately $1.5 million to $1.9 million, for which the Company has sufficient reserves. Notwithstanding the foregoing, the Company cannot be certain that liabilities in the form of remediation expenses, fines, penalties, and damages will not be incurred in excess of the amount reserved. See Note 18 of Notes to Consolidated Financial Statements which appears in Item 8 of this Report.

General

The Company generally does not use financial instruments that expose it to significant risk involving foreign currency transactions; however, the size of non-U.S. activities has a significant impact on reported operating results and the attendant net assets. During the past three years, sales by non-U.S. subsidiaries accounted for approximately 53% to 56% of the consolidated net annual sales. See Note 13 of Notes to Consolidated Financial Statements which appears in Item 8 of this Report.

Factors that May Affect Our Future Results

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

Certain information included in this Report and other materials filed or to be filed by Quaker with the SEC (as well as information included in oral statements or other written statements made or to be made by us) contain or may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as

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

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

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

Any or all of the forward-looking statements in this report, in Quaker’s Annual Report to Shareholders for 2006 and in any other public statements we make may turn out to be wrong. This can occur as a result of inaccurate assumptions or as a consequence of known or unknown risks and uncertainties. Many factors discussed in this Report will be important in determining our future performance. Consequently, actual results may differ materially from those that might be anticipated from our forward-looking statements.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. However, any further disclosures made on related subjects in Quaker’s subsequent reports on Forms 10-K, 10-Q and 8-K should be consulted. These forward-looking statements are subject to risks, uncertainties and assumptions about us and our operations that are subject to change based on various important factors, some of which are beyond our control. A major risk is that the Company’s demand is largely derived from the demand for its customers’ products, which subjects the Company to uncertainties related to downturns in a customer’s business and unanticipated customer production shutdowns. Other major risks and uncertainties include, but are not limited to, significant increases in raw material costs, worldwide economic and political conditions, foreign currency fluctuations, and terrorist attacks such as those that occurred on September 11, 2001, each of which is discussed in greater detail in Item 1A of this Report. Furthermore, the Company is subject to the same business cycles as those experienced by steel, automobile, aircraft, appliance, and durable goods manufacturers. These risks, uncertainties, and possible inaccurate assumptions relevant to our business could cause our actual results to differ materially from expected and historical results. Other factors beyond those discussed in this Report could also adversely affect us. Therefore, we caution you not to place undue reliance on our forward-looking statements. This discussion is provided as permitted by the Private Securities Litigation Reform Act of 1995.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk.*

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

Interest Rate Risk. Quaker’s exposure to market rate risk for changes in interest rates relates primarily to its short and long-term debt. Most of Quaker’s debt is negotiated at market rates. Accordingly, if interest rates rise significantly, the cost of debt to Quaker will increase. This can have an adverse effect on Quaker, depending on the extent of Quaker’s borrowings. As of December 31, 2006, Quaker had approximately $79.2 million in borrowings under its credit facilities at a weighted average borrowing rate of approximately 5.69%. The Company uses derivative financial instruments primarily for the purposes of hedging exposures to fluctuations in interest rates. The Company does not enter into derivative contracts for trading or speculative purposes. In 2006

and 2005, the Company entered into five interest rate swaps in order to fix a portion of its variable rate debt. The swaps had a combined notional value of $25.0 million and $15.0 million and a fair value of $0.1 and $(0.1) million at December 31, 2006 and December 31, 2005, respectively. The counterparties to the swaps are major financial institutions. See the information included under the caption "Derivatives" in Note 1 of Notes to Consolidated Financial Statements which appears in Item 8 of this Report and is incorporated herein by reference. In February 2007, the Company completed a refinancing of its existing industrial development bonds to fix the interest rate of an additional $5.0 million of debt.

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

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

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

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

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

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Item 8. ***Financial Statements and Supplementary Data.***

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
of Quaker Chemical Corporation:

We have completed integrated audits of Quaker Chemical Corporation's consolidated financial statements and of its internal control over financial reporting as of December 31, 2006, in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Quaker Chemical Corporation and its subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 9 and Note 11 to the consolidated financial statements, the Company changed the manner in which it accounts for defined benefit pension and other postretirement plans effective December 31, 2006 and the manner in which it accounts for share-based compensation in 2006.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in "Management's Report on Internal Control over Financial Reporting," appearing under Item 9A, that the Company maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's 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. A company's internal control over financial reporting

includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Philadelphia, PA
March 9, 2007

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QUAKER CHEMICAL CORPORATION

CONSOLIDATED STATEMENT OF INCOME

	Year Ended December 31,		
	2006	2005	2004
		(In thousands, except per share amounts)	
Net sales	$460,451	$424,033	$400,695
Costs and expenses:			
Cost of goods sold	317,850	294,219	269,818
Selling, general, and administrative expenses	120,969	116,340	113,536
Restructuring and related activities, net	—	10,320	450
	438,819	420,879	383,804
Operating income	21,632	3,154	16,891
Other income, net	1,259	6,120	1,818
Interest expense	(5,520)	(3,681)	(2,363)
Interest income	1,069	1,022	1,111
Income before taxes, equity income and minority interest	18,440	6,615	17,457
Taxes on income	6,224	3,336	5,499
	12,216	3,279	11,958
Equity in net income of associated companies	773	618	890
Minority interest in net income of subsidiaries	(1,322)	(2,209)	(3,874)
Net income	$ 11,667	$ 1,688	$ 8,974
Per share data:			
Net income—basic	$ 1.19	$ 0.17	$ 0.93
Net income—diluted	$ 1.18	$ 0.17	$ 0.90
Weighted average shares outstanding:			
Basic	9,779	9,679	9,606
Diluted	9,854	9,816	9,969

See notes to consolidated financial statements.

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QUAKER CHEMICAL CORPORATION

CONSOLIDATED BALANCE SHEET

	December 31, 2006	December 31, 2005
	(In thousands, except par value and share amounts)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 16,062	$ 16,121
Accounts receivable, net	107,340	93,943
Inventories	51,984	45,818
Deferred income taxes	4,379	4,439
Prepaid expenses and other current assets	6,476	5,672
Total current assets	186,241	165,993
Property, plant and equipment, net	60,927	56,897
Goodwill	38,740	35,418
Other intangible assets, net	8,330	8,703
Investments in associated companies	7,044	6,624
Deferred income taxes	28,573	24,385
Other assets	27,527	33,975
Total assets	$357,382	$331,995
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings and current portion of long-term debt	$ 4,950	$ 5,094
Accounts payable	54,212	50,832
Dividends payable	2,133	2,091
Accrued compensation	15,225	9,818
Other current liabilities	13,659	19,053
Total current liabilities	90,179	86,888
Long-term debt	85,237	67,410
Deferred income taxes	5,317	4,608
Accrued pension and postretirement benefits	38,430	38,210
Other non-current liabilities	23,353	22,363
Total liabilities	242,516	219,479
Minority interest in equity of subsidiaries	4,035	6,609
Commitments and contingencies	—	—
Shareholders' equity		
Common stock, $1 par value; authorized 30,000,000 shares; Issued: 2006-9,925,976, 2005-9,726,385 shares	9,926	9,726
Capital in excess of par value	5,466	3,574
Retained earnings	114,498	111,317
Accumulated other comprehensive loss	(19,059)	(18,710)
Total shareholders' equity	110,831	105,907
Total liabilities and shareholders' equity	$357,382	$331,995

See notes to consolidated financial statements.

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QUAKER CHEMICAL CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2006	2005	2004
		(In thousands)	
Cash flows from operating activities			
Net income	$ 11,667	$ 1,688	$ 8,974
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	10,136	9,163	8,610
Amortization	1,427	1,368	1,157
Equity in net income of associated companies, net of dividends	(348)	(384)	(602)
Minority interest in earnings of subsidiaries	1,322	2,209	3,874
Deferred income tax	404	(4,476)	(1,872)
Deferred compensation and other, net	(507)	(747)	(442)
Stock based compensation	857	771	452
Restructuring and related activities	—	6,018	450
Gain on sale of partnership assets	—	(2,989)	—
(Gain) Loss on disposal of property, plant and equipment	34	—	(509)
Insurance settlement realized	(544)	—	—
Pension and other postretirement benefits	(4,247)	(439)	(172)
Increase (decrease) in cash from changes in current assets and current liabilities, net of acquisitions:			
Accounts receivable	(8,947)	(9,600)	(6,254)
Inventories	(4,146)	(5,821)	(7,559)
Prepaid expenses and other current assets	(140)	161	(388)
Accounts payable and accrued liabilities	5,440	15,726	129
Change in restructuring liabilities	(4,033)	(2,798)	(558)
Estimated taxes on income	(192)	1,722	(1,596)
Net cash provided by operating activities	8,183	11,572	3,694
Cash flows from investing activities			
Capital expenditures	(12,379)	(6,989)	(8,643)
Payments related to acquisitions	(1,684)	(6,700)	—
Proceeds from partnership disposition of assets	—	2,989	—
Proceeds from disposition of assets	64	1,918	1,880
Insurance settlement received and interest earned	7,836	7,508	—
Change in restricted cash, net	(7,292)	(7,508)	—
Other, net	—	—	(75)
Net cash used in investing activities	(13,455)	(8,782)	(6,838)
Cash flows from financing activities			
Proceeds from short-term debt	1,897	—	—
Net (decrease) increase in short-term borrowings	(3,384)	(52,703)	17,683
Proceeds from long-term debt	15,283	59,525	2,564
Repayment of long-term debt	(940)	(9,566)	(3,679)
Dividends paid	(8,444)	(8,340)	(8,241)
Stock options exercised, other	1,235	387	960
Distributions to minority shareholders	(1,490)	(4,198)	(1,956)
Net cash provided by (used in) financing activities	4,157	(14,895)	7,331
Effect of exchange rate changes on cash	1,056	(852)	2,976
Net (decrease) increase in cash and cash equivalents	(59)	(12,957)	7,163
Cash and cash equivalents at beginning of the period	16,121	29,078	21,915
Cash and cash equivalents at end of the period	$ 16,062	$ 16,121	$29,078
Supplemental cash flow disclosures			
Cash paid during the year for:			
Income taxes	$ 6,315	$ 5,584	$ 4,809
Interest	4,944	3,354	2,201
Non-cash activities:			
Restricted insurance receivable (See also Note 16 of Notes to Consolidated Financial Statements)	$ 7,500	$ 7,500	$ —

See notes to consolidated financial statements.

QUAKER CHEMICAL CORPORATION

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

	Common stock	Capital in excess of par value	Retained earnings	Unearned compensation	Accumulated other comprehensive income (loss)	Treasury stock	Total
	(In thousands, except per share amounts)						
Balance at December 31, 2003	$ 9,664	$ 2,181	$117,308	$ (621)	$ (15,406)	$ (774)	$ 112,352
Net income	—	—	8,974	—	—	—	8,974
Currency translation adjustments	—	—	—	—	8,959	—	8,959
Minimum pension liability	—	—	—	—	(1,052)	—	(1,052)
Unrealized gain on available-for-sale securities	—	—	—	—	159	—	159
Comprehensive income	—	—	—	—	—	—	17,040
Dividends ($0.86 per share)	—	—	(8,301)	—	—	—	(8,301)
Shares issued upon exercise of options	4	301	—	—	—	536	841
Shares issued for employee stock purchase plan	1	40	—	—	—	162	203
Equity-based compensation plans	—	110	—	—	—	76	186
Amortization of unearned compensation	—	—	—	266	—	—	266
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 income	—	—	—	—	—	—	(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

See notes to consolidated financial statements.

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 3 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 5 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 $3,817 and $6,406 of net costs were capitalized at December 31, 2006 and 2005, 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 15 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 $62,777, $38,840 and $35,215 for 2006, 2005 and 2004, 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 2006, 2005 and 2004 were $12,989, $14,148, and $13,808, 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 4 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.

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, 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. The components of accumulated other comprehensive loss at December 31, 2005 include: accumulated foreign currency translation adjustments of $(5,548) and minimum pension liability of $(13,257), unrealized holding gains on available-for-sale securities of $166, and the fair value of derivative instruments of $(71).

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

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.

In 2006 and 2005, the Company entered into five interest rate swaps in order to fix a portion of its variable rate debt. The swaps had a combined notional value of $25,000 and $15,000 and a fair value of $85 and $(71) at December 31, 2006 and December 31, 2005, respectively. The counterparties to the swaps are major financial institutions.

Recently issued accounting standards:

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The cumulative effects, if any, of applying FIN 48 will be recorded as an adjustment to retained earnings as of the beginning of the period of adoption. The Company is currently evaluating the effect that the adoption of FIN 48 will have on its consolidated results of operations and financial condition and is not yet in a position to determine such effects.

In September 2006, the FASB issued FASB Staff Position ("FSP") AUG AIR-1 "Accounting for Planned Major Maintenance Activities" (FSP AUG AIR-1). FSP AUG AIR-1 amends the guidance on the accounting for planned major maintenance activities; specifically, it precludes the use of the previously acceptable "accrue in advance" method. FSP AUG AIR-1 is effective for fiscal years beginning after December 15, 2006. The adoption of FSP AUG AIR-1 did not have a material effect on our consolidated financial position or results of operations.

In September 2006, the SEC staff issued Staff Accounting Bulletin ("SAB") 108 "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" (SAB 108). SAB 108 requires that public companies utilize a "dual-approach" to assessing the quantitative effects of

financial misstatements. This dual approach includes both an income statement focused assessment and a balance sheet focused assessment. The guidance in SAB 108 must be applied to annual financial statements for fiscal years ending after November 15, 2006. The adoption of SAB 108 did not have a material effect on our consolidated financial position or results of operations.

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 US GAAP guidance requiring use of fair value, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact of SFAS No. 157 on its consolidated financial position and results of operations.

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

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

Note 2—Restructuring and Related Activities

In 2001, Quaker’s management approved restructuring plans to realign the organization, primarily in Europe, and reduce operating costs (2001 Program). Included in the restructuring charges were provisions for severance of 53 employees. The charge comprised $2,807 related to employee separations, $2,450 related to facility rationalization charges, and $597 related to abandoned acquisitions. In January of 2005, the last severance payment under the 2001 program was made and the Company reversed $117 of unused restructuring accruals related to this program. In 2005, the Company completed the sale of its Villeneuve, France site for $1,907, which completed all actions contemplated by the 2001 Program. The Company reversed $159 of unused restructuring accruals related to this program in the fourth quarter of 2005.

In 2003, Quaker’s management approved a restructuring plan (2003 Program). Included in the 2003 restructuring charge were provisions for severance for 9 employees totaling $273. As of March 31, 2005, all severance payments were completed and the Company reversed $59 of unused restructuring accruals related to this program, which completed all actions contemplated by the 2003 Program.

In 2004, Quaker’s management approved a restructuring plan by announcing the consolidation of its administrative facilities in Hong Kong with its Shanghai headquarters (2004 Program). Included in the 2004 restructuring charge were severance provisions for 5 employees totaling $119 and an asset impairment related to the Company’s previous plans to implement its global ERP system at this location totaling $331. As of March 31, 2005, all severance payments were completed, which completed all actions contemplated by the 2004 Program.

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

QUAKER CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Dollars in thousands except per share amounts)

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 are not included in the following table, and are included as part of the accrued pension and other postretirement balances. See also Note 9 of Notes to Consolidated Financial Statements.

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

	Employee Separations
2005 4th Quarter Program:	
Restructuring charges	5,041
Payments	(1,006)
Currency translation and other	(2)
December 31, 2005 ending balance	4,033
Payments	(4,033)
December 31, 2006 ending balance	$ 0

Note 3—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,	
	2006	2005
Current assets	$24,129	$22,063
Noncurrent assets	5,400	4,844
Current liabilities	13,062	11,153
Noncurrent liabilities	233	291

	Year Ended December 31,		
	2006	2005	2004
Net sales	$46,062	$44,507	$48,104
Gross margin	17,662	17,677	22,216
Operating income	3,920	3,430	5,440
Net income	1,574	1,202	2,194

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

QUAKER CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Dollars in thousands except per share amounts)

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 4—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 our best estimate of the amount of probable credit losses in our existing accounts receivable. We determine the allowance based on historical write-off experience by industry and regional economic data. 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. We perform a formal review of our allowance for doubtful accounts quarterly. Account balances are charged off against the allowance when we feel it is probable the receivable will not be recovered. We do not have any off-balance-sheet credit exposure related to our customers. During 2006, the Company's five largest customers accounted for approximately 23% of its consolidated net sales with the largest customer (General Motors) accounting for approximately 6% of consolidated net sales.

At December 31, 2006 and 2005, the Company had gross trade accounts receivable totaling $110,525 and $98,009 with trade accounts receivable greater than 90 days past due of $5,565 and $11,725, respectively. Following are the changes in the allowance for doubtful accounts during the years ended December 31, 2006, 2005 and 2004.

	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, 2006	$ 4,066	$ —	$ (961)	$ 80	$ 3,185
Year ended December 31, 2005	$ 6,773	$ 1,216	$ (3,828)	$ (95)	$ 4,066
Year ended December 31, 2004	$ 6,763	$ 500	$ (512)	$ 22	$ 6,773

Note 5—Inventories

Total inventories comprise:

	December 31, 2006	December 31, 2005
Raw materials and supplies	$21,589	$20,016
Work in process and finished goods	30,395	25,802
	$51,984	$45,818

QUAKER CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Dollars in thousands except per share amounts)

Note 6—Property, Plant and Equipment

Property, plant and equipment comprise:

	December 31, 2006	December 31, 2005
Land	$ 5,768	$ 5,391
Building and improvements	40,446	38,110
Machinery and equipment	104,427	94,223
Construction in progress	8,293	3,179
	158,934	140,903
Less accumulated depreciation	(98,007)	(84,006)
	$ 60,927	$ 56,897

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 $3,398 and $2,659 of capital leases with $672 and $345 of accumulated depreciation at December 31, 2006 and 2005, respectively. The following is a schedule by years of future minimum lease payments:

For the year ended December 31,	
2007	$ 446
2008	$ 407
2009	$ 338
2010	$ 508
2011	$ 18
2012 and beyond	$ —
Total net minimum lease payments	1,717
Less amount representing interest	(292)
Present value of net minimum lease payments	$1,425

Note 7—Asset Retirement Obligations

In June 2001, the FASB issued SFAS No. 143, “Accounting for Asset Retirement Obligations.” SFAS No. 143 addresses accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated retirement costs. 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 (“FIN 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 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 CARO’s consist primarily of asbestos contained in certain manufacturing facilities and decommissioning costs related to its above-ground 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

QUAKER CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Dollars in thousands except per share amounts)

regarding the timing of cash flows was available to record a liability for $250. During 2006, the Company accrued interest on this liability, which is included in other non-current liabilities, of $15.

Note 8—Taxes on Income

Taxes on income consist of the following:

	Year Ended December 31,		
	2006	2005	2004
Current:			
Federal	$ —	$ (443)	$ —
State	21	20	—
Foreign	5,799	8,235	7,371
	5,820	7,812	7,371
Deferred:			
Federal	792	(3,194)	(1,881)
Foreign	(388)	(1,282)	9
Total	$6,224	$ 3,336	$ 5,499

The components of earnings before income taxes were as follows:

	2006	2005	2004
Domestic	$ 395	$(12,249)	$ (7,242)
Foreign	18,045	18,864	24,699
Total	$18,440	$ 6,615	$17,457

Domestic earnings 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.

QUAKER CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Dollars in thousands except per share amounts)

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

	2006		2005	
	Current	Non-current	Current	Non-current
Retirement benefits	$ 609	$10,918	$1,116	$ 7,948
Allowance for doubtful accounts	628	—	690	—
Insurance and litigation reserves	826	—	800	—
Postretirement benefits	—	2,634	—	2,744
Supplemental retirement benefits	—	1,460	—	1,347
Performance incentives	1,884	1,204	474	1,150
Equity-based compensation	—	332	—	—
Alternative minimum tax carryforward	—	2,092	—	2,092
Restructuring charges	—	—	966	—
Vacation pay	432	—	393	—
Insurance settlement	—	5,176	—	5,253
Operating loss carryforward	—	5,098	—	3,527
Foreign tax credit	—	2,161	—	1,404
Deferred compensation	—	352	—	873
Other	—	45	—	48
	4,379	31,472	4,439	26,386
Valuation allowance	—	(2,899)	—	(2,001)
Total deferred income tax assets, net	$4,379	$28,573	$4,439	$24,385
Depreciation		$ 1,275		$ 1,203
Europe pension and other		4,042		3,405
Total deferred income tax liabilities		$ 5,317		$ 4,608

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:

	2006	2005	2004
Income tax (benefit) provision at the Federal statutory tax rate	$6,454	$ 2,315	$6,110
State income tax provisions, net	13	13	—
Non-deductible entertainment and business meal expense	136	151	176
Differences in tax rates on foreign earnings and remittances	(366)	3,777	(719)
Excess FTC utilization	—	(2,429)	—
Settlement of tax contingencies	—	(446)	—
Miscellaneous items, net	(13)	(45)	(68)
Taxes on income	$6,224	$ 3,336	$5,499

At December 31, 2006, the Company domestically had a net deferred tax asset of $15,515 inclusive of alternative minimum tax (AMT) credits of $2,092. Additionally, the Company has foreign tax credit carryovers of $2,161 which have the following expiration dates: $100 in 2012, $763 in 2013, $535 in 2014 and $763 in 2016. A full valuation allowance has been taken against these foreign tax credits. Finally, the Company has foreign tax loss carryforwards of $13,591 of which $2,013 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 $738.

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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, 2006 was approximately $37,000. Any income tax liability which might result from ultimate remittance of these earnings is expected to be substantially offset by foreign tax credits.

Note 9—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 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 2 of Notes to Consolidated Financial Statements.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Post retirement 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 financial statements, which have been incorporated below.

The incremental effect of applying FASB Statement No. 158 on Individual Line Items in the Statement of Financial Position as of December 31, 2006, is as follows:

	Before Application of Statement 158	Adjustments	After Application of Statement 158
Deferred Income Taxes	$ 24,237	$ 4,336	$ 28,573
Other Assets	35,123	(7,596)	27,527
Total Assets	360,642	(3,260)	357,382
Other Current Liabilities	14,131	(472)	13,659
Accrued pension and post retirement benefits	31,925	6,505	38,430
Total Liabilities	236,483	6,033	242,516
Accumulated other comprehensive loss	(9,766)	(9,293)	(19,059)
Total shareholders' equity	120,124	(9,293)	110,831

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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:

	Pension Benefits						Other Postretirement Benefits	
	2006			2005			2006	2005
	Foreign	Domestic	Total	Foreign	Domestic	Total	Domestic	Domestic
Change in benefit obligation								
Benefit obligation at beginning of year	$ 44,464	$ 66,207	$110,671	$44,709	$ 60,967	$105,676	$ 10,902	$ 10,671
Service cost	2,025	586	2,611	2,025	1,735	3,760	15	20
Interest cost	1,920	3,575	5,495	1,898	3,394	5,292	551	581
Employee contributions	111	—	111	102	—	102	—	—
Amendments	—	(111)	(111)	—	—	—	—	—
Curtailment (gain)/loss	(2,748)	—	(2,748)	—	(1,938)	(1,938)		—
Special termination benefits	—	—	—	—	1,205	1,205	—	430
Benefits paid	(1,132)	(5,756)	(6,888)	(717)	(3,831)	(4,548)	(1,153)	(1,159)
Plan expenses and premiums paid	(285)	(80)	(365)	(463)	(80)	(543)	—	—
Actuarial (gain)/loss	(2,875)	1,537	(1,338)	2,646	4,755	7,401	(32)	359
Translation difference	5,159	—	5,159	(5,736)	—	(5,736)	—	—
Benefit obligation at end of year	$ 46,639	$ 65,958	$112,597	$44,464	$ 66,207	$110,671	$ 10,283	$ 10,902
Change in plan assets								
Fair value of plan assets at beginning of year	$ 34,514	$ 37,873	$ 72,387	$36,020	$ 33,188	$ 69,208	—	—
Actual return on plan assets	1,187	3,838	5,025	1,423	1,955	3,378	—	—
Employer contribution	2,553	4,906	7,459	2,751	6,561	9,312	1,153	1,159
Employee contributions	111	—	111	102	—	102	—	—
Benefits paid	(1,132)	(5,756)	(6,888)	(717)	(3,831)	(4,548)	(1,153)	(1,159)
Plan expenses and premiums paid	(285)	—	(285)	(463)	—	(463)	—	—
Translation difference	4,212	—	4,212	(4,602)	—	(4,602)	—	—
Fair value of plan assets at end of year	$ 41,160	$ 40,861	$ 82,021	$34,514	$ 37,873	$ 72,387	$ —	$ —
Funded status	$ (5,479)	$ (25,097)	$ (30,576)	$ (9,950)	$ (28,334)	$ (38,284)	$ (10,283)	$ (10,902)
Unrecognized transition asset	—	—	—	(593)	—	(593)	—	—
Unrecognized (gain)/loss	—	—	—	15,057	18,403	33,460	—	2,445
Unrecognized prior service cost	—	—	—	254	253	507	—	(226)
Adjustments for contributions in December	—	1,119	1,119	—	1,036	1,036	—	—
Net amount recognized	$ (5,479)	$ (23,978)	$ (29,457)	$ 4,768	$ (8,642)	$ (3,874)	$ (10,283)	$ (8,683)
Amounts recognized in the balance sheet consist of:								
Non-current asset/Prepaid benefit cost	$ 430	—	$ 430	$ 7,403	—	$ 7,403	—	—
Current liabilities	(145)	(495)	(640)	(674)	(519)	(1,193)	(1,100)	(1,124)
Non-current liabilities	(5,764)	(23,483)	(29,247)	(4,039)	(26,612)	(30,651)	(9,183)	(7,559)
Intangible asset	—	—	—	74	253	327	—	—
Accumulated other comprehensive income	—	—	—	2,004	18,236	20,240	—	—
Net amount recognized	$ (5,479)	$ (23,978)	$ (29,457)	$ 4,768	$ (8,642)	$ (3,874)	$ (10,283)	$ (8,683)
Amounts not yet reflected in net periodic benefit costs and included in accumulated other comprehensive income:								
Transition asset (obligation)	$ 538	$ —	$ 538				$ —	
Prior service credit (cost)	(252)	(119)	(371)				159	
Accumulated gain (loss)	(11,602)	(18,435)	(30,037)				(2,328)	
Accumulated other comprehensive income (AOCI)	(11,316)	(18,554)	(29,870)				(2,169)	
Cumulative employer contributions in excess of net period benefit cost	5,837	(5,424)	413				(8,114)	
Net amount recognized	$ (5,479)	$ (23,978)	$ (29,457)				$ (10,283)	

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(Dollars in thousands except per share amounts)

The accumulated benefit obligation for all defined benefit pension plans was $105,210 ($64,560 Domestic, $40,650 Foreign) and $103,247 ($66,040 Domestic, $37,207 Foreign) at December 31, 2006 and 2005, respectively.

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

	2006			2005		
	Foreign	Domestic	Total	Foreign	Domestic	Total
Projected benefit obligation	$ 13,142	$ 65,958	$ 79,100	$ 12,992	$ 66,207	$ 79,199
Accumulated benefit obligation	10,556	64,560	75,116	10,508	66,040	76,548
Fair value of plan assets	7,233	40,861	48,094	5,795	37,873	43,668

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

	2006			2005		
	Foreign	Domestic	Total	Foreign	Domestic	Total
Projected benefit obligation	$ 13,142	$ 65,958	$ 79,100	$ 44,464	$ 66,207	$ 110,671
Fair value of plan assets	7,233	40,861	48,094	34,514	37,873	72,387

Components of Net Periodic Benefit Cost—Pension Plans

	2006			2005		
	Foreign	Domestic	Total	Foreign	Domestic	Total
Service cost	$ 2,025	$ 586	$ 2,611	$ 2,025	$ 1,735	$ 3,760
Interest cost	1,920	3,575	5,495	1,898	3,394	5,292
Expected return on plan assets	(1,596)	(3,222)	(4,818)	(1,529)	(2,888)	(4,417)
Pension plan curtailment	(983)	—	(983)	—	2,668	2,668
Special termination benefits	—	—	—	—	1,205	1,205
Other, amortization, net	679	831	1,510	656	855	1,511
Net periodic benefit cost	$ 2,045	$ 1,770	$ 3,815	$ 3,050	$ 6,969	$ 10,019
Total recognized in other comprehensive income	9,312	318	9,630			
Total recognized in net periodic benefit cost and other comprehensive income	$11,357	$ 2,088	$13,445			

	2004		
	Foreign	Domestic	Total
Service cost	$ 1,825	$ 1,730	$ 3,555
Interest cost	1,806	3,383	5,189
Expected return on plan assets	(1,734)	(2,741)	(4,475)
Pension plan curtailment	—	—	—
Special termination benefits	—	—	—
Other, amortization, net	376	898	1,274
Net periodic benefit cost	$ 2,273	$ 3,270	$ 5,543

Components of Net Periodic Benefit Cost—Other Postretirement Plan

	2006	2005	2004
Service Cost	$ 15	$ 20	$ 18
Interest cost and other	570	616	637
Special termination benefits	—	430	—
Net periodic benefit cost	$ 585	$1,066	$655
Total recognized in other comprehensive income	2,169		
Total recognized in net periodic benefit cost and other comprehensive income	$2,754		

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

	Pension Plans			Other Postretirement Benefits
	Foreign	Domestic	Total	
Transition obligation (asset)	$ (178)	$ —	$ (178)	$ —
Actuarial (gain) loss	501	785	1,286	110
Prior service cost (credit)	31	11	42	(70)
	$ 354	$ 796	$1,150	$ 40

Additional Information

	Pension Benefits					
	2006			2005		
	Foreign	Domestic	Total	Foreign	Domestic	Total
Increase in minimum liability included in other comprehensive income	$9,312	$ 318	$ 9,630	$ (477)	$ 5,816	$ 5,339

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

	Pension Benefits		Other Postretirement Benefits	
	2006	2005	2006	2005
U.S. Plans:				
Discount rate	5.50%	5.50%	5.50%	5.50%
Rate of compensation increase	3.375%	3.375%	N/A	N/A
Foreign Plans:				
Discount rate	4.81%	4.35%	N/A	N/A
Rate of compensation increase	3.19%	3.10%	N/A	N/A

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Dollars in thousands except per share amounts)

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

	Pension Benefits		Other Postretirement Benefits	
	2006	2005	2006	2005
U.S. Plans:				
Discount rate	5.500%	5.750%	5.500%	5.750%
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	4.35%	4.64%	N/A	N/A
Expected long-term return on plan assets	4.17%	4.35%	N/A	N/A
Rate of compensation increase	3.10%	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:

	2006	2005
Health care cost trend rate for next year	9.5%	9.0%
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	2013

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	$ 27	$ (24)
Effect on postretirement benefit obligations	510	(460)

Plan Assets

The Company's pension plan strategic target asset allocation and the weighted-average asset allocations at December 31, 2006 and 2005, by asset category were as follows:

	Plan Assets at December 31,		
	Target	2006	2005
Asset Category			
U.S. Plans			
Equity securities	61%	62%	58%
Debt securities	32%	12%	25%
Other	7%	26%	17%
Total	100%	100%	100%
Foreign Plans			
Equity securities	11%	11%	11%
Debt securities	89%	89%	89%
Total	100%	100%	100%

At December 31, 2006 "Other" consists 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 $82,021 and $72,387 as of December 31, 2006 and 2005, respectively. U.S. pension assets include Company common stock in the amounts of $221 (less than 1% of total U.S. plan assets), and $179 (less than 1% of total U.S. plan assets) at December 31, 2006 and 2005, respectively.

Cash Flows

Contributions

The Company expects to make minimum cash contributions of $6,883 to its pension plans ($5,495 Domestic, $1,388 Foreign) and $1,100 to its other postretirement benefit plan in 2007.

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	
2007	1,063	4,094	5,157	1,100
2008	1,192	4,078	5,270	1,040
2009	1,342	3,976	5,318	1,000
2010	1,374	4,328	5,702	1,000
2011	1,589	5,006	6,595	960
2012 and beyond	8,893	26,533	35,426	4,280

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 $1,076, $725, and $827 in 2006, 2005 and 2004, 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 $1,402, $625 and $575 for 2006, 2005 and 2004, respectively.

Note 10—Debt

Debt consisted of the following:

	December 31,	
	2006	2005
Industrial development authority monthly floating rate (3.6% at December 31, 2006) demand bonds maturing 2014	$ 5,000	$ 5,000
Credit facilities (5.69% weighted average borrowing rate at December 31, 2006)	79,212	63,766
Other debt obligations (including capital leases)	5,975	3,738
	90,187	72,504
Short-term debt	(3,261)	(4,364)
Current portion of long-term debt	(1,689)	(730)
	$85,237	$67,410

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: $4,950 in 2007, $1,724 in 2008, $1,215 in 2009, $77,271 in 2010, $27 in 2011 and $5,000 beyond 2011.

In 2005, the Company entered into a new syndicated multi-currency credit agreement that provides for financing in the United States and The Netherlands. This facility enabled the Company to consolidate the majority of its short-term debt into a longer-term facility. The new facility terminates on September 30, 2010. The new facility allows for revolving credit borrowings in a principal amount of up to $100,000, which can be increased to $125,000 at the Company's request if lenders agree to increase their commitments and the Company satisfies certain conditions. 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.

The provisions of the agreement require that the Company maintain certain financial ratios and covenants, all of which the Company was in compliance with as of December 31, 2006 and 2005. Under its most restrictive covenants, the Company could have borrowed an additional $18,796 at December 31, 2006. At December 31, 2006 and 2005, the Company had approximately $79,212 and $63,766 outstanding on these credit lines at a weighted average borrowing rate of 5.69% and 4.42%, 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 $25,000 at December 31, 2006. In February 2007, the Company completed a refinancing of its existing industrial development bonds to fix the interest rate of an additional $5,000 of debt.

As of December 31, 2006, the Company maintained a $5,135 stand-by letter of credit which guarantees payment of the industrial development authority bonds. This letter of credit is renewed annually.

At December 31, 2006 and 2005, the amounts at which the Company's debt are recorded are not materially different from their fair market value.

Note 11—Shareholders' Equity and Stock-Based Compensation

The Company has 30,000,000 shares of common stock authorized, with a par value of $1, and 9,925,967 shares issued.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Dollars in thousands except per share amounts)

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.

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*."

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(Dollars in thousands except per share amounts)

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 (dollars in thousands, except per share data):

	Twelve Months Ended December 31,	
	2005	2004
Net Income—as reported	$ 1,688	$ 8,974
Add: Stock-based employee compensation expense included in net income, net of related tax effects	347	301
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of tax	(832)	(887)
Pro forma net income	$ 1,203	$ 8,388
Earnings per share:		
Basic—as reported	$ 0.17	$ 0.93
Basic—pro forma	$ 0.12	$ 0.87
Diluted—as reported	$ 0.17	$ 0.90
Diluted—pro forma	$ 0.12	$ 0.84

The Company recognized approximately $857 of share–based compensation expense and $300 of related tax benefits in our unaudited condensed consolidated statement of operations for the twelve months 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 share-based awards. The estimated fair value of the Company's share-based awards is amortized on a straight–line basis over the awards' vesting period. 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 twelve months ended December 31, 2006.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Dollars in thousands except per share amounts)

No compensation expense related to stock option grants had been recorded in the condensed consolidated statement of operations for 2005 and 2004, 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 determined based on Company performance over a two to five-year period. Common stock awards issued in 2006 under the LTIP program are subject only to time vesting over a two to five-year period. In addition, as part of the Company's Global Annual Incentive Plan ("GAIP"), nonvested shares may be issued to key employees.

Stock option activity under all plans is as follows:

	2006			2005		
	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,	1,183,485	19.88		1,237,425	19.49	
Options granted	120,600	19.98		158,360	21.97	
Options exercised	(175,750)	14.57		(156,775)	17.97	
Options forfeited	(2,375)	23.08		(2,500)	23.22	
Options expired	(33,540)	21.77		(53,025)	22.38	
Options outstanding at December 31,	1,092,420	20.69	3.2	1,183,485	19.88	3.3
Options exercisable at December 31,	948,010	20.65	2.8	1,066,274	19.55	3.2

	2004		
	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (years)
Options outstanding at January 1,	1,128,800	18.42	
Options granted	181,575	25.99	
Options exercised	(46,050)	18.03	
Options forfeited	(24,900)	21.19	
Options expired	(2,000)	17.23	
Options outstanding at December 31,	1,237,425	19.49	3.5
Options exercisable at December 31,	876,825	18.00	2.7

The total intrinsic value of options exercised during 2006 was approximately $1,046. 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, 2006, the total intrinsic value of options outstanding was approximately $2,168, and the total intrinsic value of exercisable options was approximately $1,918.

QUAKER CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Dollars in thousands except per share amounts)

A summary of the Company's outstanding stock options at December 31, 2006 is as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 12/31//2006	Weighted Average Contractual Life	Weighted Average Exercise Price	Number Exercisable at 12/31/2006	Weighted Average Exercise Price
$13.30—$15.96	45,900	0.12	$ 14.68	45,900	$ 14.68
15.97— 18.62	174,750	1.18	17.57	174,750	17.57
18.63— 21.28	513,625	3.35	20.10	393,025	20.14
21.29— 23.94	190,820	4.72	21.91	190,820	21.91
23.95— 26.60	167,325	3.96	25.99	143,515	26.01
	1,092,420	3.20	20.69	948,010	20.65

As of December 31, 2006, unrecognized compensation expense related to nonvested stock options awarded prior to the adoption of SFAS 123R was $0. As of December 31, 2006, unrecognized compensation expense related to options granted during 2006 was $431.

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 $133 of expense was recorded on these options during 2006. The fair value of these awards is amortized on a straight-line basis over the awards vesting period.

Under the Company's LTIP plan, 29,650 shares of nonvested stock were granted during the first quarter of 2006 at a weighted average grant date fair value of $19.99 per share. In the second quarter of 2006, an additional 19,900 shares of nonvested stock were granted at a weighted average grant date fair value of $17.01 per share. None of these awards were vested or were forfeited and were all outstanding as of December 31, 2006. 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, 2006, unrecognized compensation expense related to these awards was $657, to be recognized over a weighted average remaining period of 1.8 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. There were no new grants under this plan during 2006. None of these awards vested, 2,250 shares were forfeited, and 40,250 were outstanding as of December 31, 2006. As of December 31, 2006, unrecognized compensation expense related to these awards was $326, to be recognized over a weighted average remaining period of 1.9 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

QUAKER CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Dollars in thousands except per share amounts)

to the Committee. An employee whose stock ownership of the Company exceeds five percent of the outstanding common stock is not eligible to participate in this plan.

2003 Director Stock Ownership Plan

In March 2003, our Board of Directors approved a stock ownership plan for each member of our Board to encourage the Directors to increase their investment in the Company. The Plan was effective on the date it was approved and remains in effect for a term of ten years or until it is earlier terminated by the Board. The maximum number of shares of Common Stock which may be issued under the Plan is 75,000, subject to certain conditions that the committee may elect to adjust the number of shares. As of December 31, 2006, 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. As of May 1, 2006, each Director who owned less than 7,500 shares of Company Common Stock was required to receive 75% of the annual retainer in Common Stock and 25% of the annual retainer in cash. Each Director who owned 7,500 or more shares of Company Common Stock receives 35% of the annual retainer in Common Stock and 65% of the annual retainer in cash with the option to receive Common Stock in lieu of the cash portion of the retainer. As of May 1, 2006, the annual retainer was $24. 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 by 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 $125, $116 and $137 of expense in 2006, 2005 and 2004, 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 and 2004, 20,000 and 15,000 shares were earned and $355 and $266 was charged to selling, general, and administrative expenses, respectively.

Note 12—Earnings Per Share

The following table summarizes earnings per share ("EPS") calculations for the years ended December 31, 2006, 2005 and 2004:

	December 31,		
	2006	2005	2004
Numerator for basic EPS and diluted EPS—net income	$ 11,667	$ 1,688	$ 8,974
Denominator for basic EPS—weighted average shares	9,778,745	9,679,013	9,606,074
Effect of dilutive securities, primarily employee stock options	75,355	136,572	362,970
Denominator for diluted EPS—weighted average shares and assumed conversions	9,854,100	9,815,585	9,969,044
Basic EPS	$ 1.19	$ 0.17	$ 0.93
Diluted EPS	$ 1.18	$ 0.17	$ 0.90

QUAKER CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(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: 787,020, 769,670 and 176,725 in 2006, 2005 and 2004, respectively.

Note 13—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
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
2004				
Net sales	$ 370,716	$24,529	$ 5,450	$ 400,695
Operating income	55,723	6,633	914	63,270
Depreciation	7,046	466	104	7,616
Segment Assets	306,825	16,429	1,639	324,893

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

QUAKER CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Dollars in thousands except per share amounts)

A reconciliation of total segment operating income to total consolidated income before taxes for the years ended December 31, 2006, 2005 and 2004 is as follows:

	2006	2005	2004
Total operating income for reportable segments	$ 69,833	$ 56,401	$ 63,270
Restructuring and related charges, net	—	(10,320)	(450)
Non-operating charges	(45,785)	(40,307)	(43,778)
Depreciation of corporate assets and amortization	(2,416)	(2,620)	(2,151)
Interest expense	(5,520)	(3,681)	(2,363)
Interest income	1,069	1,022	1,111
Other income, net	1,259	6,120	1,818
Consolidated income before taxes	$ 18,440	$ 6,615	$ 17,457

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

	2006	2005	2004
Net sales			
North America	$ 202,979	$ 190,735	$ 189,179
Europe	141,444	130,080	132,491
Asia/Pacific	63,600	53,763	39,364
South America	49,281	43,939	34,404
South Africa	3,147	5,516	5,257
Consolidated	$ 460,451	$ 424,033	$ 400,695

	2006	2005	2004
Long-lived assets			
North America	$ 79,206	$ 80,555	$ 69,753
Europe	36,455	41,553	50,009
Asia/Pacific	10,203	5,283	5,119
South America	16,671	14,181	9,950
South Africa	33	45	50
Consolidated	$ 142,568	$ 141,617	$ 134,881

Note 14—Business Acquisitions and Divestitures

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 made the first payment in the fourth quarter of 2006 and recorded the present value of the remaining payments as debt. 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 following table shows the allocation of purchase price of assets and liabilities recorded at the acquisition date. The first $1,000 payment was made in March 2006 and was recorded as goodwill and assigned to the metalworking process chemicals segment. The pro forma results of operations have not been provided because the effects were not material:

	December 31, 2005
Current assets	$ 4,199
Fixed assets	1,920
Intangibles	1,475
Goodwill	610
Other non-current assets	604
Total Assets	8,808
Liabilities	2,108
Cash paid	$ 6,700

QUAKER CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Dollars in thousands except per share amounts)

Note 15—Goodwill and Other Intangible Assets

The Company completed its annual impairment assessment as of the end of the third quarter of 2006 and no impairment charge was warranted. The changes in carrying amount of goodwill for the twelve months ended December 31, 2006 and 2005 are as follows:

	Metalworking Process Chemicals	Coatings	Total
Balance as of December 31, 2004	$ 27,584	$ 7,269	$34,853
Goodwill additions	786	—	786
Currency translation adjustments	(221)	—	(221)
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

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

	Gross Carrying Amount		Accumulated Amortization	
	2006	2005	2006	2005
Amortized intangible assets				
Customer lists and rights to sell	$ 7,682	$ 6,703	$ 2,812	$ 2,095
Trademarks and patents	1,788	1,788	1,781	1,724
Formulations and product technology	3,278	3,278	1,645	1,240
Other	3,143	2,976	1,923	1,583
Total	$ 15,891	$ 14,745	$ 8,161	$ 6,642

The Company recorded $1,427, $1,368 and $1,157 of amortization expense in 2006, 2005 and 2004, respectively. Estimated annual aggregate amortization expense for the subsequent five years is as follows:

For the year ended December 31, 2007	$1,120
For the year ended December 31, 2008	$1,033
For the year ended December 31, 2009	$ 970
For the year ended December 31, 2010	$ 787
For the year ended December 31, 2011	$ 727

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

QUAKER CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Dollars in thousands except per share amounts)

Note 16—Other Assets

Other assets comprise:

	December 31, 2006	December 31, 2005
Restricted insurance settlement	$ 14,800	$ 15,008
Pension assets	430	7,730
Deferred compensation assets	5,489	5,362
Supplemental retirement income program	3,323	2,543
Other	3,485	3,332
Total	$ 27,527	$ 33,975

In December 2005, an inactive subsidiary of the Company reached a settlement agreement and release with one of its insurance carriers for $15,000. The proceeds of the settlement are restricted and can only be used to pay claims and costs of defense associated with this subsidiary's asbestos litigation. In accordance with the agreement, the subsidiary received $7,500 cash in December 2005 and the remaining $7,500 in December of 2006. The funds earned $336 and $8 of interest in 2006 and 2005, respectively, which were offset by $544 of payments in 2006. The restrictions regarding the use of the proceeds lapse after a period of 15 years. 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 17 and 18 of Notes to Consolidated Financial Statements.

Note 17—Other Non-Current Liabilities

	December 31, 2006	December 31, 2005
Restricted insurance settlement	$ 14,800	$ 15,008
Other (primarily deferred compensation agreements)	8,553	7,355
Total	$ 23,353	$ 22,363

See also Notes 16 and 18 of Notes to Consolidated Financial Statements.

Note 18—Commitments and Contingencies

The Company is involved in environmental clean-up activities and litigation in connection with an existing plant location and former waste disposal sites operated by unaffiliated third parties. In April of 1992, the Company identified certain soil and groundwater contamination at AC Products, Inc. ("ACP"), a wholly owned subsidiary. Voluntarily in coordination with the Santa Ana California Regional Water Quality Board, ACP is remediating the contamination. The Company believes that the remaining potential-known liabilities associated with these matters range from approximately $1,500 to $1,900, for which the Company has sufficient reserves. Notwithstanding the foregoing, the Company cannot be certain that liabilities in the form of remediation expenses and damages will not be incurred in excess of the amount reserved.

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

QUAKER CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Dollars in thousands except per share amounts)

groundwater contamination containing tetrachloroethylene and other compounds, including perchloroethylene (“PCE”). OCWD is seeking to recover compensatory and other damages related to the investigation and remediation of the contamination in the groundwater. ACP seeks to defend this case vigorously on a number of bases including, most significantly, that it voluntarily investigated and remediated some or all of the PCE that appears to have originated at this facility. In cases such as these, parties often are allocated a percentage of responsibility for damages awarded or agreed upon. At this point in the case, it is not possible to provide an estimate of the percentage of liability, if any, that ACP ultimately may bear. Accordingly, it is not possible at this time to estimate the amount, if any, that ACP ultimately may be required to pay in settlement or to satisfy any adverse judgment as a result of the filing of this action or to assess whether the payment of such amount would be material to the Company.

Additionally, although there can be no assurance regarding the outcome of other environmental matters, the Company believes that it has made adequate accruals for costs associated with other environmental problems of which it is aware. Approximately $134 was accrued at December 31, 2006 and December 31, 2005, respectively, to provide for such anticipated future environmental assessments and remediation costs.

An inactive subsidiary of the Company that was acquired in 1978 sold certain products containing asbestos, primarily on an installed basis, and is among the defendants in numerous lawsuits alleging injury due to exposure to asbestos. The subsidiary discontinued operations in 1991 and has no remaining assets other than its existing insurance policies and proceeds from an insurance settlement received in late 2005. To date, the overwhelming majority of these claims have been disposed of without payment and there have been no adverse judgments against the subsidiary. Based on a continued analysis of the existing and anticipated future claims against this subsidiary, it is currently projected that the subsidiary’s total liability over the next 50 years for these claims is approximately $12,700 (excluding costs of defense). Although the Company has also been named as a defendant in certain of these cases, no claims have been actively pursued against the Company, and the Company has not contributed to the defense or settlement of any of these cases pursued against the subsidiary. These cases have been 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 is challenging the applicability of these limits to the claims being brought against the subsidiary. In response to this challenge, one of these carriers entered into a settlement and release agreement with the subsidiary in late 2005 for $15,000. The proceeds of the settlement are restricted and can only be used to pay claims and costs of defense associated with the subsidiary’s asbestos litigation. Commencing in late 2005, the subsidiary is now paying out of these proceeds an allocated share of the defense costs and damages. The subsidiary has additional coverage under its excess policies. The Company believes, however, that if the coverage issues under the primary policies with the other carriers are resolved adversely to the subsidiary, the subsidiary’s insurance coverage will likely be exhausted. If exhausted, the subsidiary may have limited additional coverage from a state guarantee fund established following the insolvency of one of the subsidiary’s primary insurer. Nevertheless, liabilities in respect of claims may exceed coverage available to the subsidiary. See also Notes 16 and 17 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

QUAKER CHEMICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Dollars in thousands except per share amounts)

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 2006, 2005 and 2004 was $4,475, $5,165 and $5,037, respectively. The Company's minimum rental commitments under non-cancelable operating leases at December 31, 2006, were approximately $4,073 in 2007, $3,623 in 2008, $2,667 in 2009, $1,991 in 2010, $1,733 in 2011, and $5,925 thereafter.

Note 19—Quarterly Results (unaudited)

	First	Second	Third	Fourth
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
2005				
Net sales	$ 104,161	$ 107,042	$ 105,751	$ 107,079
Gross profit	30,927	32,709	33,877	32,301
Operating income	1,478	3,589	3,940	(5,853)
Net income	3,126	1,795	2,212	(5,445)
Net income per share—basic	$ 0.32	$ 0.19	$ 0.23	$ (0.56)
Net income per share—diluted	$ 0.32	$ 0.18	$ 0.23	$ (0.56)

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, 2006. 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, 2006, the Company's internal control over financial reporting is effective based on those criteria.

PricewaterhouseCoopers LLP, the independent registered public accounting firm that audited the financial statements included in Item 8 of this Report, has included in its Report of Independent Registered Public Accounting Firm, included in Item 8, its attestation report on management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, which is incorporated herein by this reference.

Changes in Internal Controls Over Financial Reporting

The Company is in the process of implementing a global ERP system. At the end of 2006, subsidiaries representing more than 70% of consolidated revenue were operational on the global ERP system. Additional subsidiaries and CMS sites are planned to be implemented during 2007. 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 9, 2007 to be filed with the SEC no later than 120 days after the close of its fiscal year ended December 31, 2006 (the “2007 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 2007 Proxy Statement beginning with and including the caption, “Section 16(a) Beneficial Ownership Reporting Compliance” to, but not including the caption “Ratification of Appointment of Independent Registered Public Accounting Firm,” and (iv) the information in the 2007 Proxy statement beginning with “Code of Ethics” to, but not including the caption “Meetings and Committees of the Board.”

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

Incorporated by reference is the information in the 2007 Proxy Statement beginning immediately following 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 2007 Proxy Statement beginning immediately following the caption “Stock Ownership of Certain Beneficial Owners and Management” to, but not including, the subcaption “Section 16(a) Beneficial Ownership Reporting Compliance.”

The following table sets forth certain information relating to the Company’s equity compensation plans as of December 31, 2006. 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	1,092,420	20.69	1,286,376(1)
Equity compensation plans not approved by security holders	—	—	—
Total	1,092,420	20.69	1,286,376

(1) As of December 31, 2006, 357,500 of these shares were available for issuance as restricted stock awards under the Company’s 2001 Global Annual Incentive Plan, 859,500 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 51,376 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 2007 Proxy Statement beginning with the subcaption "Director Independence" to but not including the subcaption "Governance Committee Procedures for Selecting Director Nominees."

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

Incorporated by reference is the information in the 2007 Proxy Statement beginning with the subcaption "Audit Fees" to, but not including the statement recommending a vote for ratification of the Company's independent auditors.

PART IV

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

(a) *Exhibits and Financial Statement Schedules*

1. Financial Statements and Supplementary Data.

Financial Statements:

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

10(p) —	Amendment No. 1 to 1995 Naples Restricted Stock Plan and Agreement dated January 21, 1998 by and between Registrant and Ronald J. Naples. Incorporated by reference to Exhibit 10(p) as filed by Registrant with Form 10-K for the year 1997.*
10(t) —	Employment Agreement by and between Registrant and Ronald J. Naples dated March 11, 1999. Incorporated by reference to Exhibit 10(t) as filed by Registrant with Form 10-K for the year 1998.*
10(u) —	Employment Agreement by and between Registrant and Michael F. Barry dated November 30, 1998. Incorporated by reference to Exhibit 10(u) as filed by Registrant with Form 10-K for the year 1998.*
10(dd) —	1999 Long-Term Performance Incentive Plan as approved May 12, 1999, effective January 1, 1999. Incorporated by reference to Exhibit 10(dd) as filed by Registrant with Form 10-K for the year 1999.*
10(ff) —	Deferred Compensation Plan as adopted by the Registrant dated December 17, 1999, effective July 1, 1997. Incorporated by reference to Exhibit 10(ff) as filed by Registrant with Form 10-K for the year 1999.*
10(gg) —	Supplemental Retirement Income Program adopted by the Registrant on November 6, 1984, as amended November 8, 1989. Incorporated by reference to Exhibit 10(gg) as filed by Registrant with Form 10-K for the year 1999.*
10(hh) —	2001 Global Annual Incentive Plan as approved May 9, 2001, effective January 1, 2001. Incorporated by reference to Exhibit 10(hh) as filed by Registrant with Form 10-K for the year 2001.*
10(ii) —	2001 Long-Term Performance Incentive Plan as approved May 9, 2001, effective January 1, 2001. Incorporated by reference to Exhibit 10(ii) as filed by Registrant with Form 10-K for the year 2001.*
10(jj) —	Agreement of Lease between Quaker Park Associates, L.P. and Quaker Chemical Corporation dated December 19, 2000. Incorporated by reference to Exhibit 10(jj) as filed by Registrant with Form 10-K for the year 2001.*
10(ww) —	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(yy) —	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(zz) —	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(aaa) —	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(ccc) —	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(ddd) —	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.*

10(eee) —	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(fff) —	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(hhh) —	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(iii) —	Letter Agreement by and between Registrant and Joseph W. Bauer dated March 8, 2005. Incorporated by reference to Exhibit 10 as filed by the Registrant with Form 8-K dated March 10, 2005.*
10(jjj) —	Credit Agreement between Registrant and Bank of America, N.A. and ABN AMRO Bank, N.V. and Banc of America Securities LLC, 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(kkk) —	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(lll) —	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(mmm) —	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(nnn) —	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(ooo) —	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(ppp) —	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(qqq) —	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(rrr) —	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(sss) —	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(ttt) —	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.*

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10(uuu) —	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(vvv) —	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(www) —	2006 Long-Term Performance Incentive Plan (amended and restated effective November 8, 2006).
10(xxx) —	Amended and Restated Supplemental Retirement Income Program approved on November 8, 2006, to be effective January 1, 2005.
10(yyy) —	Financing Agreement by and among Montgomery County Industrial Development Authority and Registrant and Brown Brothers Harriman & Co. dated February 1, 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 Neal E. Murphy 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 9, 2007

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 7, 2007
/s/ NEAL E. MURPHY **Neal E. Murphy** **Vice President, Chief Financial Officer and Treasurer**	Principal Financial Officer	March 7, 2007
/s/ MARK A. FEATHERSTONE **Mark A. Featherstone** **Vice President and Global Controller**	Principal Accounting Officer	March 7, 2007
/s/ JOSEPH B. ANDERSON, JR. **Joseph B. Anderson, Jr.**	Director	March 7, 2007
/s/ PATRICIA C. BARRON **Patricia C. Barron**	Director	March 7, 2007
/s/ DONALD R. CALDWELL **Donald R. Caldwell**	Director	March 7, 2007
/s/ ROBERT E. CHAPPEL **Robert E. Chappel**	Director	March 7, 2007
/s/ WILLIAM R. COOK **William R. Cook**	Director	March 7, 2007
/s/ EDWIN J. DELATTRE **Edwin J. Delattre**	Director	March 7, 2007
/s/ JEFFRY D. FRISBY **Jeffry D. Frisby**	Director	March 7, 2007
/s/ ROBERT H. ROCK **Robert H. Rock**	Director	March 7, 2007

QUAKER CHEMICAL CORPORATION

2006 LONG-TERM PERFORMANCE INCENTIVE PLAN
(Amended and Restated effective November 8, 2006)

1. PURPOSE OF THE PLAN

This 2006 Long-Term Performance Incentive Plan (the "Plan") is being established to (a) provide incentives and awards to non-employee directors, consultants and those employees largely responsible for the long-term success of Quaker Chemical Corporation (the "Company") and its 50% or more owned subsidiaries, (b) enable the Company to attract and retain executives, non-employee directors and consultants in the future, and (c) encourage employees, non-employee directors and consultants to acquire a proprietary interest in the performance of the Company by purchasing and owning shares of the Company's Common Stock.

The adoption of the Plan is subject to the approval of the Plan by the Company's shareholders and shall not become effective until so approved. The Plan is intended to replace the Company's 2001 Long-Term Performance Incentive Plan (the "2001 Plan"). If the Plan is approved by the Company's shareholders, no further grants of stock options, and no awards of restricted stock or grants of performance incentive units or stock appreciation rights, shall be made under the 2001 Plan. If the Plan is not so approved by the Company's shareholders, the Plan shall be null and void, and the 2001 Plan shall continue in effect without change, provided that no awards shall be granted under the 2001 Plan with respect to performance periods beginning after the first shareholders meeting in 2006.

2. GENERAL PROVISIONS

2.1 Definitions. As used in the Plan, the following terms shall have the following meanings unless otherwise required by the context:

(a) "Act" means the Securities Exchange Act of 1934, as amended.

(b) "Award" means an Equity Award granted to a Non-employee Director or Consultant, or an Equity Award or Performance Incentive Unit granted to an Employee.

(c) "Board of Directors" means the Board of Directors of the Company.

(d) "Change in Control" means, except as provided in Section 10.3, the date on which:

(i) any person (a "Person"), as such term is used in Sections 13(d) and 14(d) of the Act (other than (A) the Company and/or its wholly owned subsidiaries; (B) any "employee stock ownership plan" (as that term is defined in Code Section 4975(e)(7)) or other employee benefit plan of the Company and any trustee or other fiduciary in such capacity holding securities under such plan; (C) any corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company; or (D) any other Person who, within the one year prior to the event which would otherwise be a Change in Control, is an executive officer of the Company or any group of Persons of which he or she voluntarily is a part), is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Act), directly or indirectly, of securities of the Company representing 30% or more of the combined voting power of the Company's then outstanding securities or such lesser percentage of voting power, but not less than 15%, as determined by the members of the Board of Directors of the Company who are independent directors (as defined in the New York Stock Exchange, Inc. Listed Company Manual); provided, however, that a Change in Control shall not be deemed to have occurred under the provisions of this subsection (i) by reason of the beneficial ownership of voting securities by members of the Benoliel Family (as defined below) unless and until the beneficial ownership of all members of the Benoliel Family (including any other individuals or entities who or which, together with any member or members of the Benoliel Family, are deemed under Sections 13(d) or 14(d) of the Act to constitute a single Person) exceeds 50% of the combined voting power of the Company's then outstanding securities;

(ii) during any two-year period after the effective date of the Plan, Directors of the Company in office at the beginning of such period plus any new Director (other than a Director designated by a Person who has entered into an agreement with the Company to effect a transaction within the purview of subsections (i) or (iii) hereof) whose election by the Board of Directors or whose nomination for election by the Company's shareholders was approved by a vote of at least two-thirds of the

Directors then still in office who either were Directors at the beginning of the period or whose election or nomination for election was previously so approved, shall cease for any reason to constitute at least a majority of the Board of Directors;

(iii) the consummation of (A) any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which the Company's Common Stock would be converted into cash, securities, and/or other property, other than a merger of the Company in which holders of Common Stock immediately prior to the merger have the same proportionate ownership of voting securities of the surviving corporation immediately after the merger as they had in the Common Stock immediately before; or (B) any sale, lease, exchange, or other transfer (in one transaction or a series of related transactions) of all or substantially all the assets or earning power of the Company; or

(iv) the Company's shareholders or the Company's Board of Directors shall approve the liquidation or dissolution of the Company.

As used in this subsection, "members of the Benoliel Family" shall mean Peter A. Benoliel, his wife and children and their respective spouses and children, and all trusts created by or for the benefit of any of them.

(e) "Code" means the Internal Revenue Code of 1986, as amended.

(f) "Committee" means (i) the Compensation/Management Development Committee of the Board of Directors, (ii) such other committee of the Board of Directors that consists solely of two (2) or more members of the Board of Directors, each of whom qualifies both as an "outside director" (as that term is used for purposes of Code Section 162(m)) and as a "non-employee director" (as that term is used for purposes of Rule 16b-3 under the Act) with respect to the Plan, or (iii) such other committee as the Compensation/Management Development Committee, in its discretion, shall establish that consists of one or more members of the Board of Directors (such as the Chairman of the Board) for purposes of granting Equity Awards to Employees who are not Covered Employees and who are not subject to Section 16(b) of the Act.

(g) "Common Stock" means the Common Stock, par value $1.00 per share, of the Company.

(h) "Consultant" shall mean an individual who is not an Employee or a Non-employee Director and who has entered into a consulting arrangement with the Company to provide *bona fide* services that (i) are not in connection with the offer or sale of securities in a capital-raising transaction, and (ii) do not directly or indirectly promote or maintain a market for the Company's securities.

(i) "Covered Employee" means each person who is either the chief executive officer of the Company or whose total compensation is required to be reported to shareholders of the Company under the Act by reason of being among the four highest compensated officers (other than the chief executive officer) of the Company. The intent of this definition is to identify those persons who are "covered employees" for purposes of the applicable provisions of Code Section 162(m) and this definition is to be interpreted consistent with this intent. The provisions of the Plan that specifically apply only to Covered Employees shall apply to a Participant if he or she is reasonably expected to be a Covered Employee with respect to the taxable year in which the Performance Period begins, or the taxable year in which the Performance Award is to be paid.

(j) "Employee" means an individual who is employed by the Company or a Subsidiary.

(k) "Equity Award" means a Stock Option, Stock Appreciation Right, Restricted Stock, Restricted Stock Unit or Stock Grant made under the Plan.

(l) "Fair Market Value" means, with respect to the applicable date, the last sale price for a share of Common Stock as quoted on the New York Stock Exchange for that date or, if not reported on the New York Stock Exchange for that date, as quoted on the principal exchange on which the Common Stock is listed or traded; provided, however, if no such sales are made on such date, then on the next preceding date on which there are such sales. If for any day the Fair Market Value of a share of Common Stock is not determinable by any of the foregoing means, then the Fair Market Value for such day shall be determined in good faith by the Committee under a method that complies with Code Sections 422 and 409A and that is adopted by the Committee.

(m) "Incentive Stock Option" means an option granted under the Plan which is intended to qualify as an incentive stock option under Code Section 422.

(n) "Non-employee Director" means a director of the Company who is not an Employee.

(o) "Non-Qualified Stock Option" means an option granted under the Plan which is not an Incentive Stock Option.

(p) “Participant” means an Employee, Non-employee Director or Consultant to whom an Award has been granted under the Plan.

(q) “Performance Award” means Performance Stock, Performance Stock Units and Performance Incentive Units.

(r) “Performance Incentive Unit” means a unit granted pursuant to Article 8.

(s) “Performance Period” means a period of one or more consecutive calendar years or other periods as determined by the Committee. Nothing herein shall prohibit the creation of multiple Performance Periods which may overlap with other Performance Periods established under the Plan. In no event, however, shall a Performance Period begin on or after the first shareholder meeting that occurs in 2011 unless shareholder approval is obtained as required under Code Section 162(m).

(t) “Performance Program Target” means a performance program target fixed by the Committee for a particular Performance Period as provided in Article 9.

(u) “Performance Stock” means a type of Restricted Stock, where the lapse of restrictions is based on achievement of one or more Performance Program Targets.

(v) “Performance Stock Unit” means a type of Restricted Stock Unit, the vesting of which is based on achievement of one or more Performance Program Targets.

(w) “Restricted Stock” means Common Stock subject to restrictions determined by the Committee and granted pursuant to Article 6.

(x) “Restricted Stock Unit” means a unit granted pursuant to Article 7.

(y) “Short-Term Deferral Date” means, (i) with respect to a Performance Stock Unit or Performance Incentive Unit, the 15th day of the third month following the end of the Performance Period for which such Award was made, and (ii) with respect to a Restricted Stock Unit that is not a Performance Stock Unit, the 15th day of the third month following the end of the calendar year in which the Unit is no longer subject to a substantial risk of forfeiture. Payment shall be treated as made on the Short-Term Deferral Date if payment is made on such Date or on a later date that is as soon as practicable after such Date and within the same calendar year, and a Participant shall have no right to interest as a result of payment on such later date. Notwithstanding the foregoing, for purposes of determining the date payment “would otherwise be made” with respect to a Performance Incentive Unit under Sections 8.3 and 9.4, the date payment is actually made to similarly situated Participants with respect to the Performance Period shall be determinative, and not the Short-Term Deferral Date (if the actual payment date is not the Short-Term Deferral Date).

(z) “Stock Appreciation Right” means a right granted pursuant to Article 4.

(aa) “Stock Grant” means a grant of unrestricted shares of Common Stock pursuant to Article 5.

(bb) “Stock Option” means an Incentive Stock Option or Non-Qualified Stock Option granted pursuant to Article 3.

(cc) “Subsidiary” means any corporation or other entity, the equity of which is 50% or more owned, directly or indirectly, by the Company.

(dd) “Termination of Service” shall mean (i) with respect to an Award granted to an Employee, the termination of the employment relationship between the Employee and the Company and all Subsidiaries; (ii) with respect to an Equity Award granted to a Non-employee Director, the cessation of the provision of services as a director of the Company; and (iii) with respect to an Equity Award granted to a Consultant, the termination of the consulting arrangement between the Consultant and the Company; provided, however, that if a Participant’s status changes from Employee, Non-employee Director or Consultant to any other status eligible to receive an Award under the Plan, the Committee may provide that no Termination of Service occurs for purposes of the Plan until the Participant’s new status with the Company and all Subsidiaries terminates. For purposes of this paragraph, if a Participant is an Employee of a Subsidiary and not the Company, the Participant shall incur a Termination of Service when such corporation ceases to be a Subsidiary, unless the Committee determines otherwise.

(ee) “Total Disability” shall mean the Participant is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months. Such determination shall be made by a physician selected by the Committee and reasonably acceptable to the Participant or the Participant’s legal representative.

2.2 Administration of the Plan.

(a) The Plan shall be administered by the Committee, which shall have the full power, subject to and within the limits of the Plan, to interpret and administer the Plan and Awards granted under it, make and interpret rules and regulations for the administration of the Plan, and make changes in and revoke such rules and regulations. The Committee also shall have the authority to adopt modifications, amendments, procedures, sub-plans and the like, which may be inconsistent with the provisions of the Plan, as are necessary to comply with the laws and regulations of other countries in which the Company operates in order to assure the viability of Awards granted under the Plan to individuals in such other countries. The Committee, in the exercise of these powers, shall (i) generally determine all questions of policy and expediency that may arise and may correct any defect, omission, or inconsistency in the Plan or any agreement evidencing the grant of an Award in a manner and to the extent it shall deem necessary to make the Plan fully effective; (ii) determine those Employees, Non-employee Directors and Consultants to whom Awards shall be granted, the type of Award to be granted and the number of Awards to be granted, consistent with the provisions of the Plan; (iii) determine the terms of Awards granted consistent with the provisions of the Plan; and (iv) generally, exercise such powers and perform such acts in connection with the Plan as are deemed necessary or expedient to promote the best interests of the Company.

(b) The Board may, at its discretion, select one or more of its members who are eligible to be members of the Committee as alternate members of the Committee who may take the place of any absent member or members of the Committee at any meeting of the Committee. The Committee may act only by a majority vote of its members then in office; the Committee may authorize any one or more of its members or any officer of the Company to execute and deliver documents on behalf of the Committee.

2.3 Effective Date. The Plan shall be effective as of March 6, 2006, provided that the Plan is approved and ratified by the Company’s shareholders at the Company’s 2006 Annual Meeting of Shareholders. If the Plan is not so approved by the Company’s shareholders, the Plan and all Awards previously granted thereunder shall become null and void.

2.4 Duration. If approved by the shareholders of the Company as provided in Section 2.3, unless sooner terminated by the Board of Directors, the Plan shall remain in effect until March 5, 2016.

2.5 Shares Subject to the Plan; Equity Award Limits. The maximum aggregate number of shares of Common Stock which may be subject to Equity Awards granted under the Plan shall be 1,000,000 (which is also the maximum aggregate number of shares that may be subject to Incentive Stock Options under the Plan), subject to the following limits:

(a) No Employee shall be granted during any one calendar year Stock Options entitling such Employee to purchase more than five hundred thousand (500,000) shares of Common Stock;

(b) No Employee shall be granted during any one calendar year Stock Appreciation Rights entitling such Employee to appreciation with respect to more than five hundred thousand (500,000) shares of Common Stock;

(c) The aggregate number of shares of Common Stock subject to Performance Stock granted to an Employee during any one calendar year shall not exceed five hundred thousand (500,000) shares;

(d) The aggregate number of shares of Common Stock subject to Performance Stock Units granted to an Employee during any one calendar year shall not exceed five hundred thousand (500,000) shares;

(e) No more than five hundred thousand (500,000) shares of Common Stock shall be available for the granting of Restricted Stock under the Plan;

(f) No more than five hundred thousand (500,000) shares of Common Stock shall be available for the granting of Restricted Stock Units under the Plan; and

(g) No more than two hundred and fifty thousand (250,000) shares of Common Stock shall be available for the granting of Stock Grants under the Plan.

Each limit in the preceding sentence shall be subject to adjustment in accordance with Section 11.2. If an Equity Award expires, terminates for any reason, or is canceled, forfeited or settled in cash rather than stock, the number of shares of Common Stock with respect to which such Equity Award expired, terminated, or was canceled, forfeited or settled in cash, shall be available for future grants of Equity Awards under the Plan, except as otherwise required under Code Section 162(m). If any Stock Option is exercised by withholding or surrendering Common Stock to the Company as full or partial payment or if tax withholding requirements are satisfied by withholding or surrendering Common Stock to the Company, only the number of shares issued net of Common Stock withheld or surrendered shall be deemed delivered for purposes of applying the limits set forth in this Section. Shares subject to Equity Awards may be either authorized and unissued shares of Common Stock or authorized and issued shares of Common Stock purchased or acquired by the Company for any purpose.

2.6 Amendments and Termination. The Plan may be suspended, terminated, or reinstated, in whole or in part, at any time by the Board of Directors. The Board of Directors may from time to time make such amendments to the Plan as it may deem advisable, and the Committee may amend any outstanding Award at any time (including an amendment that applies to a Participant who has incurred a Termination of Service); provided, however, that, without the approval of the Company's shareholders, no amendment shall be made which:

(a) Increases the maximum number of shares of Common Stock which may be subject to Incentive Stock Options granted under the Plan (other than as provided in Section 11.2);

(b) Materially modifies the requirements as to eligibility for participation in the Plan with respect to Incentive Stock Options;

(c) To the extent compliance with Code Section 162(m) is desired, modifies the Plan in a manner that would cause any Award to fail to meet the requirements to be treated under Code Section 162(m) as "performance-based compensation"; or

(d) Requires shareholder approval under the rules of the exchange or market on which the Common Stock is listed or traded.

If the Fair Market Value of Common Stock subject to a Stock Option or Stock Appreciation Right has declined since the Equity Award was granted, the Committee, in its sole discretion, may (i) cancel any or all such Stock Options or Stock Appreciation Rights in exchange for cash or the grant of a new Award, or (ii) reduce the exercise price of any or all such Stock Options or reduce the amount over which appreciation of a Stock Appreciation Right is measured; provided, however, that such reduced amount shall not be less than the Fair Market Value on the date such reduction is made.

No amendment, suspension or termination of the Plan or amendment of an outstanding Award shall affect the Participant's rights under an outstanding Award or cause the modification (within the meaning of Code Section 424(h)) of an Incentive Stock Option, without the consent of the Participant affected thereby. The foregoing limitation on amendments, suspension and termination shall not apply to any amendment, suspension or termination (i) pursuant to Section 11.2, or (ii) that the Committee, in its sole discretion, determines as necessary or appropriate to avoid the additional tax under Code Section 409A(a)(1)(B).

2.7 Participants and Grants. The Committee may grant one or more Awards to Non-employee Directors, Consultants and those Employees who the Committee determines hold positions which enable them to have an impact on the long-term success of the Company or its Subsidiaries. In determining the number of shares of Common Stock subject to an Equity Award and the number of Performance Incentive Units to be granted to an Employee, the Committee shall consider the Employee's base salary, his or her expected contribution to the long-term performance of the Company, and such other relevant facts as the Committee shall deem appropriate. More than one Award may be granted to any Employee, Non-employee Director or Consultant, and terms and conditions of Awards and types of Awards need not be consistent from Participant to Participant.

3. STOCK OPTIONS

3.1 General. Each Stock Option granted under the Plan to an Employee, Non-employee Director or Consultant shall be granted by the Committee in its sole discretion, and shall be evidenced by an agreement which shall state the number of shares of Common Stock which may be purchased upon the exercise thereof and shall contain such investment representations and other terms and conditions as the Committee may from time to time determine that are not inconsistent with the terms of the Plan, Code Section 409A and, for Incentive Stock Options, Code Section 422.

3.2 Price. Subject to the provisions of Section 3.6(d), the purchase price per share of Common Stock subject to a Stock Option shall not be less than one hundred percent (100%) of the Fair Market Value of a share of Common Stock on the date the Stock Option is granted, except as provided in Section 2.6 regarding repricing.

3.3 Period. The duration or term of each Stock Option granted under the Plan shall be for such period as the Committee shall determine but in no event more than ten (10) years from the date of grant thereof.

3.4 Exercise. A Stock Option shall be exercisable in such installments, upon fulfillment of such conditions (such as performance-based requirements), or on such dates as the Committee may specify. Once exercisable, a Stock Option shall be exercisable, in whole or in part, by delivery of a notice of exercise to the Secretary of the Company at the principal office of the Company specifying the number of shares of Common Stock as to which the Stock Option is then being exercised together with payment of the full purchase price for the shares being purchased upon such exercise. Until the shares of Common Stock as to which a Stock Option is exercised are paid for in full and issued, the Participant shall have none of the rights of a shareholder of the Company with respect to such Common Stock.

3.5 Payment. The Committee, in its sole discretion, shall determine from the alternatives set forth in subsections (a) through (d) the methods by which the exercise price may be paid. To the extent the agreement evidencing a Stock Option does not include one or more alternatives, the Committee hereby specifically reserves the right to exercise its discretion to allow the Participant to pay the exercise price using such alternative.

(a) In United States dollars in cash, or by check, bank draft, or money order payable in United States dollars to the order of the Company;

(b) By the delivery by the Participant to the Company of whole shares of Common Stock having an aggregate Fair Market Value on the date of exercise equal to the aggregate of the purchase price of Common Stock as to which the Stock Option is then being exercised or by the withholding of whole shares of Common Stock having such Fair Market Value upon the exercise of such Stock Option;

(c) In United States dollars in cash, or by check, bank draft, or money order payable in United States dollars to the order of the Company delivered to the Company by a broker in exchange for its receipt of stock certificates from the Company in accordance with instructions of the Participant to the broker pursuant to which the broker is required to deliver to the Company the amount required to pay the purchase price; or

(d) By a combination of any number of the foregoing.

The Committee may, in its discretion, impose limitations, conditions, and prohibitions on the use by a Participant of shares of Common Stock to pay the purchase price payable by such Participant upon the exercise of a Stock Option.

3.6 Special Rules for Incentive Stock Options. Notwithstanding any other provision of the Plan, the following provisions shall apply to Incentive Stock Options granted under the Plan:

(a) Incentive Stock Options shall only be granted to Participants who are Employees.

(b) To the extent that the aggregate Fair Market Value (as of the date of grant) of Common Stock with respect to which Incentive Stock Options are exercisable for the first time by a Participant during any calendar year under this Plan and under any other plan of the Company or a Subsidiary under which “incentive stock options” (as that term is defined in Code Section 422) are granted exceeds $100,000, such Stock Options shall be treated as Non-Qualified Stock Options.

(c) Any Participant who disposes of shares of Common Stock acquired upon the exercise of an Incentive Stock Option by sale or exchange either within two (2) years after the date of the grant of the Incentive Stock Option under which the shares were acquired or within one (1) year of the acquisition of such shares, shall promptly notify the Secretary of the Company at the principal office of the Company of such disposition, the amount realized, the purchase price per share paid upon exercise, and the date of disposition.

(d) No Incentive Stock Option shall be granted to a Participant who, at the time of the grant, owns stock representing more than ten percent (10%) of the total combined voting power of all classes of stock either of the Company or any parent or Subsidiary of the Company, unless the purchase price of the shares of Common Stock purchasable upon exercise of such Incentive Stock Option is at least one hundred ten percent (110%) of the Fair Market Value (at the time the Incentive Stock Option is granted) of the Common Stock and the Incentive Stock Option is not exercisable more than five (5) years from the date it is granted.

3.7 Termination of Service.

(a) In the event a Participant incurs a Termination of Service for cause, as determined by the Committee in its sole discretion, while the Participant holds Stock Options granted under the Plan, all Stock Options held by the Participant shall expire immediately.

(b) Except as otherwise provided in subsection (a) or in the agreement evidencing the Participant's Stock Option, if a Participant, while holding a Stock Option, (i) incurs a Termination of Service on or after reaching his "normal retirement age" or "early retirement age" as such terms are defined in the Quaker Chemical Corporation Pension Plan, or (ii) dies prior to Termination of Service, then each Stock Option held by the Participant shall be exercisable by the Participant (or, in the case of death, by the executor or administrator of the Participant's estate or by the person or persons to whom the deceased Participant's rights thereunder shall have passed by will or by the laws of descent or distribution) until the earlier of (A) its stated expiration date or (B) the date occurring three (3) years after the date of such Termination of Service or death, as the case may be. Except as otherwise provided in the agreement evidencing the Participant's Stock Option, if a Participant shall incur a Termination of Service as a result of the Participant's Total Disability while such Participant is holding a Stock Option, then each Stock Option held by the Participant shall be exercisable by the Participant (or, in the case of death, by the executor or administrator of the Participant's estate or by the person or persons to whom the deceased Participant's rights thereunder shall have passed by will or by the laws of descent or distribution) until its stated expiration date.

(c) Except as otherwise provided in the agreement evidencing the Participant's Stock Option, if a Participant shall incur a Termination of Service for any reason not specified in Sections 3.7(a) or (b), the Participant shall, to the extent otherwise exercisable at the date of Termination of Service, have the right to exercise the Stock Options held by him or her at the date of Termination of Service for a period of three (3) months or, in the case of Stock Options which are not intended to be Incentive Stock Options, such extended period as the Committee may, in its sole discretion, determine; provided, however, that in no event shall such Stock Options be exercisable after their stated expiration date.

(d) The Committee may accelerate the date as of which a Stock Option becomes exercisable, if the Committee in its discretion deems such acceleration to be desirable.

(e) To the extent a Stock Option held by a Participant is not exercisable at the time of (or as a result of) his or her Termination of Service, such Stock Option shall terminate.

3.8 Effect of Leaves of Absence. It shall not be considered a Termination of Service when a Participant is on military or sick leave or such other type of leave of absence which is considered as continuing intact the relationship of the Participant with the Company or its Subsidiaries. In case of such leave of absence, the relationship shall be continued until the later of the date when such leave equals ninety (90) days or the date when the Participant's right to reemployment shall no longer be guaranteed either by statute or contract.

4. STOCK APPRECIATION RIGHTS

4.1 General. Each Stock Appreciation Right granted under the Plan to an Employee, Non-employee Director or Consultant shall be granted by the Committee in its sole discretion and shall be evidenced by an agreement which shall state the number of shares of Common Stock with respect to which appreciation shall be measured and shall contain such investment representations and other terms and conditions as the Committee may from time to time determine that are not inconsistent with the provisions of the Plan and Code Section 409A.

4.2 Amount Payable on Exercise. A Stock Appreciation Right entitles the Participant to receive, with respect to each share of Common Stock to which the Stock Appreciation Right is exercised, the excess of the Fair Market Value of the share on the date of exercise over the Fair Market Value of the share on the date the Stock Appreciation Right is granted (the "Spread"). Such excess shall be paid in cash, shares of Common Stock (having a Fair Market Value on the date of exercise equal to the Spread), or a combination thereof, as determined by the Committee.

4.3 Period. The duration or term of each Stock Appreciation Right granted under the Plan shall be for such period as the Committee shall determine but in no event more than ten (10) years from the date of grant thereof.

4.4 Exercise. A Stock Appreciation Right shall be exercisable in such installments, upon fulfillment of such conditions (such as performance-based requirements), or on such dates as the Committee may specify. Once exercisable, a Stock Appreciation Right shall be exercisable, in whole or in part, by delivery of a notice of exercise to the Secretary of the Company at the principal office of the Company specifying the number of shares of Common Stock as to which the Stock Appreciation Right is then being exercised.

4.5 Termination of Service. For purposes of determining the extent to which, and the period during which, a Stock Appreciation Right may be exercised following a Participant's Termination of Service, Section 3.7 shall be applied by replacing the terms "Stock Option" and "Stock Options" in each place such terms appear in Section 3.7, with the terms "Stock Appreciation Right" and "Stock Appreciation Rights," respectively.

4.6 Effect of Leaves of Absence. It shall not be considered a Termination of Service when a Participant is on military or sick leave or such other type of leave of absence which is considered as continuing intact the relationship of the Participant with the Company or its Subsidiaries. In case of such leave of absence, the relationship shall be continued until the later of the date when such leave equals ninety (90) days or the date when the Participant's right to reemployment shall no longer be guaranteed either by statute or contract.

5. STOCK GRANTS

The Committee may make a Stock Grant to an Employee, Non-employee Director or Consultant. Such Stock Grant shall be fully vested on the date made.

6. RESTRICTED STOCK

6.1 Grant. Restricted Stock may be granted by the Committee to an Employee, Non-employee Director or Consultant under this Article for no consideration in the form of an award of Common Stock subject to restrictions. At the time Restricted Stock is granted, the Committee shall determine whether the Restricted Stock is Performance Stock (where the lapse of restrictions is based on Performance Program Targets), or Restricted Stock that is not Performance Stock (where the lapse of restrictions is based on times and/or conditions determined by the Committee). The period beginning on the date of grant and ending on the date the restrictions lapse is the "Restriction Period."

6.2 Restrictions. Except as otherwise provided in this Article, Restricted Stock shall not be sold, exchanged, transferred, pledged, assigned, hypothecated, or otherwise encumbered or disposed of during the Restriction Period.

6.3 Lapse of Restrictions.

(a) Restricted Stock Other Than Performance Stock. With respect to Restricted Stock that is not Performance Stock, the restrictions described in Section 6.2 shall lapse at the earliest of (i) such time or times, and on such conditions, as the Committee may specify at the time of grant, (ii) the Participant's death prior to Termination of Service, (iii) the Participant's Total Disability prior to Termination of Service, (iv) except as otherwise provided in the agreement evidencing the Participant's Restricted Stock award, the Participant's Termination of Service at or after attaining his or her "normal retirement age" as defined in the Quaker Chemical Corporation Pension Plan, or (v) a Change in Control occurring before the Participant's Termination of Service. The Committee may at any time accelerate the time at which the restrictions on all or any part of the shares of Restricted Stock (other than Performance Stock) will lapse.

(b) Performance Stock. With respect to Performance Stock granted to a Participant, the restrictions described in Section 6.2 shall lapse after the end of the relevant Performance Period based on the Performance Program Targets established in accordance with Article 9 and achieved for such Period. As promptly as practicable after the end of the Performance Period, the Committee shall, in accordance with Article 9, determine the extent to which the Performance Program Targets have been achieved. Except as provided in Section 10.3, the extent to which such restrictions lapse shall be based solely on the achievement of Performance Program Targets, in accordance with Article 9; the Committee shall not have the discretion to increase the extent to which such restrictions lapse. Except as provided in Section 9.4 and Section 10.3, if a Participant incurs a Termination of Service for any reason prior to the date the Restriction Period would otherwise lapse with respect to Performance Stock, the Participant shall forfeit all Performance Stock granted with respect to such Performance Period. The Restriction Period with respect to Performance Stock shall end on the date the Committee makes its determination regarding achievement of Performance Program Targets in accordance with Article 9, but only to the extent such targets are achieved.

(c) In General. Upon the lapse of restrictions in accordance with this Section 6.3 with respect to a share of Restricted Stock, the Restriction Period shall end and such share of Common Stock shall cease to be Restricted Stock for purposes of the Plan. Except as provided in Section 9.4 and Article 10, any Restricted Stock with respect to which the Restriction Period has not lapsed at the time of (or as a result of) the Participant's Termination of Service, shall be forfeited.

6.4 Custody of Shares. The Committee may require under such terms and conditions as it deems appropriate or desirable that the certificates for shares of Restricted Stock be held in custody by a bank or other institution or that the Company may itself hold such certificates in custody until the lapse of restrictions under Section 6.3 and may require as a condition of any grant of Restricted Stock that the Participant shall have delivered to the Company a stock power endorsed in blank relating to the shares of Common Stock subject to the Award. The shares of Common Stock that cease to be Restricted Stock under Section 6.3(c) shall be issued promptly after the conclusion of the Restriction Period and the satisfaction of any applicable withholding requirements.

6.5 Shareholder Rights. Each Participant who receives Restricted Stock shall have all of the rights of a shareholder with respect to such shares, subject to the restrictions set forth in Section 6.2, including the right to vote the shares and receive dividends and other distributions. Any shares of Common Stock or other securities of the Company received by a Participant with respect to a share of Restricted Stock, as a stock dividend, or in connection with a stock split or combination, share exchange or other recapitalization, shall have the same status and be subject to the same restrictions as such Restricted Stock.

7. RESTRICTED STOCK UNITS

7.1 Nature of Restricted Stock Units. A Restricted Stock Unit entitles the Participant to receive one share of Common Stock, cash equal to the Fair Market Value of a share of Common Stock on the date of vesting, or a combination thereof, with respect to each Restricted Stock Unit that vests in accordance with Section 7.3; any fractional Restricted Stock Unit shall be payable in cash. The Committee, in its sole discretion, shall determine the medium of payment.

7.2 Grant of Restricted Stock Units. At the time of grant, the Committee shall determine (a) the Employee, Non-employee Director or Consultant receiving the grant, (b) the number of Restricted Stock Units subject to the Award, (c) whether the Restricted Stock Unit is a Performance Stock Unit (where vesting is based on Performance Program Targets), or a Restricted Stock Unit that is not a Performance Stock Unit (where vesting is based on times and/or conditions determined by the Committee), and (d) when such Restricted Stock Units shall vest in accordance with Section 7.3. The Company shall establish a bookkeeping account in the Participant's name which reflects the number and type of Restricted Stock Units standing to the credit of the Participant.

7.3 Vesting.

(a) Restricted Stock Units Other Than Performance Stock Units. With respect to Restricted Stock Units that are not Performance Stock Units, the Committee shall determine the time period and conditions (such as continued employment or performance measures) that must be met in order for such Restricted Stock Units to vest; provided, however, that Restricted Stock Units that are not Performance Stock Units shall vest on the Participant's death prior to Termination of Service.

(b) Performance Stock Units. The Committee shall determine the extent to which a Participant's Performance Stock Units vest after the end of the relevant Performance Period, based on the Performance Program Targets established in accordance with Article 9 and achieved for such Period. As promptly as practicable after the end of the Performance Period, the Committee shall, in accordance with Article 9, determine the extent to which the Performance Program Targets have been achieved. Except as provided in Section 10.3, the extent to which Performance Stock Units vest shall be based solely on the achievement of Performance Program Targets, in accordance with Article 9; the Committee shall not have the discretion to increase the extent to which such Performance Stock Units vest. Except as provided in Section 9.4 and Section 10.3, if a Participant incurs a Termination of Service for any reason prior to the date Performance Stock Units would otherwise vest, the Participant shall forfeit all Performance Stock Units granted with respect to such Performance Period. Performance Stock Units shall vest on the date the Committee makes its determinations regarding achievement of Performance Program Targets in accordance with Article 9, but only to the extent such targets are achieved.

(c) Payment. Except as otherwise provided in the agreement evidencing the Participant's Restricted Stock Unit grant, payment with respect to a Restricted Stock Unit shall be made on the Short-Term Deferral Date.

7.4 Dividend Equivalent Rights. The Company shall credit to the Participant's bookkeeping account, on each date that the Company pays a cash dividend to holders of Common Stock generally, an additional number of Restricted Stock Units equal to the total number of Restricted Stock Units credited to the Participant's bookkeeping account on such date, multiplied by the dollar amount of the per share cash dividend, and divided by the Fair Market Value of a share of Common Stock on such date. Restricted Stock Units attributable to such dividend equivalent rights shall be subject to the same terms and conditions as the Restricted Stock Units to which such dividend equivalent rights relate.

8. PERFORMANCE INCENTIVE UNITS

8.1 Grants. The Committee may grant Performance Incentive Units to an Employee with respect to a Performance Period. However, no Participant shall receive, under the terms of the Plan, compensation payable in cash attributable to his or her Performance Incentive Units during any one calendar year an amount in excess of the lesser of five (5) times the Participant's base salary, or five million dollars ($5,000,000).

8.2 Stated Value and Change in Performance Targets.

(b) Stated Value. Within the period set forth in Section 9.2, the Committee shall establish the value (which shall be expressed in dollars) of Performance Incentive Units (the "Stated Value") to be granted to a Participant with respect to a Performance Period, and shall fix the percentage, if any, of the Stated Value to be earned upon the achievement of the Performance Program Targets established for the relevant Performance Period. In no event, however, shall the percentage of Stated Value to be earned upon achievement of the maximum Performance Program Target established with respect to a Performance Period exceed 200% of Stated Value fixed for that Performance Period.

(b) Change in Performance Targets. If the Committee determines that an unforeseen change during a Performance Period in the Company's business operations, corporate structure, capital structure, or manner in which it conducts business is significant, nonrecurring and material and that the Performance Program Targets established for the Performance Period are no longer suitable, the Committee may, but only with the concurrence of the Board of Directors, modify the Performance Program Targets as it deems appropriate and equitable; provided, however, that no such modification shall increase the Performance Program Targets in effect for any Performance Period (*i.e.*, establish a target that is more difficult to achieve than the original Performance Program Target); and provided, further, that no such modification shall be made that would cause the benefits payable to a Covered Employee with respect to such Performance Program Target to fail to qualify as "performance-based compensation" for purposes of Code Section 162(m).

8.3 Payment. As promptly as practicable after the end of each Performance Period, the Committee shall, pursuant to Article 9, determine the earned percentage of Stated Value of the Performance Incentive Units granted with respect to such completed Performance Period. The Company shall, on the Short-Term Deferral Date, pay to each Participant holding Performance Incentive Units granted with respect to such completed Performance Period, for each such Performance Incentive Unit held by him or her, an amount equal to the product obtained by multiplying Stated Value by the earned percentage of Stated Value; provided, however, that except as provided in Section 9.4 and Section 10.3, no amounts shall be due or payable with respect to any Performance Incentive Units if the Participant to whom such Performance Incentive Units have been granted incurs a Termination of Service for any reason prior to the date the payment would otherwise be made with respect to such Performance Incentive Units.

9. COMMON RULES FOR PERFORMANCE AWARDS

9.1 In General. Notwithstanding any provision of the Plan to the contrary, this Article 9 shall apply to Performance Awards. This Article 9 is intended to ensure that Performance Awards granted to any Participant who is a Covered Employee shall qualify as "performance-based compensation" for purposes of Code Section 162(m). All discretionary actions taken under the Plan with respect to such Performance Awards shall be exercised exclusively by the Committee.

9.2 Committee Determinations. With respect to Performance Awards, the Committee shall determine:

(a) The Employee to whom the Award shall be granted;

(b) The type of Award to be granted;

(c) The Performance Period applicable to the Award;

(d) The Performance Program Target(s) applicable to the Award; and

(e) Other terms and conditions of the Award consistent with the terms of the Plan.

All such determinations shall be made within the first ninety (90) days of the Performance Period or, if shorter, within the first 25% of such Performance Period, provided in either case that the outcome is substantially uncertain when the Performance Program Targets are established. Each of the above determinations shall be made by the Committee in its sole discretion without any requirement for consistency among, for example, (i) the types of Awards granted to Participants, and (ii) the Performance Periods or Performance Program Targets applicable to Participants or to different types of Awards.

9.3 Performance Program Targets.

(a) The Performance Program Targets shall provide an objective method for determining whether the Performance Program Targets have been achieved, and an objective method for computing the amount to be paid, or the number of shares of Common Stock which shall vest or be distributed, to the Participant based on the attainment of one or more goals included in the Performance Program Targets.

(b) Performance Program Targets shall be based upon one or more of the following business criteria (which may be determined for these purposes by reference to (i) the Company as a whole, (ii) any of the Company's subsidiaries, operating divisions, regional business units or other operating units, or (iii) any combination thereof): profit before taxes, stock price, market share, gross revenue, net revenue, pre-tax income, operating income, cash flow, earnings per share, return on equity, return on invested capital or assets, cost reductions and savings, return on revenues or productivity, or any variations of the preceding business criteria, which may be modified at the discretion of the Committee to take into account significant nonrecurring items or which may be adjusted to reflect such costs or expense as the Committee deems appropriate; provided, however, that with respect to Performance Awards granted to a Covered Employee, any such modification or adjustment shall be established not later than the end of the period stated in Section 9.2. Performance Program Targets may also be based upon a Participant's attainment of personal objectives with respect to any of the foregoing business criteria or implementing policies and plans, negotiating transactions and sales, developing long-term business goals or exercising managerial responsibility; provided, however, that with respect to a Covered Employee, such objectives and criteria are consistent with the goal of providing for deductibility under Code Section 162(m).

(c) Measurements of actual performance against the Performance Program Targets established by the Committee shall be objectively determinable and shall, to the extent applicable, be determined according to generally accepted accounting principles as in existence on the date on which the Performance Program Targets are established and, without regard to any changes in such principles after such date, except where the Committee has specified that such changes shall be taken into account and, with respect to Covered Employees, such specification is made not later than the end of the period set forth in Section 9.2. The Committee may provide for appropriate adjustments to any business criteria used in connection with measuring attainment of Performance Program Targets to take into account fluctuations in exchange rates, where relevant.

9.4 Termination of Service Prior to End of Restriction Period, Vesting or Payment Date.

(a) Employment Requirement. Except as provided in Section 10.3, no Performance Award shall be payable under the Plan to any Participant who incurs a Termination of Service prior to the date the Restriction Period ends (with respect to Performance Stock), the date of vesting (with respect to Performance Stock Units), or the date the payment would otherwise be made (with respect to Performance Incentive Units), unless:

(i) The Participant incurs a Termination of Service prior to such date, but after one-half of the Performance Period has elapsed, on account of his or her death or Total Disability, on or after attainment of his or her "normal retirement age" or "early retirement age" as such terms are defined in the Quaker Chemical Corporation Pension Plan, or under such other circumstances as the Committee shall, in its sole discretion, determine; or

(ii) The Committee, in its sole discretion, specifically provides for payment of the Participant's Performance Award if the Participant incurs a Termination of Service after the end of the Performance Period but before such date.

Except as provided in Section 10.3, if a Participant incurs a Termination of Service prior to the date the Restriction Period ends (with respect to Performance Stock), the date of vesting (with respect to Performance Stock Units), or the date the payment would otherwise be made (with respect to Performance Incentive Units) under any circumstances other than those described above, the Performance Award shall be forfeited on the date of such Termination of Service.

(b) Proration of Performance Award.

(i) If a Participant is on a leave of absence during a Performance Period, the Participant's Performance Award shall be prorated based on active service during the Performance Period, except as provided in Section 10.3.

(ii) If a Participant incurs a Termination of Service under the circumstances set forth in Section 9.4(a)(i), any Performance Award payable shall be prorated based on active service during the Performance Period, except as provided in Section 10.3.

9.5 Conditions to Payment or Vesting. No Participant may receive any payment (of unrestricted Common Stock or cash) with respect to a Performance Award unless and until (A) the Plan is approved by the Company's shareholders, and (B) except as provided in Section 10.3, the Committee responsible for the administration of the Plan with respect to such Participant has certified in writing that the Performance Program Target or Targets for a Performance Period have been achieved.

10. CHANGE IN CONTROL

10.1 Stock Options and Stock Appreciation Rights. Upon the occurrence of a Change in Control, all Stock Options and Stock Appreciation Rights granted and outstanding under the Plan shall become immediately exercisable in full regardless of any terms of such an Award to the contrary; provided, however, that the extent to which a Stock Option or Stock Appreciation Right is exercisable shall not be increased under this Section if the Participant incurred a Termination of Service before the Change in Control.

10.2 Restricted Stock other than Performance Stock. Upon the occurrence of a Change in Control, the restrictions described in Section 6.2 shall lapse with respect to all Restricted Stock other than Performance Stock outstanding on the date of the Change in Control; provided, however, that this section shall not apply to a participant who incurred a Termination of Service before the Change in Control.

10.3 Restricted Stock Units and Performance Awards.

(a) In General. This Section 10.3 shall apply to a Participant who (i) is an Employee, Non-employee Director or Consultant on the day before the Change in Control, and (ii) in the case of a Performance Award relating to a Performance Period that has not ended as of the date of the Change in Control, is (A) employed by the Company (or any successor thereto as a result of the Change in Control) on the March 1 immediately following such Change in Control, or (B) has incurred a Termination of Service by action of the Company (or any successor thereto as a result of the Change in Control) without cause (as determined by the Committee, in its sole discretion) prior to such March 1.

(b) Performance Stock. Notwithstanding any provision of the Plan to the contrary, in the event of a Change in Control, (i) with respect to Performance Stock that is (A) held by a Participant described in subsection (a), and (B) relates to a Performance Period that ended before the date of the Change in Control, the restrictions described in Section 6.2 shall lapse on the date of such Change in Control based on achievement during the applicable Performance Period, and (ii) the Company (or any successor thereto as a result of the Change in Control) shall pay (in cash or unrestricted Common Stock) to each Participant described in subsection (a) (or his or her beneficiary) the pro rata portion of the Participant's Performance Stock with respect to any Performance Period in which such Change in Control occurs, such payment to be made on the March 1 immediately following such Change in Control. The pro rata portion shall be calculated on the fractional portion (the numerator of the fraction being the number of days between the first day of the applicable Performance Period and the date of such Change in Control, and the denominator being the total number of days in the applicable Performance Period) of the Performance Stock for which the restrictions described in Section 6.2 would have lapsed had the Change in Control not occurred, and the target level of performance been achieved for the applicable Performance Period.

(c) Restricted Stock Units and Performance Incentive Units. Notwithstanding any provision of the Plan to the contrary, this subsection (c) shall apply in the event of a Change in Control; provided, however, that in the event any payment under this subsection (c) on account of a Change in Control would not qualify as a short-term deferral (within the meaning of regulations under Code Section 409A), this subsection (c) shall apply to such payment only in the event such Change in Control is also a change in control within the meaning of regulations issued under Code Section 409A:

(i) On the date of such Change in Control, all outstanding Restricted Stock Units (other than Performance Stock Units) held by a Participant described in subsection (a) shall vest and shall be paid (in cash or unrestricted Common Stock, as determined by the Committee, in its sole discretion) to such Participant;

(ii) Performance Stock Units that are (A) held by a Participant described in subsection (a), and (B) relate to a Performance Period that ended before the date of the Change in Control, shall be paid (in cash or unrestricted Common Stock, as determined by the Committee, in its sole discretion) to such Participant on the date of such Change in Control, based on achievement during the applicable Performance Period;

(iii) Performance Incentive Units that are (A) held by a Participant described in subsection (a), and (B) relate to a Performance Period that ended before the date of the Change in Control, shall be paid to such Participant on the date of such Change in Control, based on achievement during the applicable Performance Period; and

(iv) The Company (or any successor thereto as a result of the Change in Control) shall pay to each Participant described in subsection (a) (or his or her beneficiary) the pro rata portion of the Participant's Performance Stock Units (in cash or unrestricted Common Stock) and Performance Incentive Units (in cash) with respect to any Performance Period in which such Change in Control occurs, such payment to be made on the March 1 immediately following such Change in Control. The pro rata portion shall be calculated on the fractional portion (the numerator of the fraction being the number of days between the first day of the applicable Performance Period and the date of such Change in Control, and the denominator being the total number of days in the applicable Performance Period) of (A) with respect to Performance Stock Units, the Performance Stock Units that would have become vested had the Change in Control not occurred, and the target level of performance been achieved for the applicable Performance Period, and (B) with respect to Performance Incentive Units, the amount that would have been payable had the Change in Control not occurred, and the target level of performance been achieved for the applicable Performance Period.

11. MISCELLANEOUS PROVISIONS

11.1 Agreement. Each Equity Award granted under the Plan shall be evidenced by an agreement between the Company and the Participant which shall set forth the number of shares of Common Stock subject to the Equity Award, and such terms and conditions of the Equity Award as the Committee may, in its sole discretion, determine that are not inconsistent with the terms of the Plan, Code Section 409A and, for Incentive Stock Options, Code Section 422.

11.2 Adjustments Upon Changes in Capitalization. In the event of changes to the outstanding shares of Common Stock of the Company through reorganization, merger, consolidation, recapitalization, reclassification, stock splits, stock dividend, spin-off, stock consolidation or otherwise, or in the event of a sale of all or substantially all of the assets of the Company, an appropriate and proportionate adjustment shall be made in the number and kind of shares as to which Awards may be granted. A corresponding adjustment changing the number and kind of shares issuable upon exercise or vesting of outstanding Stock Options, Stock Appreciation Rights and/or Restricted Stock Units (as well as the exercise price of outstanding Stock Options and the amount over which appreciation of outstanding Stock Appreciation Rights is measured) shall likewise be made. Notwithstanding the foregoing, in the case of a reorganization, merger or consolidation, or sale of all or substantially all of the assets of the Company, in lieu of adjustments as aforesaid, the Committee may in its discretion accelerate the date after which a Stock Option or Stock Appreciation Right may or may not be exercised or the stated expiration date thereof and may accelerate the termination date of any Award or Performance Period then in effect; provided, however, that not fewer than seven (7) days’ advance notice shall be provided to each Participant whose Award is to be so terminated. Adjustments or changes under this Section shall be made by the Committee, whose determination as to what adjustments or changes shall be made, and the extent thereof, shall be final, binding, and conclusive; provided, however, that no such adjustment or change shall cause the modification (within the meaning of Section 409A of the Code) of an outstanding Stock Option or Stock Appreciation Right.

11.3 Non-Transferability. No Incentive Stock Option, Restricted Stock, Restricted Stock Unit or Performance Incentive Unit shall be assignable or transferable by the Participant except by will or the laws of descent and distribution. No Incentive Stock Option shall be exercisable during the Participant’s lifetime by any person other than the Participant or his or her guardian or legal representative. Except as provided in the agreement evidencing a Participant’s Award, such limits on assignment, transfer and exercise shall also apply to Non-Qualified Stock Options and Stock Appreciation Rights.

11.4 Withholding. The Company’s obligations in connection with this Plan shall be subject to applicable Federal, state, and local tax withholding requirements. Federal, state, and local withholding tax due with respect to an Award may, in the discretion of the Committee, be paid in shares of Common Stock already owned by the Participant or through the withholding of shares otherwise issuable to such Participant upon such terms and conditions as the Committee shall determine; provided, however, that the number of shares withheld to satisfy the tax withholding requirements with respect to any Award shall be limited to the extent necessary to avoid adverse accounting consequences. If the Participant shall either fail to pay, or make arrangements satisfactory to the Committee for the payment, to the Company of all such Federal, state, and local taxes required to be withheld by the Company, then the Company shall, to the extent permitted by law, have the right to deduct from any payment of any kind otherwise due to such Participant an amount equal to any Federal, state, or local taxes of any kind required to be withheld by the Company.

11.5 Deferrals. The Committee may permit a Participant to defer receipt of any Common Stock issuable (or cash payable) upon exercise of a Stock Option or Stock Appreciation Right, the lapse of the Restriction Period applicable to Restricted Stock, the vesting of Restricted Stock Units or the payment of cash pursuant to a Performance Incentive Unit, subject to such rules and procedures as it may establish, which may include provisions for the payment or crediting of interest, or dividend equivalents, including converting such credits into deferred Common Stock equivalents. In no event, however, shall such deferrals be permitted unless the agreement evidencing the Participant's Award specifically permits deferrals under this Section.

11.6 Compliance with Law and Approval of Regulatory Bodies. No Stock Option or Stock Appreciation Right shall be exercisable and no shares will be delivered under the Plan except in compliance with all applicable Federal and state laws and regulations including, without limitation, compliance with all Federal and state securities laws and withholding tax requirements and with the rules of the New York Stock Exchange and of all domestic stock exchanges on which the Common Stock may be listed. Any share certificate issued to evidence shares for which a Stock Option or Stock Appreciation Right is exercised or for which an Award has been granted may bear legends and statements the Committee shall deem advisable to assure compliance with Federal and state laws and regulations. No Stock Option or Stock Appreciation Right shall be exercisable and no shares will be delivered under the Plan, until the Company has obtained consent or approval from regulatory bodies, Federal or state, having jurisdiction over such matters as the Committee may deem advisable. In the case of a payment (in cash or Common Stock) with respect to an Award to a person or estate acquiring the right to payment as a result of the death of the Participant, the Committee may require reasonable evidence as to the ownership of the Award and may require consents and releases of taxing authorities that it may deem advisable.

11.7 No Right to Employment. Neither the adoption of the Plan nor its operation, nor any document describing or referring to the Plan, or any part thereof, nor the granting of any Award shall confer upon any Participant under the Plan any right to continue in the employ of the Company or any Subsidiary, or shall in any way affect the right and power of the Company or any Subsidiary to terminate the employment of any Participant at any time with or without assigning a reason therefor, to the same extent as might have been done if the Plan had not been adopted.

11.8 Exclusion from Pension Computations. By acceptance of a grant of an Award under the Plan, the recipient shall be deemed to agree that any income realized upon the receipt, exercise, or vesting thereof or upon the disposition of the shares received upon exercise will not be taken into account as "base remuneration," "wages," "salary," or "compensation" in determining the amount of any contribution to or payment or any other benefit under any pension, retirement, incentive, profit-sharing, or deferred compensation plan of the Company or any Subsidiary, except to the extent any such amount is taken into consideration under the express terms of any such plan.

11.9 Interpretation of the Plan. Headings are given to the Articles and Sections of the Plan solely as a convenience to facilitate reference. Such headings, numbering, and paragraphing shall not in any case be deemed in any way material or relevant to the construction of the Plan or any provision hereof. The use of the masculine gender shall also include within its meaning the feminine. The use of the singular shall also include within its meaning the plural and vice versa.

11.10 Use of Proceeds. Funds received by the Company upon the exercise of Stock Options granted under the Plan shall be used for the general corporate purposes of the Company.

11.11 Construction of Plan. The place of administration of the Plan shall be in the Commonwealth of Pennsylvania, and the validity, construction, interpretation, administration, and effect of the Plan and of its rules and regulations, and rights relating to the Plan, shall be determined solely in accordance with the laws of the Commonwealth of Pennsylvania (without reference to principles of conflicts of laws) to the extent Federal law is not applicable.

11.12 Successors. The provisions of the Plan shall bind and inure to the benefit of the Company and its successors and assigns. The term "successors" as used herein shall include any corporate or other business entity which shall, whether by merger, consolidation, share exchange, purchase or otherwise, acquire all or substantially all of the business and assets of the Company.

11.13 Unfunded Plan. Except as provided in Article 6, the Plan shall be unfunded and the Company shall not be required to segregate any assets that may at any time be represented by Awards under the Plan. Any liability of the Company to any person with respect to any Award under this Plan shall be based solely upon any contractual obligations that may be created pursuant to the Plan. No such obligation of the Company shall be deemed to be secured by any pledge of, or other encumbrance on, any property of the Company.

Exhibit 10(xxx)

QUAKER CHEMICAL CORPORATION

SUPPLEMENTAL RETIREMENT INCOME PROGRAM

(As Amended and Restated Effective January 1, 2005)

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QUAKER CHEMICAL CORPORATION
SUPPLEMENTAL RETIREMENT INCOME PROGRAM
(As Amended and Restated Effective January 1, 2005)

WHEREAS, Quaker Chemical Corporation (“Quaker”) maintains the Quaker Chemical Corporation Supplemental Retirement Income Program (the “Plan”); and

WHEREAS, Quaker desires to amend the Plan to (i) reflect changes recommended by the Compensation/Management Development Committee, and (ii) comply with section 409A of the Internal Revenue Code of 1986, as amended;

NOW, THEREFORE, effective January 1, 2005, Quaker hereby amends and restates the Quaker Chemical Corporation Supplemental Retirement Income Program to read as follows:

ARTICLE I
PURPOSE AND APPLICATION

This Plan is maintained for the purpose of providing deferred compensation to certain key employees of the Company on a nonqualified basis to help ensure that the Company provides a competitive level of benefits in order to attract, retain, and motivate such individuals. This Plan is to be unfunded and is maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees, within the meaning of §201(2), §301(a)(3), and §401(a)(1) of ERISA.

ARTICLE II
DEFINITIONS

The following words and phrases, as used herein, shall have the following meanings unless otherwise expressly provided.

§2.1 “Accrued Benefit” means the amount determined under §5.1.

§2.2 “Actuarial Equivalent” means a benefit of equivalent value to another benefit otherwise payable in a different form and/or at a different time, computed on the basis of (a) the “applicable interest rate” within the meaning of Code §417(e)(3)(A)(ii)(II) for the October immediately preceding the Plan Year in which such determination is made, and (b) the “applicable mortality table” within the meaning of Code §417(e)(3)(A)(ii)(I).

§2.3 “Average Annual Compensation” means the sum of an employee’s Compensation in each of the three calendar years (consecutive or nonconsecutive) during the last 10 calendar years in which he received Compensation for which such sum is highest, divided by three. If an employee received Compensation for fewer than three full calendar years, then the average shall be calculated over the lesser number of full calendar years.

§2.4 "Beneficiary" means (a) the person or persons designated by the Participant in a writing filed by the Participant with the Quaker human resources department in accordance with procedures established by the Committee, or (b) if the Participant fails to so designate a beneficiary or the designated beneficiary predeceases the Participant, the Participant's surviving spouse or Domestic Partner, or if the Participant has no surviving spouse or Domestic Partner, the Participant's estate.

§2.5 "Board" means the Board of Directors of Quaker.

§2.6 "Change in Control" means the date on which any of the following events occur:

(a) Any person (a "Person"), as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") (other than (i) Quaker and/or its wholly owned subsidiaries; (ii) any "employee stock ownership plan" (as that term is defined in Code §4975(e)(7)) or other employee benefit plan of the Company and any trustee or other fiduciary in such capacity holding securities under such plan; (iii) any corporation owned, directly or indirectly, by the shareholders of Quaker in substantially the same proportions as their ownership of stock of Quaker; or (iv) any other Person who, within the one year prior to the event which would otherwise be a Change in Control, is an executive officer of Quaker or any group of Persons of which he or she voluntarily is a part), is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of Quaker representing 30% or more of the combined voting power of Quaker's then outstanding securities or such lesser percentage of voting power, but not less than 15%, as determined by the members of the Board who are independent directors (as defined in the New York Stock Exchange, Inc. Listed Company Manual); provided, however, that a Change in Control shall not be deemed to have occurred under the provisions of this subsection (a) by reason of the beneficial ownership of voting securities by members of the Benoliel Family (as defined below) unless and until the beneficial ownership of all members of the Benoliel Family (including any other individuals or entities who or which, together with any member or members of the Benoliel Family, are deemed under Sections 13(d) or 14(d) of the Exchange Act to constitute a single Person) exceeds 50% of the combined voting power of the then outstanding securities;

(b) During any two-year period after the effective date of the amended and restated Plan, directors of Quaker in office at the beginning of such period plus any new director (other than a director designated by a Person who has entered into an agreement with Quaker to effect a transaction within the purview of subsections (a) or (c)) whose election by the Board or whose nomination for election by Quaker's shareholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, shall cease for any reason to constitute at least a majority of the Board;

(c) The consummation of (i) any consolidation or merger of Quaker in which Quaker is not the continuing or surviving corporation or pursuant to which Quaker's common stock would be converted into cash, securities, and/or other property, other than a merger of Quaker in which holders of common stock immediately prior to the merger have the same proportionate ownership of voting securities of the surviving corporation immediately after the merger as they had in the common stock immediately before; or (ii) any sale, lease, exchange, or

other transfer (in one transaction or a series of related transactions) of all or substantially all the assets or earning power of Quaker; or

(d) Quaker's shareholders or the Board shall approve the liquidation or dissolution of Quaker.

As used in this Section, "members of the Benoliel Family" shall mean Peter A. Benoliel, his wife and children and their respective spouses and children, and all trusts created by or for the benefit of any of them.

§2.7 "Code" means the Internal Revenue Code of 1986, as amended. A reference to a section of the Code shall also be deemed to refer to the regulations under such section.

§2.8 "Committee" means the Compensation/Management Development Committee of the Board, or any other committee appointed by the Board to administer the Plan.

§2.9 "Company" means Quaker and any affiliate of Quaker which has adopted the Plan with the approval of the Board.

§2.10 "Compensation" means, for any year, the sum of (a) the employee's base salary paid by the Company in such year, plus (b) the annual cash and stock bonuses (if any) paid to the employee in such year under the Quaker Chemical Corporation 2001 Global Annual Incentive Plan (or any successor thereto providing annual bonuses) and any annual discretionary bonus paid to the employee in such year, such amounts determined prior to any applicable withholdings.

§2.11 "Disability" or "Disabled" means (a) the Participant's inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, as determined by the Committee in its sole discretion, or (b) the Participant's receipt, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, of income replacement benefits for a period of not less than three months under an accident and health plan covering employees of the Participant's employer.

§2.12 "Domestic Partner" means, with respect to a Participant, a person:

(a) Who is at least 18 years old and legally competent to enter binding contracts;

(b) To whom the Participant is not married;

(c) To whom the Participant is not related by blood or adoption so closely that a legal marriage between them would be prohibited for that reason in the state where they live;

(d) With whom the Participant:

(i) Shares a residence;

(ii) Shares an intimate and committed relationship of mutual caring and intends to do so indefinitely; and

(iii) Has agreed to be jointly responsible for each other's basic living expenses; and

(e) Who, together with the Participant, has signed in the presence of a notary public, and filed with the Quaker human resources department, an affidavit of domestic partnership in a form approved by the Committee.

In addition, neither the Participant nor the Domestic Partner may be married to anyone or have another Domestic Partner (determined without regard to this sentence).

§2.13 "Early Retirement Date" means the date as of which the Participant has attained age 62 and completed 10 Years of Service.

§2.14 "Eligible Employee" means an employee of the Company, other than Ronald J. Naples, who is:

(a) Paid from a payroll maintained within the United States of America;

(b) A member of a select group of management or highly compensated employees, within the meaning of §201(2), §301(a)(3), and §401(a)(1) of ERISA; and

(c) Designated by the Committee, in its sole discretion, as eligible for participation in the Plan and listed in Appendix A.

§2.15 "ERISA" means the Employee Retirement Income Security Act of 1974, as amended. A reference to a section of ERISA shall also be deemed to refer to the regulations under such section.

§2.16 "Normal Retirement Age" means the later of (a) the Participant's 65th birthday, or (b) the date the Participant completes five Years of Participation.

§2.17 "Offset Date" means:

(a) In the case of a Participant who incurs a Separation from Service on or after his Early Retirement Date, but prior to his Normal Retirement Age, the first day of the month next following the date the Participant incurs a Separation from Service; and

(b) In the case of any other Participant, the date the Participant attains Normal Retirement Age.

§2.18 "Participant" means an Eligible Employee who has begun to participate in the Plan under Article III.

§2.19 "Payment Commencement Date" means the date on which a Participant's benefit is due to commence (or be paid) under §5.2, §5.3 or §5.9 (as applicable), without regard to §5.6 and regardless of the date such payment actually commences (or is paid).

§2.20 "Pension Plan Benefit" means the annual benefit (if any) payable to the Eligible Employee under the Quaker Chemical Corporation Pension Plan (or any successor thereto), assuming such benefit is paid in the form of a single life annuity commencing on the Offset Date (regardless of the time at which and the form in which such benefit is paid from such Pension Plan).

§2.21 "Plan" means the Quaker Chemical Corporation Supplemental Retirement Income Program as set forth herein and as it may be amended from time to time.

§2.22 "Plan Year" means the calendar year.

§2.23 "Prior SRIP" means the Quaker Chemical Corporation Supplemental Retirement Income Program as adopted on November 6, 1984, amended November 8, 1989 and further amended May 5, 1993.

§2.24 "Prior SRIP Formula" means the First, Second and Third Calculations set forth in the Prior SRIP without regard to any eligibility, vesting or other provisions of the Prior SRIP.

§2.25 "Quaker" means Quaker Chemical Corporation (a Pennsylvania corporation), or any successor thereto.

§2.26 "Retirement Savings Plan Benefit" means the annual benefit payable in the form of a single life annuity commencing at the Participant's Offset Date, where such single life annuity is the Actuarial Equivalent of the sum of (a) the aggregate nonelective contributions allocated to the Eligible Employee's account under the Quaker Chemical Corporation Retirement Savings Plan (or any successor thereto), plus (b) earnings on such aggregate contributions at an assumed annual rate of 5.03%. For purposes of determining such sum, (y) a nonelective contribution shall be deemed to have been made as of the December 31 of the year with respect to which it is made, and (z) earnings shall be deemed to accrue on such contribution from the January 1 immediately following such deemed contribution date through the Offset Date.

§2.27 "Separation from Service" means a Participant's separation from service with the Company and its affiliates within the meaning of Prop. Treas. Reg. §1.409A-1(h) or any successor thereto.

§2.28 "Social Security Benefit" means the estimated annual primary insurance amount that a Participant is entitled to receive under the Federal Social Security Act commencing as of the Offset Date. This estimated benefit shall be determined:

(a) Under the Social Security Act in effect on January 1 of the Plan Year in which the Participant incurs a Separation from Service or commences benefit payments under §5.9, if earlier (without regard to legislative changes made after that date);

(b) With respect to periods before the Participant was employed by the Company, based on the wages stated in the most recent Social Security Statement provided by the Participant at least one month before the date payment is scheduled to commence (or be paid) under Article V;

(c) In the case of a Participant who incurs a Separation from Service before the Offset Date, assuming that the Participant continues employment to the Offset Date at the level of wages in effect at the Participant's Separation from Service;

(d) Assuming no change in the primary insurance amount after the Participant's Normal Retirement Age (either by amendment of the Social Security Act or by application of the provisions of that Act); and

(e) Assuming the Participant is married and that both the Participant and spouse are the same age.

§2.29 "Specified Employee" means a Participant who, as of the date of his Separation from Service, is a specified employee as defined in Code §409A.

§2.30 "Trust" means the grantor trust, if any, established by Quaker to set aside amounts to pay Participants' benefits under the Plan.

§2.31 "Trust Agreement" means the trust agreement pursuant to which the Trust is maintained.

§2.32 "Year of Participation" means the number of complete and partial months that the Participant has been a Participant in the Plan while employed by the Company or an affiliate, divided by 12. Partial years shall be disregarded. A Participant shall be deemed to have been a Participant in the Plan beginning on the participation date designated by the Committee in Appendix A.

§2.33 "Year of Service" means the Participant's years of service as determined under the Quaker Chemical Corporation Retirement Savings Plan (as in effect on November 8, 2006) for purposes of determining the Participant's vesting status under the Retirement Savings Plan; provided, however, that any partial year of service shall be disregarded; and further provided that service completed after reemployment shall be disregarded if so determined by the Committee pursuant to §3.2. Notwithstanding the foregoing, if prior to a Change in Control, the Committee determines that a Participant should no longer be eligible for participation in the Plan, service completed after the date of the Committee's decision shall be disregarded in determining the Participant's Years of Service.

ARTICLE III
PARTICIPATION

§3.1 Commencement of Participation. An Eligible Employee shall begin to participate in the Plan as of the participation date designated by the Committee in Appendix A. Eligible Employees and participation dates may be added to Appendix A without requiring an amendment to the Plan.

§3.2 <u>Reemployment</u>. If a Participant incurs a Separation from Service and is subsequently reemployed by the Company, the Committee shall, in its sole discretion, determine whether the Participant shall be eligible to accrue benefits under the Plan upon reemployment. If the Participant is eligible to accrue benefits upon reemployment, the Committee shall determine the applicable offsets to take into account any benefit paid to the Participant under the Plan prior to reemployment.

ARTICLE IV
VESTING

§4.1 <u>Vesting</u>. A Participant's Accrued Benefit shall become 100% vested (nonforfeitable) as of the earlier of:

(a) The date the Participant completes five Years of Participation;

(b) The earliest of the following events, provided such event occurs on or before the date of the Participant's Separation from Service:

(i) The Participant's death;

(ii) The date the Participant becomes Disabled;

(iii) A Change in Control; or

(iv) Termination of the Plan.

§4.2 <u>Forfeiture</u>. If a Participant incurs a Separation from Service prior to becoming vested under §4.1 or the Participant's Separation from Service does not result in vesting under §4.1, the Participant's Accrued Benefit shall be forfeited. If the Participant is subsequently reemployed, the Committee, in its sole discretion, shall determine if Years of Participation and/or Years of Service completed before such reemployment shall be taken into account in determining the amount of the Participant's benefit (if any) under the Plan.

ARTICLE V
BENEFITS

§5.1 <u>Accrued Benefit</u>.

(a) <u>In General</u>. A Participant's Accrued Benefit under the Plan shall be expressed in the form of a single life annuity commencing at the Determination Date. The Determination Date is (i) in the case of a Participant described in §5.2, the first day of the month following the Participant's Separation from Service, (ii) in the case of a Disabled Participant, the date benefits commence under §5.9, and (iii) in the case of any other Participant, the first day of the month following the date the Participant attains Normal Retirement Age.

(b) Future Participants. Except as provided in subsection (c), a Participant's Accrued Benefit shall be equal to ((I) minus (II) minus (III) minus (IV)) multiplied by the Service Fraction, where:

(I) is 50% of the Participant's Average Annual Compensation,

(II) is the Participant's Social Security Benefit;

(III) is the Participant's Pension Plan Benefit;

(IV) is the Participant's Retirement Savings Plan Benefit; and

The Service Fraction is the lesser of the Participant's Years of Service divided by 30, or one.

(c) Original Participants. The Accrued Benefit of a Participant identified as an "Original Participant" in Appendix A shall be the greatest of:

(i) The amount determined under subsection (b);

(ii) The benefit the Original Participant would have accrued as of age 55 under the Prior SRIP Formula had such formula been continued through such date, based on such Participant's Salary plus Bonus (as defined in the Prior SRIP) and years of employment as of the date the Original Participant attains age 55 (such amount to be zero in the event the Original Participant is not employed by the Company at age 55, even if a Change in Control occurs before such date); or

(iii) The sum of (A) the benefit the Original Participant would have accrued as of December 31, 2006 under the Prior SRIP Formula had such formula been continued through such date, based on such Participant's Salary plus Bonus (as defined in the Prior SRIP) and years of employment as of December 31, 2006, plus (B) the Original Participant's Accrued Benefit determined under subsection (b), but disregarding Years of Service completed prior to January 1, 2007.

§5.2 Early, Normal, or Late Retirement. Except as provided in §5.5, §5.6, or §5.8, if a Participant incurs a Separation from Service on or after his Early Retirement Date or on or after attaining Normal Retirement Age, payment of the Participant's vested Accrued Benefit shall commence (or be made) on the first day of the month following such Separation from Service.

§5.3 Deferred Vested Participant. Except as provided in §5.4, §5.5, §5.6, or §5.8, if a Participant incurs a Separation from Service before his Early Retirement Date and before attaining Normal Retirement Age, payment of the Participant's vested Accrued Benefit shall commence (or be made) as of the first day of the month following the date the Participant attains Normal Retirement Age.

§5.4 Small Benefits. If the Actuarial Equivalent present value of a Participant's vested Accrued Benefit (as of the date of distribution) does not exceed $30,000, such amount shall be paid in a lump-sum distribution on the later of (a) the first day of the month following the Participant's Separation from Service, or (b) the delayed date (if any) required under §5.6.

§5.5 Change in Control. A Change in Control shall have no effect on a Participant's benefits under the Plan if payment of such benefits commenced prior to the Change in Control. The vested Accrued Benefit of all other Participants shall be paid in a lump sum (equal to the Actuarial Equivalent present value of such vested Accrued Benefit) on the date of such Change in Control, provided the Change in Control is also a "change in control event" under Code §409A. (If the Change in Control is not a "change in control event" under Code §409A, payment shall be made under the applicable Section of this Article V, without regard to this Section.)

§5.6 Specified Employees. Notwithstanding §5.2, §5.3, or §5.4, if payment of a Participant's vested Accrued Benefit is due to commence (or be made) as a result of the Participant's Separation from Service and the Participant is a Specified Employee, no payment shall be made to the Participant during the six-month period following the Participant's Separation from Service. Any payments that would have been made but for this Section shall be accumulated and, except as otherwise provided in §5.8, paid (without interest) to the Specified Employee on the first day of the seventh month following the month in which the Participant incurs a Separation from Service. Thereafter, payments shall continue in accordance with the form of benefit applicable to the Participant.

§5.7 Failure to Satisfy Code §409A. If, for any reason, all or any portion of a Participant's benefit under the Plan becomes taxable to the Participant under Code §409A prior to distribution, a Participant may petition the Committee for a distribution of that portion of his vested Accrued Benefit that has become taxable. Such petition shall be granted if the Company reasonably determines that the condition specified in the first sentence of this Section has been met. Thereupon, a distribution shall be made to the Participant in an amount equal to (but not exceeding) the taxable portion of his vested Accrued Benefit (which amount shall not exceed the Actuarial Equivalent present value of the Participant's vested Accrued Benefit that then remains unpaid under the Plan). This authorization shall be subject to Prop. Treas. Reg. §1.409A-3(h)(2)(vi) and any successor regulation thereto. If the petition is granted, the tax liability distribution shall be made within 90 days of the date when the Participant's petition is granted. Such a distribution shall affect and reduce the benefits to be paid to the Participant (or his Beneficiary) under this Plan.

§5.8 Death Benefit.

(a) Death after One or More Payments. If a Participant dies after receiving one or more payments pursuant to another Section of this Article V, the form in which the Participant's benefit is being paid shall determine the death benefit, if any, payable.

(b) Death before Any Payment. If a Participant dies before receiving any payment pursuant to another Section of this Article V and (i) before his Separation from Service, or (ii) after Separation from Service with a vested Accrued Benefit, the Participant's vested Accrued Benefit shall be paid to the Participant's Beneficiary. Such payment shall be a lump sum equal to the Actuarial Equivalent present value of the Participant's vested Accrued Benefit, such payment to be made on the first day of the second month following the Participant's death. If a death benefit is payable under this subsection (b), no benefit shall be payable under any other Section of this Article V.

§5.9 Disability. If a Participant becomes Disabled, payment of the Participant's vested Accrued Benefit shall commence (or be made) as of the first day of the seventh month following the date the Participant becomes Disabled (or, if earlier, as of the date payment of such benefit would otherwise commence or be made under this Article V).

ARTICLE VI
FORM OF PAYMENT

§6.1 Form of Benefit. A Participant's vested Accrued Benefit shall be paid in the form of a single life annuity (a monthly benefit payable to the Participant for life, with no payments made after the Participant's death) unless one of the following applies:

(a) Lump-Sum Distribution. All benefits payable under §5.4, §5.5, §5.7, and §5.8(b) shall be paid in a lump sum.

(b) Joint and Survivor Annuity. Except as provided in §5.4, a Participant may elect, prior to his Payment Commencement Date and in accordance with procedures established by the Committee, that the Participant's vested Accrued Benefit be paid in the form of a joint and survivor annuity. A joint and survivor annuity is a monthly annuity payable during the Participant's lifetime and, if the Participant's joint annuitant survives the Participant, an annuity for the surviving joint annuitant's lifetime equal to 50% or 100% of the monthly amount payable during the Participant's lifetime. The annuity percentage shall be elected by the Participant prior to the Payment Commencement Date in accordance with procedures established by the Committee. The Participant's joint annuitant shall be the Participant's spouse or Domestic Partner on the Payment Commencement Date. If the Participant's joint annuitant dies before payments commence under §5.2, §5.3, or §5.9, this optional form of payment shall be revoked and payments shall be made in the form of a single life annuity for the Participant's lifetime. The joint and survivor annuity shall be the Actuarial Equivalent of the single life annuity otherwise payable to the Participant under the Plan.

(c) Installments Over Three Years. Subject to §6.2, a Participant may elect that his vested Accrued Benefit be paid in monthly installments over a 36-month period, but only if the Participant's Payment Commencement Date is after the date the Participant attains Normal Retirement Age. The amount of each monthly installment shall be equal to one thirty-sixth of the Actuarial Equivalent present value of the vested Accrued Benefit otherwise payable to the Participant as of the first day of the month following the later of the date the Participant attains Normal Retirement Age or the Participant's Separation from Service.

§6.2 Election Procedures Regarding Three-Year Installment Form. An Eligible Employee may make an election under this Section to have his vested Accrued Benefit paid in the three-year installment method described in §6.1(c) if his Payment Commencement Date is after the date the Participant attains Normal Retirement Age. Any such election shall be made in accordance with subsection (a), (b), or (c) and such other procedures as may be established by the Committee that are not inconsistent with such subsections. Any such election shall be void in the event that §5.4 is applicable.

(a) Election on or before December 31, 2007. An election under this subsection (a) shall be made by a Participant on or before December 31, 2007; provided that such election shall not apply to amounts that would have otherwise been distributed in the year of the election or cause amounts to be distributed in the year of the election that would not otherwise have been distributed in the year of the election.

(b) Election on or before Employment Commencement Date. An election under this subsection (b) shall be made on or before the date the Eligible Employee first completes an hour of service with the Company or any other entity required to be aggregated with the Company under Code §414(b) or §414(c).

(c) Thirteen-Month Forfeiture Election. An election under this subsection (c) shall be made on or before the 30th day after the Eligible Employee is designated as a Participant by the Committee, provided that such election shall be void in the event the Eligible Employee becomes vested in his Accrued Benefit under Article IV within the 12-month period following the date of such election.

ARTICLE VII
ADMINISTRATION

§7.1 Committee.

(a) Committee Powers. The Committee shall have all powers necessary to supervise the administration of the Plan and control its operations. In addition to any powers and authority conferred on the Committee elsewhere in the Plan or by law, the Committee shall have the following powers and authority:

(i) To designate agents to carry out responsibilities relating to the Plan.

(ii) To employ such legal, actuarial, accounting, clerical and other assistance as it may deem appropriate in administering this Plan.

(iii) To establish rules and procedures for the conduct of the Committee's businesses and the administration of this Plan.

(iv) To administer the Plan. Unless the Plan expressly provides otherwise, the Committee shall have the sole discretion to construe and interpret the provisions of the Plan and to determine all

questions (including factual determinations) concerning benefit entitlements, including the power to construe and determine disputed or doubtful terms. To the maximum extent permissible under law, the determinations of the Committee on all such matters shall be final and binding upon all persons involved.

(v) To perform or cause to be performed such further acts as it may deem to be necessary or appropriate in the administration of the Plan.

(b) Records and Reports. The Committee shall keep a record of its proceedings and actions and shall maintain all books of account, records, and other data as shall be necessary for the proper administration of the Plan. Such records shall contain all relevant data pertaining to individual Participants and their rights under the Plan. The Committee shall have the duty to carry into effect all rights or benefits provided hereunder to the extent assets of the Company are properly available therefor.

§7.2 Claims and Appeals.

(a) Claims Procedure. The Company will advise each Participant and Beneficiary of any benefits to which he is entitled under the Plan. If any person believes that the Company failed to advise him of any benefit to which he is entitled, he (or his duly authorized representative) may file a written claim with the Committee. The claim shall be reviewed, and a response provided, within 90 days after receiving the claim (such period to be extended by up to an additional 90 days if there are special circumstances requiring an extension, provided that proper notice is given to the claimant prior to the end of the initial 90-day period). Any claimant who is denied a claim for benefits shall be provided with written notice setting forth:

(i) The specific reasons or reasons for the denial;

(ii) Specific reference to pertinent Plan provisions on which denial is based;

(iii) A description of any additional material or information necessary for the claimant to perfect the claim; and

(iv) An explanation of the claim review procedure set forth in subsection (b), including a statement of the claimant's right to bring a civil action under ERISA §502(a) following an adverse determination after the claim has been appealed.

(b) Appeals. Within 60 days of receipt by a claimant of a notice denying a claim under the Plan under subsection (a), the claimant or his duly authorized representative may request in writing a full and fair review of the claim by the Committee. In connection with such review, the claimant or his duly authorized representative may review relevant documents and may submit issues and comments in writing (which the Committee shall consider in its review). The Committee shall make a decision promptly, and not later than 60 days after the Committee's receipt of a request for review, unless special circumstances (such as the need to hold a hearing,

if the Committee deems one necessary) require an extension of time for processing, in which case the Committee will notify the claimant in writing of such extension (prior to the end of the initial 60-day period) and a decision shall be rendered as soon as possible, but not later than 120 days after receipt of a request for review. The decision on review shall be in writing and shall include specific reasons for the decision (written in a manner calculated to be understood by the claimant), specific references to the pertinent Plan provisions on which the decision is based, a statement that the claimant may review or receive (free of charge) documents relevant to the claim, and a statement of the claimant's right to bring a civil action under ERISA §502(a).

(c) Claims Involving Disability. In the case of any claim involving a determination of Disability, the claim procedure set forth in subsection (a) and the review procedure set forth in subsection (b) shall be modified to the extent necessary to comply with the rules set forth in DOL Reg. §2560.503-1 regarding disability benefits.

(d) Exhaustion of Remedies. No legal action for benefits under the Plan may be brought unless and until the claimant has timely exhausted his remedies under this Section.

ARTICLE VIII
SOURCES OF FUNDS

§8.1 In General. This Plan shall be unfunded, and, except as provided in §8.2, payment of benefits hereunder shall be made from the general assets of the Company. Any assets which may be set aside, earmarked, or identified as being intended for the payment of benefits under this Plan shall remain assets of the Company and shall be subject to the claims of its general creditors. Each Participant and Beneficiary shall be a general and unsecured creditor of the Company to the extent of the value of his benefit accrued hereunder, and he or she shall have no right, title, or interest in any specific asset that the Company may set aside, earmark, or identify as for the payment of benefits under the Plan. The Company's obligation under the Plan shall be merely that of an unfunded and unsecured promise to pay money in the future.

§8.2 Trust. Notwithstanding §8.1, assets may be set aside in a trust and earmarked for the payment of benefits under this Plan, provided Participants continue to be general and unsecured creditors of the Company with respect to assets set aside in the trust.

ARTICLE IX
AMENDMENT AND TERMINATION

§9.1 General Authority. The Committee may approve and execute changes of a technical nature to the Plan which do not materially affect the substance thereof and which, in the opinion of the Committee, are necessary and desirable (including any amendment that applies to a Participant who has incurred a Separation from Service). In addition, the Board reserves the right to amend the Plan, by resolution, at any time and from time to time in any fashion (including any amendment that applies to a Participant who has incurred a Separation from Service), and to terminate it at will.

§9.2 Limitations. No amendment or termination of this Plan shall affect the rights of any Participant or his Beneficiary with respect to the amount of his Accrued Benefit (whether or

not vested) determined as of the date of such amendment or termination; provided, however, that such limitation shall not apply to (a) any amendment or termination that the Committee or the Board, in its sole discretion, determines is necessary or appropriate to avoid the additional tax under Code §409A(a)(1)(B), (b) any amendment to which the Participant (or his Beneficiary in the event the Participant is deceased) consents, or (c) any termination that provides for a single-sum distribution of the Participant's vested Accrued Benefit (or remaining vested Accrued Benefit).

§9.3 Distribution on Plan Termination. Upon termination of the Plan, to the extent permitted by Code §409A, the present value of the Participant's vested Accrued Benefit which has not yet been paid pursuant to Article V shall be paid to the Participant (of his Beneficiary if the Participant is deceased) in a single sum as of the earliest date on which such payment would be permitted under Code §409A.

ARTICLE X
MISCELLANEOUS

§10.1 Tax Withholding. The Company shall withhold from payments made under the Plan any taxes required to be withheld from a Participant's wages for Federal, state, or local taxes.

§10.2 Payment of Expenses. The Company shall pay all expenses of administering the Plan. Such expenses shall include any expenses incident to the functioning of the Committee.

§10.3 Indemnification for Liability. The Company shall indemnify the members of the Committee and the employees of the Company to whom the Committee delegates duties under the Plan against any and all claims, losses, damages, expenses, and liabilities arising from their responsibilities in connection with the Plan, unless the same is determined to be due to gross negligence or willful misconduct.

§10.4 Nonalienation of Benefits. Except as hereinafter provided with respect to marital disputes, none of the benefits or rights of a Participant or any Beneficiary shall be subject to the claim of any creditor. In particular, to the fullest extent permitted by law, all such benefits and rights shall be free from attachment, garnishment, or any other legal or equitable process available to any creditor of the Participant and his Beneficiary. Neither the Participant nor his Beneficiary shall have the right to alienate, anticipate, commute, pledge, encumber, sell, transfer, or assign any of the payments which he may expect to receive, contingently or otherwise, under this Plan, except the right to designate a Beneficiary to receive death benefits provided hereunder. In cases of marital dispute, the Company shall observe the terms of the Plan unless and until ordered to do otherwise by a state or Federal court. As a condition of participation, a Participant agrees to hold the Company harmless from any harm that arises out of the Company's obeying the final order of any state or Federal court, whether such order effects a judgment of such court or is issued to enforce a judgment or order of another court.

§10.5 No Contract of Employment. Nothing contained herein shall be construed as conferring upon any person the right to be employed by the Company or to continue in the

employ of the Company, nor shall it interfere with the right of the Company to discharge any employee.

§10.6 Applicable Law. The provisions of this Plan shall be construed and interpreted according to the laws of the Commonwealth of Pennsylvania (without reference to principles of conflicts of law), to the extent not superseded by Federal law.

§10.7 Successors. The provisions of this Plan shall bind and inure to the benefit of the Company and its successors and assigns. The term “successors” as used herein shall include any corporate or other business entity which shall, whether by merger, consolidation, purchase, or otherwise, acquire all or substantially all of the business and assets of the Company, and successors of any such corporation or other business entity.

§10.8 Headings. The headings of the Sections of the Plan are for reference only. In the event of a conflict between a heading and the contents of a Section, the contents of the Section shall control.

§10.9 Gender and Number. Whenever any words are used herein in any specific gender, they shall be construed as though they were also used in any other applicable gender. Whenever any words used herein are in the singular form, they shall be construed as though they were also used in the plural form in all cases where they would so apply.

§10.10 Top-Hat Plan. While, as stated in Article I, this Plan is intended to cover a “select group of management or highly compensated employees,” in the event it is determined not to be a plan described in §201(2), §301(a)(3), and §401(a)(1) of ERISA, it shall be deemed to be two plans, one plan covering the group that consists of a select group of management or highly compensated employees and the other plan covering the group that does not meet this definition.

§10.11 Code §409A. Notwithstanding any provision of the Plan to the contrary, the Plan shall be interpreted and administered in a manner consistent with Code §409A and applicable guidance issued thereunder.

§10.12 Facility of Payment. If an amount is payable under this Plan to a minor, a person declared incompetent, or a person incapable of handling the disposition of property, the Committee may direct the payment of the amount to the guardian, legal representative, or person having the care and custody of the minor, incompetent, or incapable person. The Committee may require proof of incompetency, minority, incapacity, or guardianship as it may deem appropriate prior to the distribution of the amount. The distribution shall completely discharge the Committee and the Company from all liability with respect to the amount distributed.

IN WITNESS WHEREOF, QUAKER CHEMICAL CORPORATION has caused these presents to be duly executed this 4th day of December, 2006.

Attest:	QUAKER CHEMICAL CORPORATION
/s/ D. Jeffry Benoliel	By: /s/ Ronald J. Naples

APPENDIX A

A. ORIGINAL PARTICIPANTS

Name	Participation Date
Michael F. Barry	November 30, 1998
D. Jeffry Benoliel	July 1, 2004
Neal E. Murphy	July 22, 2004

B. FUTURE PARTICIPANTS

Name	Participation Date

As of November 8, 2006, there are no future participants.

EXHIBIT 10(yyy)

FINANCING AGREEMENT

by and among

MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY

and

QUAKER CHEMICAL CORPORATION

and

BROWN BROTHERS HARRIMAN & CO.

Dated February 1, 2007

Relating to

$5,000,000
Montgomery County Industrial Development Authority
Industrial Development Revenue Refunding Bond
(Quaker Chemical Corporation Project)
Series 2007

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FINANCING AGREEMENT

FINANCING AGREEMENT dated February 1, 2007 (the "Agreement"), is made by and among QUAKER CHEMICAL CORPORATION, a Pennsylvania business corporation (the "Borrower"), the MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY (the "Issuer"), a body corporate and politic and existing under and by virtue of the laws of the Commonwealth of Pennsylvania (the "Commonwealth"), and BROWN BROTHERS HARRIMAN & CO., a private bank organized as a partnership (the "Bank").

WITNESSETH

WHEREAS, the Issuer is organized under the Pennsylvania Economic Development Financing Law, 73 P. S. §§371-386, as amended (the "Act"), and is empowered under the Act to acquire, by purchase or otherwise, any lands or interest therein or other property for any project and to enter into contracts with respect to the financing of any project (as defined in the Act); and

WHEREAS, the Borrower has applied to the Issuer for financial assistance in connection with a project (collectively, the "Project") consisting of the current refunding of certain outstanding obligations of the Authority issued on behalf of the Borrower (the "Prior Bonds") as described in the Application (herein defined); and

WHEREAS, for the purpose of paying the costs of the Project, excluding the costs of issuing the Bond (hereinafter defined), Borrower has requested that the Issuer issue $5,000,000 of its Industrial Development Revenue Refunding Bond (Quaker Chemical Corporation Project), Series 2007 (the "Bond"); and

WHEREAS, the Bond is being issued pursuant to the Act and a resolution of the Issuer adopted on December 14, 2006 (the "Resolution"); and

WHEREAS, the Issuer intends to sell the Bond to the Bank at the face amount thereof and to lend the proceeds from the sale of the Bond to the Borrower to assist in financing the Project (such loan being hereinafter referred to as the "Loan"), which Loan will be repaid by the Borrower in accordance with the terms hereof; and

WHEREAS, payment of the Bond will be secured by an assignment of the Issuer's rights hereunder (other than its rights to payment of certain fees and expenses and to indemnification) to the Bank and its successors and assigns; and

WHEREAS, all acts and things have been done and performed which are necessary to make the Bond, when executed and delivered by the Issuer, the legal, valid and binding limited obligation of the Issuer in accordance with its terms and to make this Agreement a valid and binding agreement;

NOW, THEREFORE, in consideration of the purchase and acceptance of the Bond by the Bank and of the mutual covenants and agreements herein contained, and intending to be legally bound, the parties hereby agree as follows:

ARTICLE 1.
DEFINITIONS

SECTION 1.1 Definitions.

In this Agreement and any supplement hereto (except as otherwise expressly provided), the following words and terms shall have the meanings specified in the foregoing recitals:

ACT
AGREEMENT
BANK
BOND
BORROWER
COMMONWEALTH
ISSUER
LOAN
PRIOR BONDS
PROJECT
RESOLUTION

In addition, the following words and terms shall have the following meanings, unless a different meaning clearly appears from the context:

“AFFILIATE” means, as to any entity, any corporation controlling, controlled by, or under common control with such entity.

“APPLICATION” means the application of the Issuer (based on information provided by the Borrower) to the Pennsylvania Department of Community and Economic Development requesting financial assistance through the issuance of tax-exempt bonds in an amount not to exceed $5,000,000 to finance the Project.

“ATTRIBUTABLE INDEBTEDNESS” means, on any date, (a) in respect of any capital lease of any Person, the capitalized amount thereof that would appear on a balance sheet of such Person prepared as of such date in accordance with GAAP, and (b) in respect of any Synthetic Lease Obligation, the capitalized amount of the remaining lease payments under the relevant lease that would appear on a balance sheet of such Person prepared as of such date in accordance with GAAP if such lease were accounted for as a capital lease.

“AUTHORIZED OFFICER” means in the case of the Issuer, the Chairperson, Vice Chairperson of the Issuer or any other individual or individuals duly authorized in writing by the Issuer to act on its behalf, and in the case of the Borrower, individuals duly authorized by the Borrower to act on its behalf as provided in the certificate delivered in accordance with Section 7.2(b) hereof.

“BOND COUNSEL” means Counsel having a national reputation in the field of municipal and tax-exempt finance whose opinions are generally accepted by purchasers of municipal bonds and who are reasonably satisfactory to the Issuer and the Bank.

“BORROWER FINANCING DOCUMENTS” means this Agreement and the Tax Agreement.

“BUSINESS DAY” means any day other than (i) a Saturday or Sunday or a legal holiday, or (ii) a day on which banking institutions located in the Commonwealth are required or

authorized by law or executive order to be closed for commercial banking purposes, or (iii) so long as the Bank is the owner of the Bond, any day on which the Bank's office in Philadelphia, Pennsylvania, is not open for banking business.

"CAPITAL EXPENDITURES" shall mean, with respect to any Person for any period, the aggregate of all expenditures (whether paid in cash or accrued as a liability) by such Person during that period which, in accordance with GAAP, are or should be included in "additions to property, plant or equipment" or similar items reflected in the statement of cash flows of such Person (other than expenditures incurred in connection with any Permitted Acquisition).

"CODE" means the Internal Revenue Code of 1954 and the Internal Revenue Code of 1986, as amended, and all applicable regulations promulgated thereunder.

"CONSOLIDATED EBITDA" means, for any period, for the Company and its Subsidiaries on a consolidated basis, an amount equal to Consolidated Net Income for such period plus (a) the following to the extent deducted in calculating such Consolidated Net Income: (i) Consolidated Interest Charges for such period, plus the portion of rent expense that is treated as interest in accordance with GAAP as a result of the Permitted Sale and Leaseback Transaction being subject to a Lease Accounting Rule Change, (ii) the provision for Federal, state, local and foreign income taxes includable in Net Income for such period including, without limitation, Permitted Non-Cash Reversals, (iii) depreciation and amortization expense, (iv) non-cash charges in respect of any write down of assets taken in the ordinary course of business and (v) commencing on January 1, 2006, non-cash compensation expenses related to the application of financial accounting standard 123-R and minus (b) the following to the extent included in calculating such Consolidated Net Income: (x) Federal, state, local and foreign income tax credits of the Company and its Subsidiaries for such period and (y) non-cash items increasing Consolidated Net Income in respect of any write up of assets; provided, however that the Company shall be permitted to add back to EBITDA for the relevant period, the Permitted Restructuring Charge; provided, however that (A) the Company shall treat as rent expense, and therefore reduce EBITDA by, the amount of any payment made or accrued during such period on account of the Permitted Sale and Leaseback Transaction, to the extent same is subject to a Lease Accounting Rule Change; and (B) that the Company shall have provided to the Bank information detailing (in form and level of specificity reasonably satisfactory to the Administrative Agent) the expenses and charges that comprise the restructuring charge not later than the earlier of (i) ten (10) Business Days after the Company's filing of the 8-K with respect to such Permitted Restructuring Charge; and (ii) the date on which the financial statements reflecting such Permitted Restructuring Charge are issued. Calculations of Consolidated EBITDA shall give effect, on a *pro forma* basis, to all Permitted Acquisitions and Dispositions permitted under this Agreement made during the quarter or year to which the required compliance relates, as if such Permitted Acquisition or Disposition had been consummated on the first day of the applicable period.

"CONSOLIDATED FUNDED INDEBTEDNESS" means, as of any date of determination, for the Company and its Subsidiaries on a consolidated basis, but without duplication, the sum of (a) the outstanding principal amount of all obligations, whether current or long-term, for borrowed money (including Obligations hereunder) and all obligations evidenced by bonds, debentures, notes, loan agreements or other similar instruments, (b) all purchase

money Indebtedness, (c) all direct obligations arising under letters of credit (including standby and commercial), bankers' acceptances, bank guaranties, surety bonds and similar instruments (other than letters of credit to the extent such letters of credit support Indebtedness otherwise included in clauses (a) through (g) hereof), (d) all obligations in respect of the deferred purchase price of property or services (other than trade accounts payable in the ordinary course of business), (e) Attributable Indebtedness in respect of capital leases (other than the Permitted Sale and Leaseback Transactions, to the extent same is subject to a Lease Accounting Rule Change) and Synthetic Lease Obligations, (f) without duplication, all Guarantees with respect to outstanding Indebtedness of the types specified in clauses (a) through (e) above of Persons other than the Company or any Subsidiary, and (g) all Indebtedness of the types referred to in clauses (a) through (f) above of any partnership or joint venture (other than a joint venture that is itself a corporation or limited liability company) in which the Company or a Subsidiary is a general partner or Joint Venturer unless such Indebtedness is expressly made non-recourse to the Company or such Subsidiary; provided that each of clauses (a) through (g) (except Synthetic Lease Obligations) shall only be included in Consolidated Funded Indebtedness to the extent the foregoing appears as a liability on the balance sheet of the Company in accordance with GAAP.

"CONSOLIDATED INTEREST CHARGES" means, for any period, for the Company and its Subsidiaries on a consolidated basis, the sum of (a) all interest, premium payments, debt discount, fees, charges and related expenses of the Company and its Subsidiaries in connection with (i) borrowed money (including capitalized interest), (ii) the deferred purchase price of assets, and (iii) off-balance sheet liabilities, in each case to the extent treated as interest in accordance with GAAP, and (b) the portion of rent expense of the Company and its Subsidiaries with respect to such period under capital leases that is treated as interest in accordance with GAAP (other than on account of the Permitted Sale and Leaseback Transaction, to the extent same is subject to a Lease Accounting Rules Change), plus or minus the benefits or detriments, as the case may be, of any interest rate protection.

"CONSOLIDATED INTEREST COVERAGE RATIO" means, as of any date of determination, the ratio of (a) Consolidated EBITDA for the period of the four prior fiscal quarters ending on such date *to* (b) Consolidated Interest Charges for such period.

"CONSOLIDATED LEVERAGE RATIO" means, as of any date of determination, the ratio of (a) Consolidated Funded Indebtedness as of such date to (b) Consolidated EBITDA for the period of the four fiscal quarters most recently ended.

"CONSOLIDATED NET INCOME" means, for any period, for the Company and its Subsidiaries on a consolidated basis, the net income of the Company and its Subsidiaries (excluding extraordinary gains and extraordinary losses) determined in accordance with GAAP for such period.

"CONTRACTUAL OBLIGATION" means, as to any Person, any provision of any security issued by such Person or of any agreement, instrument or other undertaking to which such Person is a party or by which it or any of its property is bound.

"COUNSEL" means an attorney or firm of attorneys duly admitted to the practice of law before the highest court of any state in the United States of America or the District of Columbia.

"DEBTOR RELIEF LAWS" means the Bankruptcy Code of the United States, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief Laws of the United States or other applicable jurisdictions from time to time in effect and affecting the rights of creditors generally.

"DETERMINATION OF TAXABILITY" means (a) the enactment of legislation to or with the effect that interest payable on the Bond is includable in the gross income of the Bank (provided that the Bank is not a "substantial user" or "related person" as each such term is defined in the Code) under the federal income tax laws, any such determination being deemed to have occurred on the effective date of such legislation; or (b) receipt by the Borrower, the Issuer or the Bank of notice that the Commissioner of Internal Revenue or any district director of the Internal Revenue Service, based upon filings of the Borrower, any review or audit of the Borrower, or any ground whatsoever, shall have determined that a Taxable Event has occurred; provided that the Borrower shall have been afforded a reasonable opportunity to appeal such determination, but only so long as (i) the Borrower shall diligently pursue such appeal, and (ii) the Borrower shall provide the Bank with reasonable assurance of payment of all obligations to the Bank in connection with the Bond as a result of an adverse determination of such appeal, and (iii) the prosecution of such appeal does not otherwise adversely affect the Bank in the Bank's reasonable judgment; or (c) issuance of a published or private ruling or a technical advice memorandum by the Internal Revenue Service, or a determination by any court of competent jurisdiction, that the interest payable on the Bond is includable for federal income tax purposes in the gross income of the Bank (except as aforesaid); or (d) an opinion of Bond Counsel addressed to the Bank that such Bond Counsel cannot conclude that the interest on the Bond qualifies as exempt income under Section 103 of the Code; provided, however, that the Borrower shall have been given 30 days' notice and an opportunity to consult with such Bond Counsel.

"DISPOSITION" or "DISPOSE" means the sale, transfer, exclusive license (other than any such license as to which exclusivity is granted by the licensor as to geographic scope only) or other disposition (including any sale and leaseback transaction) of any property by any Person, including any sale, assignment, transfer or other disposal, with or without recourse, of any notes or accounts receivable or any rights and claims associated therewith.

"ERISA" means the Employee Retirement Income Security Act of 1974.

"ERISA AFFILIATE" means any trade or business (whether or not incorporated) under common control with the Borrower within the meaning of Section 414(b) or (c) of the Code (and Sections 414(m) and (o) of the Code for purposes of provisions relating to Section 412 of the Code).

"ERISA EVENT" means (a) a Reportable Event with respect to a Pension Plan (as defined in ERISA); (b) a withdrawal by the Borrower or any ERISA Affiliate from a Pension Plan subject to Section 4063 of ERISA during a plan year in which it was a substantial employer (as defined in Section 4001(a)(2) of ERISA) or a cessation of operations that is treated as such a withdrawal under Section 4062(e) of ERISA; (c) a complete or partial withdrawal by the Borrower or any ERISA Affiliate from a Multiemployer Plan or notification that a Multiemployer Plan (as defined in ERISA) is in reorganization; (d) the filing of a notice of intent

to terminate, the treatment of a Pension Plan amendment as a termination under Sections 4041 or 4041A of ERISA, or the commencement of proceedings by the PBGC to terminate a Pension Plan or Multiemployer Plan; or (e) an event or condition which constitutes grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Pension Plan or Multiemployer Plan.

"EVENT OF DEFAULT" means any of the events enumerated in Section 13.1.

"FUNDAMENTAL CHANGE" means: (i) any merger (except where the Borrower is the surviving entity), dissolution, liquidation or consolidation of the Borrower with our into another Person; (ii) any Disposition of the majority of the assets (whether now owned or hereinafter acquired) of the Borrower to or in favor of any Person, in any one or series of transaction; (iii) a fundamental change in the business lines or operations of the Borrower, as determined by the Bank in its reasonable discretion; (iv) a sale of more than 25% of the stock of the Borrower; or (v) a delisting of the Borrower from the New York Stock Exchange.

"GAAP" means generally accepted accounting principles in the United States set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or such other principles as may be approved by a significant segment of the accounting profession in the United States, that are applicable to the circumstances as of the date of determination, consistently applied.

"GOVERNMENTAL AUTHORITY" means the government of the United States or any other nation, or of any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

"GOVERNMENT OBLIGATIONS" means direct obligations of, or obligations the principal and interest on which are unconditionally guaranteed by, the United Sates of America.

"GUARANTEE" means, as to any Person, any (a) any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Indebtedness or other obligation payable or performable by another Person (the "primary obligor") in any manner, whether directly or indirectly, and including any obligation of such Person, direct or indirect, (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation, (ii) to purchase or lease property, securities or services for the purpose of assuring the obligee in respect of such Indebtedness or other obligation of the payment or performance of such Indebtedness or other obligation, (iii) to maintain working capital, equity capital or any other financial statement condition or liquidity or level of income or cash flow of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other obligation, or (iv) entered into for the purpose of assuring in any other manner the obligee in respect of such Indebtedness or other obligation of the payment or performance thereof or to protect such obligee against loss in respect thereof (in whole or in part), or (b) any Lien on any assets of such Person securing any Indebtedness or other obligation of any other Person, whether or not such Indebtedness or other obligation is assumed by such

Person (or any right, contingent or otherwise, of any holder of such Indebtedness to obtain any such Lien). The amount of any Guarantee shall be deemed to be an amount equal to the stated or determinable amount of the related primary obligation, or portion thereof, in respect of which such Guarantee is made or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof as determined by the guaranteeing Person in good faith. The term "Guarantee" as a verb has a corresponding meaning.

"INDEBTEDNESS" means, as to any Person at a particular time, without duplication, all of the following, whether or not included as indebtedness or liabilities in accordance with GAAP:

(a) all obligations of such Person for borrowed money and all obligations of such Person evidenced by bonds, debentures, notes, loan agreements or other similar instruments;

(b) all direct or contingent obligations of such Person arising under letters of credit (including standby and commercial), bankers' acceptances, bank guaranties, surety bonds and similar instruments;

(c) net obligations of such Person under any Swap Contract;

(d) all obligations of such Person to pay the deferred purchase price of property or services (other than trade accounts payable in the ordinary course of business and, in each case, not past-due for more than 90 days after the date on which the related invoice was originally payable, which date is not more than 90 days after the date the invoice was originally issued.

(e) indebtedness (excluding prepaid interest thereon) secured by a Lien on property owned or being purchased by such Person (including indebtedness arising under conditional sales or other title retention agreements), whether or not such indebtedness shall have been assumed by such Person or is limited in recourse;

(f) capital leases and Synthetic Lease Obligations;

(g) all obligations of such Person to purchase, redeem, retire, defease or otherwise make any payment in respect of the acquisition of any Equity Interest in such Person or any other Person, valued, in the case of a redeemable preferred interest, at the greater of its voluntary or involuntary liquidation preference plus accrued and unpaid dividends; and

(h) all Guarantees of such Person in respect of any of the foregoing.

For all purposes hereof, the Indebtedness of any Person shall include the Indebtedness of any partnership or joint venture (other than a joint venture that is itself a corporation or limited liability company) in which such Person is a general partner or a Joint Venturer, unless such Indebtedness is expressly made non-recourse to such Person. The amount of any net obligation under any Swap Contract on any date shall be deemed to be the Swap Termination Value thereof as of such date. The amount of any capital lease or Synthetic Lease Obligation as of any date shall be deemed to be the amount of Attributable Indebtedness in respect thereof as of such date.

"INDEMNIFIED PARTIES" means the Commonwealth, the Issuer, the Bank, any person who "controls" the Issuer and the Bank, within the meaning of Section 15 of the Securities Act of 1933, as amended, any member, officer, director, official, agent or employee of the Issuer and the Bank (including any partner of the Bank) and their respective executors, administrators, heirs, successors and assigns.

"INTEREST RATE" means the rate as determined by the Bank and as set forth on the Bond.

"INTEREST PAYMENT DATE" means the first day of each calendar month of each year commencing March 1, 2007.

"INTERNAL CONTROL EVENT" means a material weakness in, or fraud that involves management or other employees who have a significant role in, the Borrower's internal controls over financial reporting within the meaning of Item 308 of Regulation S-K promulgated by the SEC, in each case as described in the Securities Laws.

"JOINT VENTURER" means any Person holding an equity interest in an entity for whose obligations and liabilities such Person is jointly and severally liable.

"LEASE ACCOUNTING RULES CHANGE" means a change in the definitions of capital and operating leases under GAAP, as a result of which the Permitted Sale and Leaseback Transaction is required to be classified as a capital lease, rather than a operating lease.

"LIEN" means any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), charge, or preference, priority or other security interest or preferential arrangement in the nature of a security interest of any kind or nature whatsoever (including any conditional sale or other title retention agreement, any easement, right of way or other encumbrance on title to real property, and any financing lease having substantially the same economic effect as any of the foregoing).

"LOAN ACCOUNTS" has the meaning set forth in Section 8.3 hereof.

"MATERIAL ADVERSE EFFECT" means (a) a material adverse change in, or a material adverse effect upon, the operations, business, properties, or financial condition of the Borrower; (b) a material impairment of the ability of the Borrower to perform its obligations under this Agreement; or (c) a material adverse effect upon the legality, validity, binding effect or enforceability against the Borrower of any Borrower Financing Document. As used in this definition, "material" shall mean an amount of five (5%) percent or more of the total consolidated assets of the Company and its Subsidiaries as of the relevant date of determination.

"MATURITY DATE" means December 1, 2018.

"OBLIGATIONS" means all advances to, and debts, liabilities, obligations, covenants and duties of, any Borrower arising under any loan, including the Loan, or letter of credit of the Borrower or any of its Affiliates, whether direct or indirect (including those acquired by assumption), absolute or contingent, due or to become due, now existing or hereafter arising and including interest and fees that accrue after the commencement by or against any Borrower or

any Affiliate thereof of any proceeding under any Debtor Relief Laws naming such Person as the debtor in such proceeding, regardless of whether such interest and fees are allowed claims in such proceeding.

"OUTSTANDING" shall mean, as of the time in question, the Bond issued and delivered under this Agreement, except all or any portion of the principal amount thereof, as the case may be, such as:

(a) is cancelled or required to be cancelled under the terms of this Agreement; or

(b) in substitution for which another Bond has been authenticated and delivered pursuant hereto; or

(c) is paid in part without presentation and surrender of the Bond in accordance with Section 6.1(e) hereof (but only to the extent of such payments).

"PRIOR BONDS" means the Authority's Monthly Floating Rate Demand Bonds, 1984 Series (Quaker Chemical Corporation Project) originally issued in the amount of $5,000,000.

"PERMITTED NON-CASH REVERSALS" means a one-time reversal on the balance sheet of non-cash U.S. deferred tax assets which primarily relate to differences in when certain items are deductible for tax purposes vs. expensed for GAAP purposes, the realization of which is contingent upon future taxable income, provided that the aggregate amount of such reversals does not exceed $20,000,000.

"PERMITTED RESTRUCTURING CHARGE" means certain charges the Company has taken or anticipates taking during the fiscal year ending December 31, 2005, in connection with a restructuring, (a) but in any event to be taken no later than March 31, 2006, on a one-time basis, and, (b) to the extent that the cash component of such restructuring charge after March 31, 2005 does not exceed $6,000,000. For the avoidance of doubt, potential pension charges (either due to curtailment of the pension plan or early retirement incentives) associated with the restructuring referred to above, in an aggregate amount not to exceed $7,000,000 shall be considered a non-cash item.

"PERMITTED SALE AND LEASEBACK TRANSACTION" means with respect to the Company or any Subsidiary, the arrangement, with the Butler County Port Authority ("BCPA") whereby the Company or such Subsidiary shall sell, lease, or otherwise transfer, directly or indirectly, its facility (buildings and equipment) located in Middleton, Ohio, cause improvements and additions to be made thereto (collectively, the "Project"), and thereafter rent or lease such facility and additional facilities and such equipment; all on substantially the same terms and conditions disclosed in that certain letter dated July 26, 2006 from the Borrower to Bank of America, N.A., as Administrative Agent, with such changes to such terms and conditions as have been disclosed in writing to, and approved by, the Administrative Agent in its reasonable discretion; provided however, that (i) the total cost of the Project shall not exceed $45,000,000; and (ii) neither the Company nor any Subsidiary will be or become a guarantor or surety for any obligations owing by the BPCA (to any other financing entity) for the Project.

“PERSON” means natural persons, firms, associations, public bodies, corporations, partnerships, limited liability companies and other entities.

“PROJECT FACILITIES” means all property of the Borrower financed as part of the Project through the issuance of the Prior Bonds and refunded by the Bond.

“RECORD DATE” means, with respect to any Interest Payment Date, the Business Day preceding such Interest Payment Date.

“REGISTERED PUBLIC ACCOUNTING FIRM” has the meaning specified in the Securities Laws and shall be independent of the Borrower as prescribed by the Securities Laws.

“REGULATIONS” means the United States Treasury Regulations and any pertinent Revenue Rulings, Revenue Procedures, Notices or Announcements promulgated by the Secretary of the Treasury of the United States or by the Internal Revenue Service.

“RESERVED RIGHTS” means the rights of the Issuer to (1) execute and deliver supplements and amendments to the Agreement pursuant to Section 14.1 hereof, (2) be held harmless and indemnified pursuant to Section 15.6 hereof, (3) receive any funds for its own use, whether as administration fees pursuant to Section 8.2 or reimbursement or indemnification pursuant to Section 15.5 and 15.6 hereof, (4) receive notices and other documents, and (5) provide any consent, acceptance or approval with respect to matters as provided herein.

“SEC” means the Securities and Exchange Commission, or any Governmental Authority succeeding to any of its principal functions.

“SECURED RATE” means the rate as determined by the Bank and as set forth on the Bond upon the issuance of a letter of credit.

“SECURITIES LAWS” means the Securities Act of 1933, the Securities Exchange Act of 1934, Sarbanes-Oxley and the applicable accounting and auditing principles, rules, standards and practices promulgated, approved or incorporated by the SEC or the Public Company Accounting Oversight Board, as each of the foregoing may be amended and in effect on any applicable date hereunder.

“SUBSIDIARY” of a Person means a corporation, partnership, joint venture, limited liability company or other business entity of which a majority of the shares of securities or other interests having ordinary voting power for the election of directors or other governing body (other than securities or interests having such power only by reason of the happening of a contingency) are at the time beneficially owned, or the management of which is otherwise controlled, directly, or indirectly through one or more intermediaries, or both, by such Person. Unless otherwise specified, all references herein to a “Subsidiary” or to “Subsidiaries” shall refer to a Subsidiary or Subsidiaries of the Borrower.

“SWAP CONTRACT” means (a) any and all rate swap transactions, basis swaps, credit derivative transactions, forward rate transactions, commodity swaps, commodity options, forward commodity contracts, equity or equity index swaps or options, bond or bond price or bond index swaps or options or forward bond or forward bond price or forward bond index

transactions, interest rate options, forward foreign exchange transactions, cap transactions, floor transactions, collar transactions, currency swap transactions, cross-currency rate swap transactions, currency options, spot contracts, or any other similar transactions or any combination of any of the foregoing (including any options to enter into any of the foregoing), whether or not any such transaction is governed by or subject to any master agreement, and (b) any and all transactions of any kind, and the related confirmations, which are subject to the terms and conditions of, or governed by, any form of master agreement published by the International Swaps and Derivatives Association, Inc., any International Foreign Exchange Master Agreement, or any other master agreement (any such master agreement, together with any related schedules, a "Master Agreement"), including any such obligations or liabilities under any Master Agreement.

"SWAP TERMINATION VALUE" means, in respect of any one or more Swap Contracts, after taking into account the effect of any legally enforceable netting agreement relating to such Swap Contracts, (a) for any date on or after the date such Swap Contracts have been closed out and termination value(s) determined in accordance therewith, such termination value(s), and (b) for any date prior to the date referenced in clause (a), the amount(s) determined as the mark-to-market value(s) for such Swap Contracts, as determined based upon one or more mid-market or other readily available quotations provided by any recognized dealer in such Swap Contracts (which may include the Bank or any Affiliate of the Bank).

"SYNTHETIC LEASE OBLIGATION" means the monetary obligation of a Person under (a) a so-called synthetic, off-balance sheet or tax retention lease, or (b) an agreement for the use or possession of property creating obligations that do not appear on the balance sheet of such Person but which, upon the insolvency or bankruptcy of such Person, would be characterized as the indebtedness of such Person (without regard to accounting treatment).

"TAX AGREEMENT" means the Arbitrage and Tax Certificate executed by the Issuer and the Borrower, concurrently with the delivery of the Bond, relating to the expectations of the Issuer and the Borrower with respect to the expenditure of the proceeds of the Bond and the compliance by the Issuer and the Borrower with the provisions of the Code as required to ensure the exclusion from gross income for federal income tax purposes of the interest on the Bond.

"TAXABLE EVENT" means the application of the proceeds of the Bond in such manner, or the occurrence or non-occurrence of any other event (except the enactment of legislation described in clause (a) of the definition of Determination of Taxability above), whether within or without the control of the Borrower, with the result that, under the Code, the interest on the Bond is or becomes includable in the gross income for federal income tax purposes of the Bank (except as aforesaid).

"TAXABLE RATE" means the rate as determined by the Bank and as set forth on the Bond upon a Determination of Taxability.

SECTION 1.2 Rules of Construction.

In this Agreement (except as otherwise expressly provided), the following rules shall apply unless a different meaning clearly appears from the context:

(a) This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth.

(b) The section and other headings contained in this Agreement and the table of contents preceding this Agreement are for reference purposes only and shall not control or affect the construction of this Agreement or the interpretation thereof in any respect.

(c) Unless the context of this Agreement clearly requires otherwise, references to the plural include the singular, the singular the plural, and the part the whole. The words “hereof,” “herein,” “hereunder” and similar terms in this Agreement refer to this Agreement as a whole and not to a particular provision of this Agreement.

(d) The provisions of this Agreement are intended to be severable. If any provision of this Agreement shall be held invalid or unenforceable in whole or in part, such provision shall be ineffective to the extent of such invalidity or unenforceability without in any manner affecting the validity or enforceability of the remaining provisions of this Agreement.

(e) Words importing persons include firms, associations, corporations, partnerships, limited liability companies and other entities; all words importing the singular number include the plural number and vice versa; and all words importing the masculine gender include the feminine gender.

(f) All references herein to financial or accounting terms, except as the context may clearly otherwise require, shall be construed in accordance with GAAP.

(g) All references to the time of any day shall mean Eastern Standard or Daylight Savings Time, as prevailing on the applicable date in Philadelphia, Pennsylvania.

ARTICLE 2.
ISSUER REPRESENTATIONS

The Issuer represents and warrants as follows:

SECTION 2.1 <u>Organization; Authority To Issue Bond.</u>

The Issuer is a public corporation and instrumentality of the Commonwealth, duly organized, established and existing under the laws of the Commonwealth, particularly the Act. The Issuer is authorized to issue the Bond in accordance with the Act and to use the proceeds thereof to make the Loan.

SECTION 2.2 <u>Authorization for Financing.</u>

The Issuer has complied with the provisions of the Act and has full power and authority pursuant to the Act to consummate all transactions contemplated by this Agreement, the Bond, the Resolution, and any and all agreements relating thereto and to perform its obligations thereunder and to issue, sell and deliver the Bond to the Bank as provided herein.

SECTION 2.3 **Resolution.**

Pursuant to the Resolution adopted by the Issuer and still in force and effect, the Issuer has duly authorized the execution, delivery and due performance of this Agreement and the Bond and the Issuer has duly authorized the taking of any and all action as may be required on the part of the Issuer pursuant to the express provisions of this Agreement to perform, give effect to and consummate the transactions contemplated by this Agreement and all approvals necessary in connection with the foregoing have been received.

SECTION 2.4 **The Bond.**

When the Bond is issued, transferred and delivered in accordance with the provisions of this Agreement, the Bond will have been duly authorized, executed, issued and delivered and will constitute the valid and special and limited obligation of the Issuer payable solely from the revenues and other monies derived by the Issuer from this Agreement. The Bond shall not be in any way a debt or liability of the Commonwealth or any political subdivision thereof, except the non-recourse obligation of the Issuer, and shall not create or constitute any indebtedness, liability or obligation of the Commonwealth or of any political subdivision thereof, except the non-recourse obligation of the Issuer, either legal, moral or otherwise. The Bond does not now and shall never constitute a charge against the general credit of the Issuer.

SECTION 2.5 **No Conflict or Violation.**

The execution and delivery of this Agreement and the Bond and compliance with the provisions thereof, will not conflict with or constitute on the part of the Issuer a violation of the Constitution of the Commonwealth or violation, breach of or default under its By-Laws or any statute, indenture, mortgage, deed of trust, note agreement or other agreement or instrument to which the Issuer is a party or by which the Issuer is bound, or, to the knowledge of the Issuer, any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Issuer or any of its activities or properties, and all consents, approvals, authorizations and orders of governmental or regulatory authorities (except for any Commonwealth or federal securities agencies) which are required to be obtained by the Issuer for the consummation of the transactions contemplated thereby have been obtained.

SECTION 2.6 **Litigation.**

There is no action, suit, proceeding or investigation at law or in equity or before or by any court, public board or body pending or threatened against or affecting the Issuer, or, to the best knowledge of the Issuer, any basis therefor, wherein an unfavorable decision, ruling or finding would adversely affect the transactions contemplated hereby, or which in any way would contest or adversely affect the validity of the Bond or this Agreement or the power of the Issuer for the issuance of the Bond, the validity of the Resolution, the validity of, or power of the Issuer to execute and deliver, any agreement or instrument to which the Issuer is a party and which is used or contemplated for use in consummation of the transactions contemplated hereby or the right of the Issuer to finance the Project.

SECTION 2.7 **No Repeal.**

No authority or proceedings for the issuance of the Bond or documents executed in connection therewith has been repealed, revoked, rescinded or superseded.

SECTION 2.8 Limitations on the Representation and Warranties of the Issuer.

The Issuer makes no representation as to (a) the financial position or business condition of the Borrower, (b) the value of the Project Facilities or its suitability for any particular purpose or (c) the correctness, completeness or accuracy of any of the statements, materials (financial or otherwise), representations or certifications furnished or to be made by the Borrower in connection with the sale or transfer of the Bond, the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby.

ARTICLE 3.
BORROWER REPRESENTATIONS

The Borrower represents and warrants as follows:

SECTION 3.1 Organization and Existence.

The Borrower is a corporation duly organized and existing in good standing under the laws of the Commonwealth of Pennsylvania, with full power and legal right to enter into the Borrower Financing Documents and to perform its obligations thereunder. The making and performance by the Borrower of its obligations under this Agreement have been duly authorized by proper corporate action.

SECTION 3.2 Consents.

No authorization, consent, approval, license, exemption by or filing or registration with any court or governmental department, commission, board (including the Board of Governors of the Federal Reserve System), bureau, agency or instrumentality is or will be necessary for the valid execution, delivery or performance by the Borrower of any Borrower Financing Document.

SECTION 3.3 No Conflict or Violation.

The execution and delivery of the Borrower Financing Documents and the consummation of the transactions contemplated thereby does not conflict with or cause or constitute a breach of or default under any material bond, contract, indenture, agreement or other instrument to which the Borrower is a party or by which it or its property is bound.

SECTION 3.4 Litigation or Proceedings.

There is no action, suit, proceeding or investigation at law or in equity before or by any court, arbitration board or tribunal, public board or body pending or, to the best knowledge of the Borrower, threatened against or affecting the Borrower, or, to the best knowledge of the Borrower, any basis therefor, wherein an unfavorable decision, ruling or finding would (i) adversely affect in a material way the transactions contemplated by the Borrower Financing Documents, or any other agreement or instrument to which the Borrower is a party, which is used or contemplated for use in the consummation of the transactions contemplated by the Borrower Financing Documents, or (ii) adversely affect the exemption of interest on the Bond from federal income taxation or any state tax-exemption applicable thereto.

SECTION 3.5 **Legal and Binding Obligation.**

Each of the Borrower Financing Documents is a legal, valid and binding obligation of the Borrower, enforceable against it in accordance with its terms, except as the same may be limited by bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting the enforcement of creditors' rights generally and except to the extent that the enforceability thereof may be limited by the application of general principles of equity.

SECTION 3.6 **Payment of Taxes.**

Except for such amounts as the Borrower is contesting in good faith through proper proceedings, the Borrower has filed or caused to be filed all federal, state and local tax returns which are required to be filed, and have paid or caused to be paid all taxes as shown on said returns or on any assessment received by it, to the extent that such taxes have become due.

SECTION 3.7 **No Default**

The Borrower is not in default in the performance, observance or fulfillment of any of the obligations, covenants or conditions contained in any agreement or instrument to which it is a party or by which it is bound, to the extent such default would result in a Materially Adverse Affect on the financial position or condition of the Borrower.

SECTION 3.8 **Financial Statements.**

All financial statements now and heretofore furnished to the Issuer and the Bank by the Borrower are true, accurate and correct in all material respects as of the date thereof and have been, or will be, with respect to the financial statements hereafter furnished to the Issuer and the Bank, prepared in accordance with GAAP. Such financial statements do, or will, fairly present the Borrower's financial condition, as of the date of such statements, and the results of its respective operations for the fiscal period then ended and there has been no materially adverse change, financial or otherwise, in its condition since the date of the last financial statement furnished to the Issuer and the Bank.

SECTION 3.9 **Tax Status of Bond.**

To the best of Borrower's knowledge, the Borrower has not taken any action and knows of no action that any person has taken or intends to take, and will not knowingly take or permit any person to take, which would cause interest on the Bond to be includable in the gross income of the Bank for federal income tax purposes.

SECTION 3.10 **No False Statements.**

As of the date hereof, neither any Borrower Financing Document nor any other document, certificate or statement furnished to the Issuer or the Bank by or on behalf of the Borrower contains any untrue statement of a material fact with respect to the Borrower or omits to state a material fact with respect to the Borrower necessary in order to make the statements contained herein and therein not misleading. It is specifically understood by the Borrower that all such statements, representations and warranties shall be deemed to have been relied upon by the Issuer as an inducement to make the Loan and issue the Bond and by the Bank to purchase the Bond.

ARTICLE 4.
BANK REPRESENTATIONS

The Bank represents and warrants as follows:

SECTION 4.1 Independent Investigation.

The Bank has made an independent investigation and evaluation of the financial position and business condition of the Borrower and has caused such investigation and evaluation of the Borrower to be made by persons it deems competent to do so. All information relating to the business and affairs of the Borrower that the Bank has requested in connection with the transactions referred to herein have been provided to the Bank. The Bank hereby expressly waives the right to receive such information from the Issuer and relieves the Issuer of any liability for failure to provide such information or for the inclusion in such information or in any of the documents, representations or certifications to be provided by the Borrower under this Agreement of any untrue fact or for the failure therein to include any fact.

SECTION 4.2 Purchase for Own Account.

The Bank is purchasing the Bond for its own account, with the purpose of investment and not with the intention of distribution or resale thereof. The Bond will not be sold unless registered in accordance with the rules and regulations of the Securities and Exchange Commission or unless the Issuer is furnished with an opinion of Counsel or a “No Action” letter from the Securities and Exchange Commission that such registration is not required.

ARTICLE 5.
THE BOND

SECTION 5.1 Form; Amount and Terms.

(a) In order to provide funds for the Project, the Bond is hereby authorized to be issued in the aggregate principal amount of $5,000,000, and shall be issued as a fully registered Bond, without coupons, substantially in the form set forth as Exhibit “A” hereto, with appropriate insertions and deletions. The Bond shall be issued in a single denomination equal to the entire outstanding principal amount thereof.

(b) The Bond shall mature on December 1, 2018. The Bond shall be subject to optional and mandatory redemption prior to maturity as provided in Section 6.1 hereof and in the Bond and shall bear interest, at the Interest Rate, the Secured Rate, the Default Rate or the Taxable Rate, as applicable, from and including the date of the Bond, or from the most recent Interest Payment Date to which interest has been fully paid or until payment of the principal of the Bond and shall be determined in accordance with the provisions of the Bond. The principal of and interest on the Bond shall be paid as provided for in the form of the Bond set forth as Exhibit “A” hereto and made a part hereof, and as otherwise set forth in this Agreement.

SECTION 5.2 Payment and Dating of the Bond.

Principal of the Bond shall be payable to the Bank upon presentation and surrender of the Bond at the principal office of the Bank on the maturity date shown thereon unless previously redeemed by the Issuer pursuant to Section 6.1 hereof. Interest on the Bond shall be payable on each Interest Payment Date by check payable to the Bank and mailed on or prior to each Interest Payment Date or by bank wire transfer to the bank account designated by the Bank (any such designation provided by the Bank shall be effective for each Interest Payment Date thereafter until written notice to the contrary is provided to the Borrower) or by the debit of a deposit account maintained by the Borrower with the Bank, in each case as the Borrower and the Bank shall agree. The Bond shall bear interest on overdue principal and, to the extent permitted by law, on overdue interest, at the Interest Rate plus 2%. Payment as aforesaid shall be made in such coin or currency of the United States of America as, at the respective times of payment, shall be legal tender for the payment of public and private debts.

The Bond shall be dated the date of delivery thereof.

SECTION 5.3 Execution.

The Bond shall be executed on behalf of the Issuer by its Authorized Officer by his or her manual or facsimile signature, and the corporate seal of the Issuer or a facsimile thereof shall be impressed thereon or affixed thereto and attested by its Secretary or Assistant Secretary by his or her manual or facsimile signature. In case any officer whose signature (or facsimile thereof) shall appear on the Bond shall cease to be such officer before the delivery of the Bond, such signature or such facsimile shall nevertheless be valid and sufficient for all purposes, the same as if such officer had remained in office until delivery.

ARTICLE 6.
REDEMPTION OF BOND BEFORE MATURITY

SECTION 6.1 Redemption of the Bond.

(a) Optional Redemption Notice. The Bond shall be subject to optional redemption by the Issuer, at the written direction of the Borrower, in whole or in part (but if in part in the principal amount of $100,000 or integral multiples of $5,000 in excess thereof), on any Interest Payment Date, at a price equal to 100% of the principal amount thereof to be redeemed, together with accrued interest to the date of redemption. The Borrower shall provide the Bank with notice of the date of any optional redemption pursuant to this paragraph and the principal amount of the Bond to be redeemed by first-class mail, postage prepaid, sent at least fifteen (15) days before such redemption date to the Bank at the registered address of the Bank appearing in this Agreement as of the close of business on the Business Day prior to such mailing. On each such redemption date, payment of the redemption price having been made to the Bank as provided herein and in the Bond, the Bond or the portion thereof so called for redemption shall become due and payable on the redemption date and interest shall cease to accrue thereon from and after the redemption date.

(b) [Reserved.]

(c) Mandatory Redemption at Option of Bank. On or after December 1, 2010, all or any portion of the Bond shall be redeemed by the Issuer, in whole or in part (but if in part in the principal amount of $100,000 or integral multiples of $5,000 in excess thereof), at a redemption price equal to 100% of the principal amount thereof, together with accrued interest to the date of redemption, upon ninety (90) days written demand of the Bank in the form attached as Exhibit "B" to this Agreement to the Borrower, with a copy to the Issuer. The Bond, or any portion thereof, shall be redeemed, and the redemption price of the Bond shall be paid to the Bank, on the date specified by the owner of the Bond. Notwithstanding the foregoing, if the Bank shall demand the redemption of the Bond in whole pursuant to this paragraph, in lieu of such redemption the Borrower shall have the right to (A) purchase the Bond from the Bank on any date after the date of the Bank's written demand and prior to the next Business Day preceding the date of the proposed redemption, at a purchase price equal to 100% of the principal amount of the Bond, plus accrued interest to the date of purchase; or (B) deliver a letter of credit to the benefit of the Bank on any date after the date of the Bank's written demand and prior to the next Business Day preceding the date of the proposed redemption which shall satisfy the following requirements:

(i) the letter of credit shall be in an amount equal to the aggregate principal amount of the Bond plus thirty-five (35) days of interest on the Bond;

(ii) the letter of credit shall provide for payment in immediately available funds, upon receipt of request for such payment with respect to any Interest Payment Date, or Mandatory Redemption Date pursuant to this Agreement;

(iii) the letter of credit shall (a) provide for an expiration date no earlier than the earliest of (1) the date on which the Bond is to mature and is to be paid in full or (2) the date on which the Bond become secured by an substitute letter of credit which meets the conditions of this Section 6.1(c), or (b) permit a draw on the letter of credit by the Bank thirty (30) days prior to the expiration date of the letter of credit in the event the Borrower has not provided to the Bank a written commitment, to the reasonable satisfaction of the Bank, that (x) the letter of credit will be renewed on the expiration date, or (y) a substitute letter of credit, meeting the conditions of this Section 6.1(c), will be provided to the Bank by the Borrower;

(iv) the letter of credit shall be issued by a financial institution acceptable to the Bank and which has at least Aa2/P-1 rating from Moody's; and

(v) such other terms and conditions as the Bank or the Issuer may reasonably require.

Section 6.1(f) below shall not apply to a mandatory redemption under this Section 6.1(c) if (1) the Borrower is not in default under this Agreement, and (2) a letter of credit has not been delivered pursuant to this Section 6.1(c).

(d) [Reserved]

(e) Payment Upon Redemption or Prepayment. Payment in respect of the redemption or prepayment of the Bond shall be made by the Borrower by wire transfer of immediately available funds to the bank account specified by the Bank. Except in the event of

the redemption of the Bond in its entirety, any such redemption shall be made without surrender of the Bond by the Bank for payment, provided that the Borrower's records of such payment shall be conclusive and binding on the Bank, absent manifest error.

(f) Breakage Costs. In addition to any amounts due in connection with the redemption of the Bond as set forth above, in the event of any redemption or prepayment of the Bond for any reason, whether by redemption, prepayment, acceleration or otherwise, there shall be paid to the Bank an additional amount equal to the sum of all actual losses or expenses suffered or incurred by the Bank as a result of the redemption or prepayment, including any loss, breakage or other cost or expense incurred by reason of the termination of any interest rate protection agreement or the liquidation or reemployment of deposits or other funds acquired by the Bank to make or maintain its investment in the principal amount of the Bond at a fixed interest rate. The Bank shall provide the calculation of any such loss at the Borrower's request, which calculation shall be final in the absence of manifest error.

ARTICLE 7.
ISSUE OF BOND

SECTION 7.1 Sale and Purchase of the Bond; Loan of Proceeds; Application of Proceeds.

In order to provide funds for the payment of the costs of the Project, the Issuer agrees to issue the Bond, concurrently with the execution and delivery hereof, and to sell the Bond to the Bank. The Bank shall purchase the Bond at a purchase price of 100% of the principal amount thereof in accordance with the terms and conditions hereof. The proceeds of the Bond are hereby loaned to the Borrower to be applied to pay Project Costs in accordance with Section 7.3 below.

SECTION 7.2 Delivery of the Bond.

The Issuer will issue and deliver the Bond to the Bank upon payment of the purchase price therefor and the execution and delivery to the Bank of the following:

(a) Copies of the proceedings of the Issuer relating to the issuance of the Bond duly certified by the Secretary or Assistant Secretary of the Issuer;

(b) A written certificate by an authorized officer of the Borrower as to the names and signatures of the officers authorized to sign this Agreement and the other documents or certificates of the Borrower to be executed and delivered pursuant hereto. The Bank may conclusively rely on, and be protected in acting upon, such certificate until it shall receive a further certificate on behalf of the Borrower amending the prior certificate;

(c) A copy of the resolutions of the Board of Directors of the Borrower certified by the Secretary or Assistant Secretary thereof authorizing and approving the execution and delivery of this Agreement and all other documents delivered pursuant to this Agreement;

(d) Original executed counterparts of this Agreement, the Tax Agreement and other appropriate documents;

(e) Opinions in form and substance satisfactory to the Issuer and the Bank dated as of the date of the closing of (i) counsel for the Issuer, (ii) Bond Counsel and (iii) counsel for the Borrower;

(f) Copies of the Notices of Redemption for the Prior Bonds issued by the Borrower and the Issuer and The Bank of New York Trust Company, N.A., as trustee for the Prior Bonds;

(g) An opinion of Bond Counsel that upon the issuance of the Bond and the payment of the redemption price of the Prior Bonds, the Prior Bonds are legally defeased; and

(h) Other customary closing certificates and documents as may reasonably be required by the Bank, the Issuer or by Bond Counsel.

SECTION 7.3 <u>Disposition of Proceeds of the Bond.</u>

Upon the issuance and sale of the Bond in accordance with Sections 7.1 and 7.2 above, Borrower and the Issuer hereby request that the Bank advance the proceeds of the Bond to The Bank of New York Trust Company, N.A., as trustee for the Prior Bonds to consummate the refunding and defeasance of the Prior Bonds.

ARTICLE 8.
LOAN PAYMENTS AND ADDITIONAL SUMS

SECTION 8.1 <u>Loan Payments.</u>

(a) The Borrower shall pay to the Bank, on behalf of the Issuer, the following sums as loan payments hereunder at the following times, in immediately available funds:

(i) on each Interest Payment Date during the term of this Agreement, an amount which is sufficient to pay the interest then due on the Bond. The amount of interest due shall be determined by the Bank and communicated in such manner as the Bank and the Borrower shall mutually agree;

(ii) on the maturity date of the Bond, the principal amount thereof then maturing; and

(iii) on the redemption dates established for the Bond to be redeemed pursuant to Section 6.1 hereof (if any), an amount equal to the redemption price due on such date.

(b) In any event, the sum of the Loan payments payable under this Section 8.1 shall be sufficient to pay the total amount due with respect to such principal and redemption price of and interest (including but not limited to interest and late charges payable pursuant to the Bond on any overdue amount) on the Bond, including any breakage fees due to the Bank, as and when due, and the Borrower shall forthwith pay any deficiency to the Bank. If at any time the Bond has been fully paid and discharged within the meaning of the terms hereof, the Borrower shall not be obligated to make any further payments under this Section.

(c) Payment by the Borrower of the loan payments set forth above shall be made by bank wire transfer in immediately available funds to such account or accounts of the Bank as the Bank shall designate or by debit of a deposit account maintained by the applicable Borrower with the Bank, in either case as the Bank and the Borrower shall agree.

SECTION 8.2 **Payment of Fees, Charges and Expenses.**

(a) The Borrower shall pay to, or upon the order of, the Issuer, upon request of the Issuer, such amounts required to pay the Issuer's customary administrative fees and to pay or reimburse its reasonable administrative expenses incurred from time to time in connection with the making by the Issuer of the Loan to the Borrower of the proceeds of the Bond and all other services or actions of the Issuer in connection with this Agreement.

(b) The Borrower will reimburse the Bank on demand for the reasonable costs and expenses, if any, of the Bank in connection with the enforcement of this Agreement and the Bond (including the reasonable fees and out-of-pocket expenses of legal counsel with respect thereto).

SECTION 8.3 **Maintenance of Loan Account.**

The Bank shall open and maintain on its books loan accounts (the "Loan Accounts") with respect to repayments, prepayments, the computation and payment of interest and fees and the computation and final payment of all other amounts due and sums paid to the Bank under this Agreement and the Bond. Unless the Borrower objects in writing to the information contained in a statement delivered to the Borrower by the Bank regarding the Loan Accounts within thirty (30) days of receipt of such statement, the information contained in such statement and in the Loan Accounts will, absent manifest error, be conclusive and binding on the Borrower as to the amount at any time due to the Bank from the Borrower under this Agreement and from the Issuer to the Bank under the Bond. The Issuer shall have the right to receive copies of all statements of the Bank with respect to the Loan Accounts upon its written request to the Bank.

SECTION 8.4 **Repayment.**

After payment in full of all sums due hereunder, the Bond shall be marked "paid in full" but retained by the Bank until the regular limitations period within which the Internal Revenue Service may claim the interest payable pursuant to the Bond to be not exempt from federal income taxes has elapsed without such claim being made. Notwithstanding such marking of the Bond or its return by the Bank, the Borrower shall remain liable for payment of sums, if any, required to be paid under this Agreement.

SECTION 8.5 **No Abatement or Setoff.**

The Borrower shall pay all loan payments and all additional sums required hereunder without suspension or abatement of any nature, notwithstanding that all or any part of the Borrower's facilities shall have been wholly or partially destroyed, damaged or injured and shall not have been repaired, replaced or rebuilt. So long as any portion of the Bond remains Outstanding, the obligation of the Borrower to pay all sums due from the Borrower hereunder shall be absolute and unconditional for which the Borrower pledges its full faith and credit and

shall not be suspended, abated, reduced, abrogated, waived, diminished or otherwise modified in any manner or to any extent whatsoever, regardless of any rights of setoff, recoupment or counterclaim that the Borrower might otherwise have against the Issuer, the Bank or any other party or parties and regardless of any contingency, act of god, event or cause whatsoever and notwithstanding any circumstances or occurrence that may arise or take place after the date hereof, including but without limiting the generality of the foregoing:

(a) any damage to or destruction of any part or all of the Borrower's facilities, including the Project Facilities;

(b) any assignment, novation, merger, consolidation, or transfer of assets, whether with or without the approval of the Issuer;

(c) any failure of the Issuer to perform or observe any agreement or covenant, whether express or implied, or any duty, liability or obligation arising out of or in connection with this Agreement and the Bond;

(d) any act or circumstances that may constitute an eviction or constructive eviction;

(e) failure of consideration or commercial frustration;

(f) any change in the tax laws or other laws of the United States or of any state or other governmental authority; or

(g) any determination that the Bond or the interest payable thereon are subject to Federal taxation.

ARTICLE 9.
COVENANTS AND AGREEMENTS OF ISSUER

SECTION 9.1 **Payment of the Bond.**

The Issuer covenants that it will promptly pay, or cause to be paid, the principal and redemption price of and interest on the Bond at the places, on the dates and in the manner provided herein and in the Bond according to the true intent and meaning thereof, but only from the amounts payable by the Borrower under this Agreement. It is hereby acknowledged and agreed that the Bond is a special obligation of the Issuer payable as above provided, shall not be in any way a debt or liability of the Commonwealth or any political subdivision thereof, except the non-recourse obligation of the Issuer, and shall not create or constitute any indebtedness, liability or obligation of the Commonwealth or any political subdivision thereof, except the non-recourse obligation of the Issuer, either legal, moral or otherwise. The Bond does not now and shall never constitute a charge against the general credit of the Issuer.

SECTION 9.2 **Bond Not to Become Taxable.**

The Issuer hereby covenants that, notwithstanding any other provision of this Agreement or any other instrument, it will not make any investment or other use of the proceeds of the Bond

which, if such investment or use had been reasonably expected on the date of issue of the Bond, would cause the Bond to be "arbitrage bonds" under Section 148 of the Code and the regulations promulgated thereunder; that it will comply with the requirements of such Section 148 and regulations throughout the term of the Bond; and that it will not take or omit to take any action over which it has control, which action or omission, as the case may be, would impair the exclusion from gross income for federal income tax purposes of the interest on the Bond. The terms and provisions of the Tax Agreement are hereby incorporated by reference.

SECTION 9.3 Performance of Covenants.

The Issuer covenants that it will faithfully perform at all times all covenants, undertakings, stipulations and provisions contained in this Agreement, in the Bond and in all proceedings of the Issuer pertaining thereto.

SECTION 9.4 Priority of Pledge.

The pledge herein made of certain payments made by the Borrower hereunder shall at no time be impaired by the Issuer and such payments shall not otherwise be pledged and no persons shall have any rights with respect thereto except as provided herein.

SECTION 9.5 Rights Under Agreement.

The Issuer and the Borrower agree that the Bank may, as owner of the Bond, in its own name or to the extent permitted by law in the name of the Issuer, enforce all rights of the Issuer and all obligations of the Borrower under and pursuant to this Agreement (except the Reserved Rights of the Issuer, and the obligations of the Borrower related thereto, that are not assigned for the benefit of the Bank as specified in Section 10.6 hereof) for and on behalf of the Bank, whether or not the Issuer is in default hereunder.

SECTION 9.6 Assignment to Bank.

(a) As security for the performance of the Issuer's obligations hereunder and with respect to the Bond, the Issuer hereby pledges, assigns and conveys to the Bank, and grants to the Bank a security interest in, all right, title and interest of the Issuer in and to this Agreement, and all sums payable in respect of the indebtedness of the Borrower evidenced hereby, other than the Reserved Rights of the Issuer. The Issuer directs that all payments by the Borrower hereunder (except for payments to the Issuer pursuant to Sections 8.2 or 15.6 hereof) be paid directly to the Bank. If, notwithstanding these arrangements, the Issuer shall receive any such payments, the Issuer shall immediately pay over the same to the Bank.

(b) The Borrower consents to such assignment and, except as otherwise provided in subsection (a) hereof, agrees to pay all amounts payable hereunder directly to the Bank.

SECTION 9.7 Instruments of Further Assurance.

The Issuer covenants that it will do, execute, acknowledge and deliver or cause to be done, executed, acknowledged and delivered, such agreements supplemental hereto and such further acts, instruments and documents as the Bank may reasonably require for the better

assuring, transferring, conveying, pledging and assigning to the Bank the rights assigned hereby for the payment of the principal or redemption price of and interest on the Bond.

SECTION 9.8 **Continued Existence, etc.**

The Issuer agrees that it will do or cause to be done in a timely manner all things necessary to preserve and keep in full force and effect its existence so long as the Bond remains Outstanding and to carry out the terms of this Agreement.

SECTION 9.9 **General Compliance with All Duties.**

The Issuer shall faithfully and punctually perform all duties, with respect to the Project required by the Constitution and laws of the Commonwealth, and by the terms and provisions of this Agreement.

SECTION 9.10 **Arbitrage Bond Covenant**

The Issuer hereby covenants to abide by the representations and agreements made by the Issuer in the Tax Agreement, the terms and provisions of which are herein incorporated by reference.

SECTION 9.11 **Enforcement of Duties and Obligations of the Borrower.**

The Issuer may, and at the written direction of the Bank shall, take any legally available action to cause the Borrower to fully perform all duties and acts and fully comply with the covenants of the Borrower imposed by this Agreement in the manner and at the times provided therein. So long as no Event of Default hereunder shall have occurred and be continuing, the Issuer may exercise all its rights under this Agreement, but the Issuer shall not, without the consent of the Bank, amend any of the same so as to diminish the amounts payable thereunder or otherwise so as to adversely affect the Issuer’s or the Borrower’s ability to perform its covenants under this Agreement.

SECTION 9.12 **Inspection of Books.**

The Issuer covenants and agrees that all books and documents in its possession relating to the Project and the Bond shall at all reasonable times be open to inspection by such accountants or other agents as the Bank or the Borrower may from time to time designate.

SECTION 9.13 **Filing and Recording.**

The Issuer, as directed by the Bank, shall cause all documents, statements, memoranda or other instruments to be registered, filed or recorded in such manner and at such places as may be required by law fully to protect the security of the Bank and the right, title and interest of the Bank in and to any moneys or securities held hereunder or any part thereof (including any refilings, continuation statements or such other documents as may be required).

ARTICLE 10.
COVENANTS OF THE BORROWER

SECTION 10.1 **Bond Not to Become Taxable.**

The Borrower hereby covenants to the Issuer and to the Bank that, notwithstanding any other provision of this Agreement or any other instrument, they will not make any investment or other use of the proceeds of the Bond which, if such investment or use had been reasonably expected on the date of issue of the Bond, would cause the Bond to be an "arbitrage bond" under Section 148 of the Code and the regulations promulgated thereunder; that it will comply with the requirements of Sections 103 and 141 through 150 of the Code and any regulations applicable thereto throughout the terms of the Bond; and that it will not take or omit to take any action over which it has control, which action or omission, as the case may be, would impair the exclusion from gross income for federal income tax purposes of the interest on the Bond. The terms and provisions of the Tax Agreement are hereby incorporated by reference.

SECTION 10.2 **Deficiencies in Revenues.**

If for any reason amounts paid by the Borrower hereunder would not be sufficient to make payments of principal of and interest on the Bond when and as the same shall become due and payable at maturity or otherwise, the Borrower will pay promptly the amounts required from time to time to make up any such deficiency.

SECTION 10.3 **Financial Statements.**

The Borrower shall deliver to the Bank (which delivery may be effected by posting on Intralinks or filing with the SEC), in form and detail satisfactory to the Bank:

(a) as soon as available, but in any event (i) not later than the date provision thereof is required by the SEC (so long as the Borrower remains a reporting company under the applicable Securities Laws and (ii) if the Borrower is no longer such a reporting company, by such dates as would be required if the Borrower were a reporting Borrower and not an "accelerated filer" within the meaning of Rule 12b-2 of the Securities Exchange Act of 1934, as amended (the "SEC Required Filing Date"), a consolidated balance sheet of the Borrower as at the end of such fiscal year, and the related consolidated statements of income or operations, shareholders' equity and cash flows for such fiscal year, setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail and prepared in accordance with GAAP, such consolidated statements to be audited and accompanied by (i) a report and opinion of a Registered Public Accounting Firm of nationally recognized standing reasonably acceptable to the Bank, which report and opinion shall be prepared in accordance with generally accepted auditing standards and applicable Securities Laws and shall not be subject to any "going concern" or like qualification or exception or any qualification or exception as to the scope of such audit and (ii) an attestation report of such Registered Public Accounting Firm as to the Borrower's internal controls pursuant to Section 404 of Sarbanes-Oxley expressing no concern that would result in such firm's inability to issue a clean and unqualified audit opinion;

(b) as soon as available, but in any event not later than the SEC Required Filing Date for each fiscal quarter of each fiscal year of the Borrower a balance sheet of the Borrower and its Subsidiaries as at the end of such fiscal quarter, and the related statements of income or operations, shareholders' equity and cash flows for such fiscal quarter and for the portion of the Borrower's fiscal year then ended, setting forth in each case in comparative form the figures for the corresponding fiscal quarter of the previous fiscal year and the corresponding portion of the previous fiscal year, all in reasonable detail, such consolidated statements to be certified by an Authorized Officer of the Borrower as fairly presenting the financial condition, results of operations, shareholders' equity and cash flows of the Borrower in accordance with GAAP, subject only to normal year-end audit adjustments and the absence of footnotes; and

(c) as soon as available, but in any event no later than seventy-five (75) days after the end of each fiscal year of the Borrower, forecasts prepared by management of the Borrower, in form reasonably satisfactory to the Bank, of consolidated balance sheets and statements of income or operations and cash flows of the Borrower on a quarterly basis for the immediately following fiscal year (including the fiscal year in which the Bond matures).

As to any information contained in materials furnished pursuant to Section 10.4(b) herein, the Borrower shall not be separately required to furnish such information under Section 10.3 (a) or (b), but the foregoing shall not be in derogation of the obligation of the Borrower to furnish the information and materials described in Section 10.3(a) and (b) at the times specified therein.

SECTION 10.4 <u>Certificates; Other Information.</u>

(a) The Borrower shall deliver to the Bank, including by filing with the SEC, in form and detail reasonably satisfactory to the Bank:

(i) concurrently with the delivery of the financial statements referred to in Section 10.3(a), a certificate of its independent certified public accountants certifying such financial statements and stating that, in the course of its regular audit of the financial statements of the Borrower and its Subsidiaries, which audit was conducted in accordance with generally accepted auditing standards, but without independent investigation, such accounting firm obtained no knowledge that any Event of Default insofar as it relates to financial or accounting matters has occurred or, if in the opinion of such accounting firm such an Event of Default has occurred, specifying the nature and extent thereof;

(ii) concurrently with the delivery of the financial statements referred to in Section 10.3(a) and (b), a duly completed Compliance Certificate signed by an Authorized Officer of the Borrower;

(iii) promptly after any request by the Bank, copies of any detailed audit reports, management letters or recommendations submitted to the board of directors (or the audit committee of the board of directors) of the Borrower by independent accountants in connection with the accounts or books of the Borrower, or any audit of any of them;

(iv) promptly after the same are available, copies of each annual report, proxy or financial statement or other report or communication sent to the stockholders of the Borrower, and copies of all annual, regular, periodic and special reports and registration statements which the Borrower may file or be required to file with the SEC including without limitation (i) under Section 13 or 15(d) of the Securities Exchange Act of 1934, and (ii) with respect to any Internal Control Event required to be so disclosed, in each case, not otherwise required to be delivered to the Bank pursuant to this Agreement;

(v) promptly after the furnishing thereof, copies of any statement (other than administrative notices) or report furnished to any holder of debt securities of any Borrower or any Subsidiary, the aggregate principal amount outstanding of which is not less than $5,000,000, pursuant to the terms of any indenture, loan or credit or similar agreement and not otherwise required to be furnished to the Bank pursuant to Section 10.3 or any other clause of this Section 10.4;

(vi) promptly, and in any event within five Business Days after receipt thereof by the Borrower, copies of each notice or other correspondence received from the SEC (or comparable agency in any applicable non-U.S. jurisdiction) concerning any investigation or possible investigation or other inquiry (other than routine communications regarding the Borrower's filings with the SEC or such agency) by such agency regarding financial or other operational results of the Borrower; and

(vii) promptly, such additional information regarding the business, financial or corporate affairs of the Borrower, or compliance with the terms of this Agreement, as the Bank may from time to time reasonably request.

(b) Documents required to be delivered pursuant to Section 10.3 (Financial Statements) or Section 10.4 (Certificates; Other Information) may be delivered electronically and if so delivered, shall be deemed to have been delivered on the date (i) on which the Borrower posts such documents, or provides a link thereto on the Borrower's website on the Internet; or (ii) on which such documents are posted on the Borrower's behalf on an Internet or intranet website, if any, to which the Bank has access (whether a commercial or third-party website); provided that: (i) the Borrower shall deliver paper copies of such documents to the Bank upon request until the Borrower receives a written request to cease delivering paper copies and (ii) the Borrower shall notify the Bank (by telecopier or electronic mail) of the posting of any such documents and provide to the Bank by electronic mail electronic versions (i.e. , soft copies) of such documents. Notwithstanding anything contained herein, in every instance the Borrower shall be required to provide paper copies of the Compliance Certificates required by Section 10.4(a)(ii) to the Bank. Except for the Compliance Certificates required by Section 10.4(a)(i), the Bank shall have no obligation to request the delivery or to maintain copies of the documents referred to above, and in any event shall have no responsibility to monitor compliance by the Borrower with any such request for delivery, and the Bank shall be solely responsible for requesting delivery to it or maintaining its copies of such documents.

SECTION 10.5 Notices.

The Borrower shall promptly notify the Bank:

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

(b) of any matter that, individually or in the aggregate, has resulted or could reasonably be expected to result in a Material Adverse Effect, including (i) breach or non-performance of, or any default under, a Contractual Obligation of the Borrower; (ii) any dispute, litigation, investigation, proceeding or suspension between the Borrower and any Governmental Authority; or (iii) the commencement of, or any material development in, any litigation or proceeding affecting the Borrower, including pursuant to any applicable Environmental Laws, in each case for clauses (i) through (iii) above, individually or collectively, that has resulted or could reasonably be expected to result in a Material Adverse Effect;

(c) of the occurrence of any ERISA Event;

(d) of any material change in accounting policies by the Borrower or any Subsidiary; or

(e) of the occurrence of any Internal Control Event.

Each notice pursuant to this Section shall be accompanied by a statement of an Authorized Officer of the Borrower setting forth details of the occurrence referred to therein and stating what action the Borrower has taken and proposes to take with respect thereto. Each notice pursuant to Section 10.5(a) shall describe with particularity any and all provisions of this Agreement and any other Borrowers Financing Documents that have been breached.

SECTION 10.6 Compliance with Applicable Laws.

Comply in all material respects with the requirements of all Laws and all orders, writs, injunctions and decrees applicable to it or to its business or property, except in such instances in which (a) such requirement of Law or order, writ, injunction or decree is being contested in good faith by appropriate proceedings diligently conducted; or (b) the failure to comply therewith could not reasonably be expected to have a Material Adverse Effect.

SECTION 10.7 Corporate Existence.

The Borrower covenants that it will preserve, renew and maintain in full force and effect its legal existence and good standing under the laws of the Commonwealth and shall take all reasonable action to maintain all rights, privileges, permits, licenses and franchises necessary or desirable in the normal conduct of its business, except to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect.

SECTION 10.8 Inspection.

The Borrower covenants that the Issuer, by its duly authorized representatives, and the Bank, for purposes of determining compliance with this Agreement or any of the Borrower Financing Documents or to examine the Borrower’s corporate, financial and operating records, and to make copies thereof or abstracts therefrom, and to discuss the Borrower’s affairs, finances and accounts with its designated officers, all at the expense of the Bank at such reasonable times

during normal business hours and as often as may be reasonably desired, upon at least three (3) Business Days' advance notice to the Borrower provided, however, that when an Event of Default exists the Bank (or any of their respective representatives or independent contractors) may do any of the foregoing at the expense of the Borrower at any time during normal business hours and without advance notice.

SECTION 10.9 Additional Information.

The Borrower, whenever requested by the Issuer, will provide and certify or cause to be provided and certified such information as the Issuer may reasonably require concerning the Borrower, the finances of the Borrower and other topics as the Issuer considers necessary to enable it to make any reports or supply any information required by this Agreement, law, governmental regulation or otherwise.

SECTION 10.10 Payment of Taxes and Impositions.

The Borrower shall pay or cause to be paid to the public officers charged with the collection thereof, promptly as the same become due, all taxes (or contributions or payments in lieu thereof), including but not limited to income, profits or property taxes, which may now or hereafter be imposed by the United States of America, any state or municipality or any political subdivision or subdivisions thereof, and all assessments for public improvements or other assessments, levies, license fees, charges for publicly supplied water or sewer services, excises, franchises, imposts and charges, general and special, ordinary and extraordinary (including interest, penalties and all costs resulting from delayed payment of any of the foregoing) of whatever name, nature and kind and whether or not now within the contemplation of the parties, hereto, which are now or may hereafter be levied, assessed, charged or imposed or which are or may become a lien upon the revenues of the Borrower, the Borrower's facilities, the use or occupation thereof or upon the Borrower or the Issuer, or upon any franchises, businesses, transactions, income, earnings and receipts (gross, net or otherwise) of the Issuer in connection with this Agreement for payment or collection of which the Issuer otherwise would be liable or accountable under any lawful authority whatever; provided, however, that the Borrower shall not be required to pay or discharge or cause to be paid or discharged any tax, assessment, lien or other matter hereunder so long as the validity thereof is being contested by the Borrower in good faith and by appropriate legal proceedings diligently pursued and neither the Borrower's facilities nor any rent or income therefrom would be in any immediate danger of being sold, forfeited, attached or lost. The Borrower will, upon request, provide the Issuer and the Bank with copies of any tax returns and receipts for payments of taxes.

SECTION 10.11 [Reserved].

SECTION 10.12 Further Assurances; Financing Statements.

The Borrower shall perform or cause to be performed any such acts, and execute and cause to be executed any and all further instruments as may be required by law or as shall reasonably be requested by the Issuer or the Bank to carry out or effect the terms of this Agreement. The Borrower, if required by the Bank, will join with the Issuer and the Bank in executing such financing statements and other documents under the Uniform Commercial Code

as in effect in the Commonwealth or other applicable law as the Issuer or Bank may specify and will pay the costs of filing the same in such public offices as the Issuer or Bank shall designate, in order to preserve the security interests of the Issuer granted under this Agreement.

SECTION 10.13 Use of Project.

The Borrower shall use or cause the Borrower to uses the Project Facilities to be used as an authorized project for a purpose and use as provided for under the Act and for the use set forth in the Application until payment of the Bond.

SECTION 10.14 Nondiscrimination Clause.

During the term of this contract, the Borrower agrees, as to itself and each Affiliate which is an occupant of the Project Facilities (each being referred to hereinafter, for purposes of this Section, as a "Contractor") as follows:

(a) No Contractor shall discriminate against any employee, applicant for employment, independent contractor or any other person because of race, color, religious creed, handicap, ancestry, national origin, age or sex. Each Contractor shall take affirmative action to insure that applicants are employed, and that employees or agents are treated during employment, without regard to their race, color, religious creed, handicap, ancestry, national origin, age or sex. Such affirmative action shall include, but is not limited to: employment; upgrading demotion or transfer; recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training. Each Contractor shall post in conspicuous places, available to employees, agents, applicants for employment and other persons, a notice to be provided by the contracting agency setting forth the provisions of this nondiscrimination clause.

(b) Each Contractor shall, in advertisements or requests for employment placed by it or on its behalf, state that all qualified applicants will receive consideration for employment without regard to race, color, religious creed, handicap, ancestry, national origin, age, or sex.

(c) Each Contractor shall send each labor union or workers' representative with which it has a collective bargaining agreement or other contract or understanding, a notice advising said labor union or workers' representative of its commitment to this nondiscrimination clause. Similar notice shall be sent to every other source of recruitment regularly utilized by each Contractor.

(d) It shall be no defense to a finding of noncompliance with this nondiscrimination clause that any Contractor had delegated some of its employment practices to any union, training program or other source of recruitment which prevents it from meeting its obligations. However, if the evidence indicates that a Contractor was not on notice of the third-party discrimination or made a good faith effort to correct it, such factor shall be considered in mitigation in determining appropriate sanctions.

(e) Where the practices of a union or of any training program or other source of recruitment will result in the exclusion of minority group persons, so that a Contractor will be

unable to meet its obligations under this nondiscrimination clause, Contractor shall then employ and fill vacancies through other nondiscriminatory employment procedures.

(f) Each Contractor shall comply with all state and federal laws prohibiting discrimination in hiring or employment opportunities. In the event of a Contractor's noncompliance with the nondiscrimination clause of this contract or with any such laws, the maturity of the indebtedness to the Issuer entered into pursuant to this Agreement may be accelerated, and such Contractor may be declared temporarily ineligible for further Commonwealth contracts, and other sanctions may be imposed and remedies invoked.

(g) Each Contractor shall furnish all necessary employment documents and records to, and permit access to its books, records and accounts by, the Issuer or the Pennsylvania Department of Commerce for purposes of investigation to ascertain compliance with the provisions of this clause. If any Contractor does not possess documents or records reflecting the necessary information requested, it shall furnish such information on reporting forms supplied by the Issuer or such Department.

(h) Each Contractor shall actively recruit minority subcontractors and women subcontractors or subcontractors with substantial minority or women representation among their employees.

(i) Each Contractor shall include the provisions of this nondiscrimination clause in every subcontract, so that such provisions will be binding upon each subcontractor.

(j) The obligations of each Contractor under this clause are limited to its facilities within Pennsylvania.

SECTION 10.15 Maintenance of Project Facility

The Borrower shall maintain, preserve and protect all of its material properties and equipment necessary in the operation of its business in good working order and condition, ordinary wear and tear excepted; and make all necessary repairs thereto and renewals and replacements thereof except where the failure to do so could not reasonably be expected to have a Material Adverse Effect; and use the standard of care typical in the relevant industries and countries in the operation and maintenance of its facilities.

SECTION 10.16 Books and Records.

The Borrower shall (a) maintain proper books of record and account, in which full, true and correct entries in conformity with GAAP consistently applied shall be made of all financial transactions and matters involving the assets and business of the Borrower, as the case may be; and (b) maintain such books of record and account in material conformity with all applicable requirements of any Governmental Authority having regulatory jurisdiction over the Borrower.

ARTICLE 11.
NEGATIVE COVENANTS

SECTION 11.1 Liens.

The Borrower shall not create, incur, assume or suffer to exist any Lien upon any of its property, assets or revenues, whether now owned or hereafter acquired, other than the following:

(a) Liens pursuant to the Borrower Financing Documents;

(b) Liens existing on the date hereof and listed on Schedule 11.1 and any renewals or extensions thereof, provided that (i) the property covered thereby is not changed, (ii) the amount secured or benefited thereby is not increased, and (iii) the direct or any contingent obligor with respect thereto is not changed;

(c) Liens for taxes not yet due or which are being contested in good faith and by appropriate proceedings diligently conducted, if adequate reserves with respect thereto are maintained on the books of the applicable Person in accordance with GAAP;

(d) carriers', warehousemen's, mechanics', materialmen's, repairmen's or other like Liens arising in the ordinary course of business which are not overdue for a period of more than 30 days or which are being contested in good faith and by appropriate proceedings diligently conducted, if adequate reserves under GAAP with respect thereto are maintained on the books of the applicable Person;

(e) pledges or deposits in the ordinary course of business in connection with workers' compensation, unemployment insurance and other social security legislation, other than any Lien imposed by ERISA;

(f) deposits to secure the performance of bids, trade contracts, liability to insurance carriers and leases (other than Indebtedness), statutory obligations, surety and appeal bonds, performance bonds, contractual or warranty obligations and other obligations of a like nature incurred in the ordinary course of business;

(g) easements, rights-of-way, restrictions and other similar encumbrances affecting real property which, in the aggregate, are not substantial in amount, and which do not in any case materially detract from the value of the property subject thereto or materially interfere with the ordinary conduct of the business of the applicable Person;

(h) Liens securing judgments for the payment of money not constituting an Event of Event of Default;

(i) usual and customary rights of set off on deposit accounts in favor of depositary institutions;

(j) Liens securing Indebtedness; provided that (i) such Liens do not at any time encumber any property other than the property financed by such Indebtedness and (ii) the

Indebtedness secured thereby does not exceed the cost or fair market value, whichever is lower, of the property being acquired on the date of acquisition;

(k) [Reserved]; and

(l) Liens not otherwise permitted by the foregoing clauses of this Section 11.1 securing obligations in an aggregate principal amount at any time outstanding (including unmatured obligations) not to exceed $2,000,000.

SECTION 11.2 [Reserved]

SECTION 11.3 [Reserved]

SECTION 11.4 Fundamental Change.

The Borrower shall not permit to occur or enter into any Fundamental Change without the prior written consent of the Bank, which consent shall not unreasonably be withheld.

SECTION 11.5 [Reserved]

SECTION 11.6 [Reserved]

SECTION 11.7 [Reserved]

SECTION 11.8 [Reserved]

SECTION 11.9 Financial Covenants.

The Borrower shall not:

(a) **Consolidated Interest Coverage Ratio**. Permit the Consolidated Interest Coverage Ratio as of the end of any fiscal quarter of the Company to be less than 2.50 to 1.00; or

(b) **Consolidated Leverage Ratio**. Permit the Consolidated Leverage Ratio at any time during any period of four fiscal quarters of the Company to be greater than 3.50 to 1.00.

SECTION 11.10 Capital Expenditures.

The Borrower shall not make or become legally obligated to make any Capital Expenditure (excluding normal replacements and maintenance which are properly charged to current operations), except for Capital Expenditures in the ordinary course of business not exceeding, in the aggregate for the Borrower during each fiscal year, $15,000,000. To the extent any portion of the amount of permitted Capital Expenditures is not used in any fiscal year, such amount may be carried over to the next fiscal year, but in no event shall the aggregate amount of Capital Expenditures in any fiscal year, including such amount carried over, exceed $30,000,000. In addition to the foregoing, the Borrower may make Capital Expenditures with the proceeds from the asset sales not prohibited hereunder and insurance and condemnation events, for the purpose of replacing the related assets sold, lost or condemned.

SECTION 11.11 [Reserved]

ARTICLE 12.
LIMITED OBLIGATION

SECTION 12.1 Source of Payment of the Bond.

The Bond and all payments by the Issuer thereunder are not general obligations of the Issuer but are limited obligations payable by the Issuer solely from the revenues and receipts derived by the Issuer pursuant to this Agreement. The Bond and the interest thereon shall not be deemed to constitute a debt, liability, general obligation or a pledge of the faith and credit or the taxing power of the Commonwealth or any political subdivision thereof, and do not directly, indirectly or contingently obligate the Commonwealth or any political subdivision thereof to levy or to pledge any form of taxation whatever for the payment of said principal and interest. Any liability of any kind whatsoever incurred by the Issuer under or by reason of this Agreement shall be payable solely from the proceeds of the Bond and from revenues to be received by the Issuer under the provisions of this Agreement and not from any other fund or source. Notwithstanding anything in any Borrower Financing Document to the contrary, no recourse shall be had against any assets of the Issuer other than its rights under this Agreement and the other Borrower Financing Documents.

ARTICLE 13.
EVENTS OF DEFAULT AND REMEDIES

SECTION 13.1 Events of Default.

Each of the following shall be an “Event of Default” under this Agreement:

(a) Failure to pay any interest on the Bond prior to the tenth Business Day following any Interest Payment Date; or failure to pay any principal or redemption price of the Bond when due, whether by redemption or at the Stated maturity thereof, by acceleration or otherwise; or

(b) Failure to perform or observe any other of the covenants, agreements or conditions on the part of the Issuer or the Borrower contained in this Agreement including, without limitation, the failure of the Borrower to observe its covenants contained in Section 15.6 hereunder; provided, however, that if such failure shall be curable, no such failure shall constitute an Event of Default hereunder unless and until the Borrower shall have become aware of such failure (or should have become so aware with the exercise of reasonable diligence) and shall not have cured such failure within thirty (30) days; or

(c) The Borrower or the Issuer shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking position by any such official in an involuntary case or other proceeding commenced

against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due, or shall take any corporate action to authorize any of the foregoing; or

(d) An involuntary case or other proceeding shall be commenced against the Borrower or the Issuer seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 60 days; or an order for relief shall be entered against the Borrower or the Issuer under the Federal bankruptcy laws as now or hereafter in effect; or

(e) If the Borrower shall fail to pay any obligation for the payment of borrowed money or the installment purchase price of property or on account of a lease of property, in the amount of $5,000,000 or more (a “Credit Obligation”) owing by it, or any interest or premium thereon, when due, whether such Credit Obligation shall become due by scheduled maturity, by required prepayment, by acceleration, by demand or otherwise, or the Borrower shall fail to perform any term, covenant or agreement on its part to be performed under any agreement or instrument evidencing or securing or relating to any such Credit Obligation when required to be performed, if the effect of such failure is to accelerate, or to permit the holder or holders of such Credit Obligation to accelerate, the maturity of such Credit Obligation, whether or not such failure to perform shall be waived by the holder or holders of such Credit Obligation, unless such waiver has the effect of terminating the right of such holder or holders to accelerate the maturity of such Credit Obligation as a result of such failure; or

(f) If any default shall occur with respect to any other indebtedness of the Borrower to the Bank; or

(g) If any representation or warranty by or on behalf of the Borrower made herein or in any report, certificate, financial statement or other instrument, including the Application, shall prove to be false or misleading in any material respect when made.

SECTION 13.2 Acceleration.

If any Event of Default under clause (d) or (e) of Section 13.1 occurs, then the principal of the Bond then Outstanding, together with interest accrued thereon, shall become due and payable immediately without notice or demand. Upon the occurrence of any Event of Default under Section 13.1 other than an Event of Default under clause (d) or (e), the Bank may, by notice in writing delivered to the Issuer and the Borrower, declare the principal of the Bond and the interest accrued thereon to the date of such acceleration immediately due and payable, and the same shall thereupon become and be immediately due and payable. Upon any acceleration of the Bond under this Section 13.2, the all amounts payable under Section 8.1 hereof shall be immediately due and payable.

SECTION 13.3 Legal Proceedings by Bank.

Upon the occurrence of any Event of Default under Section 13.1 hereof, the Bank may:

(a) by mandamus, or other suit, action or proceeding at law or in equity, enforce all of its rights as owner of the Bond, and require the Borrower to carry out any other agreements with or for the benefit of the owner of the Bond;

(b) bring suit upon the Bond;

(c) by action or suit in law or equity enjoin any acts or things which may be unlawful or in violation of the rights of the owner of the Bond; or

No remedy conferred upon or reserved to the Bank is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Bank hereunder or now or hereafter existing at law, in equity or by statute. Nothing herein contained shall affect or impair the right of action, which is absolute and unconditional, of the owner of the Bond to institute suits to enforce payment thereof.

No delay or omission to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or acquiescence therein; and every such right and power may be exercised from time to time and as often as may be deemed expedient.

No waiver of any Event of Default hereunder shall extend to or shall affect any subsequent Event of Default or shall impair any rights or remedies consequent thereon.

SECTION 13.4 Application of Moneys.

All moneys received by the Bank upon the exercise of any remedies provided in Section 13.3 hereof shall be applied first to any fees and expenses due under this Agreement then to the payment of the principal, redemption price and interest then due and unpaid upon, the Bond (together with interest on overdue installments of principal and, to the extent permitted by law, on any overdue interest, at the rate per annum specified in the Bond for such overdue installments).

SECTION 13.5 Termination of Proceedings.

In case the Bank shall have proceeded to enforce any right under this Agreement, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely, then and in every such case the Issuer, the Bank and the Borrower shall be restored to their former positions and rights hereunder, and all rights, remedies and powers of the Bank shall continue as if no such proceedings had been taken.

SECTION 13.6 Waivers of Events of Default; Rescission of Declaration of Maturity.

The Bank may waive any Event of Default under the Agreement and its consequences, or rescind any declaration of maturity of principal of the Bond. In case of any such waiver or rescission, then and in every such case the Issuer, the Borrower and the Bank, respectively, shall be restored to their former positions and rights under the Agreement, but no such waiver or rescission shall extend to any subsequent or other default, or impair any right consequent

thereon. All waivers under this Agreement shall be in writing and a copy of each waiver affecting the Bond shall be delivered to the Issuer and the Borrower.

SECTION 13.7 Notice of Defaults; Opportunity of the Borrower to Cure Defaults.

Anything herein to the contrary notwithstanding, no default specified in Sections 13.1(b) or 13.1(h) shall constitute an Event of Default until notice of such default shall have been received by the Borrower and, if such default shall be curable, the Borrower shall have had thirty days after receipt of such notice to correct said default or cause said default to be corrected, and shall not have corrected said default or caused said default to be corrected within the applicable period.

SECTION 13.8 [Reserved]

ARTICLE 14.
AMENDMENTS TO AGREEMENT

SECTION 14.1 Amendments to Agreement.

This Agreement may be amended only by the written agreement of the Issuer, the Borrower and the Bank, except that any of the covenants and agreements of the Borrower set forth in Sections 10.2, 10.3, 10.4, 10.5, 10.8, 10.11 and 10.12 (except with respect to reports or notices required to be delivered to the Issuer) and Article 11 hereof may be amended by the Borrower and the Bank, without the consent of the Issuer; provided, however, that prompt written notice of any such amendment shall be provided to the Issuer.

ARTICLE 15.
MISCELLANEOUS

SECTION 15.1 Limitation of Rights.

With the exception of rights herein expressly conferred, nothing expressed or mentioned in or to be implied from this Agreement, or the Bond, is intended or shall be construed to give to any Person, other than the Issuer, the Borrower and the Bank, any legal or equitable right, remedy or claim under or in respect to this Agreement or any covenants, conditions and provisions herein contained; this Agreement and all of the covenants, conditions and provisions hereof being intended to be and being for the sole and exclusive benefit of the Issuer, the Borrower and the Bank as herein provided.

SECTION 15.2 Severability.

If any provision of this Agreement shall be held or deemed to be or shall, in fact, be inoperative or unenforceable as applied in any particular case in any jurisdiction or jurisdictions or in all jurisdictions, or in all cases, because it conflicts with any other provision or provisions hereof or any Constitution or statute or rule of public policy, or for any other reason, such circumstances shall not have the effect of rendering the provision in question inoperative or

unenforceable in any other case or circumstance, or of rendering any other provision or provisions herein contained invalid, inoperative, or unenforceable to any extent whatever.

The invalidity of any one or more phrases, sentences, clauses or Sections in this Agreement contained, shall not affect the remaining portions of this Agreement, or any part thereof.

SECTION 15.3 Notices.

All notices and directions to any party to this Agreement shall be in writing, and, except as otherwise provided, shall be deemed to be sufficiently given if sent registered or certified mail, by telecopy, by overnight national courier service with charges prepaid, or by delivery during business hours to the parties, at the following addresses:

Borrower:

Quaker Chemical Corporation
901 Hector Street Conshohocken, PA 19428
Attention: Neal E. Murphy, Vice President, Chief Financial Officer
Fax: ____________

Issuer:

Montgomery County Industrial Development Authority
1430 Dekalb Street
Norristown, PA 19404
Attn: Gerald J. Birkelbach, Executive Director
Fax: 610-278-5944

Bank:

Brown Brothers Harriman & Co.
1531 Walnut Street Philadelphia,
Pennsylvania 19102
Attention: John H. Wert, Jr., Senior Vice President
Fax: 215-864-3989

or to such other address as the addressee shall have indicated by prior notice to the one giving the notice or direction in question. Any notice required to be sent to the owner of the Bond shall be sent to such owner at the address as shown on the registration books maintained by the Borrower with respect to the Bond.

SECTION 15.4 Acts of Owner of the Bond.

Any action to be taken by the Bank, as the owner of the Bond, may be evidenced by a written instrument signed or executed by the Bank in person or by an agent appointed in writing. The fact and date of the execution by any Person of any such instrument may be proved by

acknowledgment before a notary public or other officer empowered to take acknowledgments or by an affidavit of a witness to such execution. Any action by the owner of the Bond shall bind any future owner of the Bond.

SECTION 15.5 Exculpation of Issuer.

(a) In the exercise of the power of the Issuer and its members, officers, employees and agents hereunder, including (without limiting the foregoing) the application of moneys and any action taken by it in the Event of Default by the Borrower, neither the Issuer nor its members, officers, employees, or agents shall be accountable to the Borrower or the Bank for any action taken or omitted by it or its members, officers, employees and agents in good faith. The Issuer and its members, officers, employees, or agents shall be protected in its or their acting upon any paper or document believed by it or them to be genuine, and it or they may conclusively rely upon the advice of counsel (who may also be counsel for the Borrower or the Bank) and may (but need not) require further evidence of any fact or matter before taking any action.

(b) All covenants, stipulations, promises, agreements and obligations of the Issuer contained in this Agreement, the Bond or any agreement, instrument or certificate entered into or delivered by the Issuer in connection therewith shall be deemed to be the covenants, stipulations, promises, agreements and obligations of the Issuer and not of any member, officer, employee or agent of the Issuer in an individual capacity, and no recourse shall be had for the payment of the Bond or for any claim based thereon or under this Agreement or any agreement, instrument or certificate entered into by the Issuer in connection therewith against any member, officer, employee or agent in an individual capacity.

SECTION 15.6 Indemnification Concerning the Project; Accuracy of Application and Information in Connection Therewith.

(a) The Borrower covenants and agrees, at its expense, to pay and to indemnify and save the Indemnified Parties harmless of, from and against, any and all claims, damages, demands, expenses, liabilities, and losses of every kind, character and nature asserted by or on behalf of any Person arising out of, resulting from or in any way connected with the condition, use, possession, conduct, management, planning, design, acquisition, construction, installation, financing or sale of, the Project, or any part thereof, except for any claim, damage, demand, expense, liability or loss arising out of the Indemnified Parties' own gross negligence or willful misconduct.

(b) The Borrower agrees to indemnify and hold harmless the Indemnified Parties against any and all losses, claims, damages or liabilities caused by any untrue statement or alleged untrue statement of a material fact contained in the Application and pertaining to the Borrower or the Project or in information submitted to the Issuer or the Bank by the Borrower with respect to the issuance and purchase of the Bond in the Application or otherwise (the "Borrower Information") or caused by any omission or alleged omission of any material fact necessary to be stated in the Borrower Information in order to make such statements in the Application and pertaining to the Borrower Information not misleading or incomplete. The Borrower shall not, however, indemnify the Issuer or the Bank against claims based upon the bad

faith, fraud or deceit of an Indemnified Party or due to an Indemnified Party's gross negligence or willful misconduct.

(c) In case any action shall be brought against the Indemnified Parties based upon any of the above and in respect to which indemnity may be sought against the Borrower, the party involved may request in writing that the Borrower assume the defense thereof, including the employment of counsel satisfactory to such party, the payment of all reasonable costs and expenses and the right to negotiate and consent to settlement. Any one or more of the Indemnified Parties shall have the right to employ separate counsel in any such action, to participate in defense thereof and the Borrower shall assume the payment of all reasonable costs and expenses with respect thereto. The Borrower shall not be liable for any settlement of any such action effected without its consent, but if settled with the consent of the Borrower or if there be a final judgment for the plaintiff in any such action, the Borrower agrees to indemnify and hold harmless the Indemnified Parties from and against any loss or liability by reason of such settlement or judgment.

(d) Any provision herein or elsewhere to the contrary notwithstanding, this Section 15.6 shall survive the termination of this Agreement.

(e) The Borrower will reimburse the Issuer for the reasonable costs and expenses (including reasonable attorneys fees and expenses) of any action taken by the Issuer in connection with any Event of Default by the Borrower.

SECTION 15.7 Counterparts.

This Agreement may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 15.8 No Personal Recourse.

No recourse shall be had for any claim based on the Agreement or the Bond against any member, officer or employee, past, present or future, of the Issuer or of any successor body as such, either directly or through the Issuer or any such successor body, under any constitutional provision, statute or rule of law or by the enforcement of any assessment or penalty or by any legal or equitable proceeding or otherwise. No covenant, stipulation, obligation or agreement of the Issuer contained in this Agreement shall be deemed to be a covenant, stipulation, obligation or agreement of any present or future officer, employee or agent of the Issuer in his individual capacity, and any officer, employee or agent of the Issuer executing the Bond shall not be liable personally thereon or be subject to any personal liability or accountability by reason of the issuance thereof

SECTION 15.9 Payment of Expenses.

The Bank will pay all reasonable costs in connection with the preparation, execution, issuance and delivery of this Agreement, the Bond, the Tax Agreement and the other instruments and documents to be delivered hereunder (including the reasonable fees and out-of-pocket expenses of counsel with respect thereto) and any fees and expenses of the Issuer associated with the issuance of the Bond. The Borrower will reimburse the Bank on demand for the reasonable

costs and expenses, if any, of the Bank incurred in connection with the enforcement of this Agreement and the Bond (including the reasonable fees and out-of-pocket expenses of legal counsel with respect thereto).

SECTION 15.10 Termination.

Upon the payment in full of the principal of and interest and premium, if any, due on the Bond at maturity, or the earlier payment of the redemption price of the Bond then Outstanding (provided that in the case of payment of the redemption price of the Bond, the Bond shall have been redeemed and cancelled on the books of the Borrower), and the payment of, or provision for all other amounts (including expense reimbursements and indemnity payments) due hereunder to the satisfaction of the Issuer, this Agreement and the parties obligations hereunder shall terminate, except for the obligations of the Borrower pursuant to Section 15.6 and Section 15.9, which shall survive the termination of this Agreement.

SECTION 15.11 Judicial Proceedings.

(a) The Borrower consents and agrees that any judicial proceedings relating in any way to this Agreement may be brought in any court of competent jurisdiction in the Commonwealth of Pennsylvania or in the United States District Court for the Eastern District of Pennsylvania. The Borrower hereby accepts, for itself and its properties, the non-exclusive jurisdiction of such courts, agrees to be bound by any judgments rendered by them in connection with this Agreement, and will not move to transfer any such proceeding to any different court. The Borrower waives the defense of forum non conveniens in any such action or proceeding.

(b) Service of process in any proceeding arising out of or relating to this Agreement may be made by any means permitted by the applicable rules of court as then in force, or may be made by any form of mail requiring a signed receipt.

(c) Nothing herein shall limit the right of the Bank to bring proceedings against the Borrower in the courts of any other jurisdiction or be deemed to constitute a consent to jurisdiction by any party hereto as to persons or entities not parties to this Agreement or as to matters not relating to this Agreement.

(d) THE BORROWER HEREBY EXPRESSLY WAIVES ANY RIGHT TO A TRIAL BY JURY IN ANY SUCH SUIT, ACTION OR PROCEEDING. THE BORROWER FURTHER ACKNOWLEDGES AND AGREES THAT WAIVER OF JURY TRIAL IS A SPECIFIC AND MATERIAL ASPECT OF THIS AGREEMENT AND THAT THE BANK WOULD NOT HAVE AGREED TO MAKE ANY LOAN (INCLUDING ANY ADVANCE) OR ACCEPT THIS AGREEMENT OR ANY NOTE WITHOUT SUCH AGREEMENT.

SECTION 15.12 Authorization of Agreement; Agreement to Constitute Contract.

This Agreement is entered into pursuant to the Act and the Resolution and the provisions of this Agreement shall be deemed to be and shall constitute a contract among the Issuer, the Borrower and the Bank from time to time of the Bond.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized all as of the date first above written.

MONTGOMERY COUNTY INDUSTRIAL
DEVELOPMENT AUTHORITY

By: /s/ Sherry L. Horowitz
Name: Sherry L. Horowitz
Title: Chairperson

QUAKER CHEMICAL CORPORATION, BORROWER

By: /s/ Neal E. Murphy
Neal E. Murphy
Vice President, Chief Financial Officer and Treasurer

BROWN BROTHERS HARRIMAN & CO.

By: /s/ John H. Wert. Jr.
John H. Wert, Jr.
Senior Vice President

EXHIBIT “A”
[FORM OF BOND]

MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY
Industrial Development Revenue Refunding Bond
(Quaker Chemical Borrower. Project)
Series 2007

No. R- 5,000,000

The MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY (the Issuer”), a body corporate and politic and a public instrumentality duly existing under the laws of the Commonwealth of Pennsylvania (the “Commonwealth”), for value received, hereby promises to pay (but only from the special revenues and funds hereinafter described) to BROWN BROTHERS HARRIMAN & CO., or its registered assigns (the “Bank”), on December 1, 2018, upon the presentation and surrender hereof at the principal office of the Borrower herein described, the principal sum of FIVE MILLION DOLLARS ($5,000,000), and to pay (but only out of the sources hereinafter mentioned) interest on said principal sum at the interest rate hereinafter described. Payment of the principal of and interest on this Bond shall be in any coin or currency of the United States of America as, at the respective times of payment, shall be legal tender for the payment of public and private debts.

THIS BOND IS A LIMITED OBLIGATION OF THE ISSUER AND IS PAYABLE SOLELY OUT OF AMOUNTS HELD UNDER THE AGREEMENT (HEREAFTER DESCRIBED) AND AMOUNTS TO BE DERIVED FROM THE AGREEMENT AND IS SECURED AS SET FORTH IN THE AGREEMENT. THIS BOND AND THE INTEREST HEREON SHALL NOT BE DEEMED TO CONSTITUTE A DEBT, LIABILITY, GENERAL OBLIGATION OR A PLEDGE OF THE FAITH AND CREDIT OR THE TAXING POWER OF THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION THEREOF. NEITHER THE COMMONWEALTH OF PENNSYLVANIA NOR ANY POLITICAL SUBDIVISION THEREOF NOR THE ISSUER SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF THIS BOND, THE INTEREST HEREON OR OTHER COSTS INCIDENTAL THERETO EXCEPT FROM THE REVENUES AND FUNDS PLEDGED THEREFOR, AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF THIS BOND OR THE INTEREST HEREON OR OTHER COSTS INCIDENT THERETO.

The Agreement and all rights of the Issuer thereunder (except for certain Reserved Rights of the Issuer) have been assigned to the owner of the Bond to secure payment of such principal and interest.

This Bond is one of a duly authorized issue of industrial development bonds of the Issuer issued in the original aggregate principal amount of $5,000,000 designated as an Industrial Development Revenue Refunding Bond (Quaker Chemical Corporation Project), Series 2007 (the “Bond”), issued under and pursuant to the constitution and laws of the Commonwealth of Pennsylvania, including particularly the Pennsylvania Economic Development Financing Law,

73 P.S. §§371-386, as amended (the “Act”), and the Financing Agreement (the “Agreement”) dated February 1, 2007, among the Issuer, Quaker Chemical Corporation, a Pennsylvania business corporation (the “Borrower”), and Brown Brothers Harriman & Co. (the “Bank”) for the purpose of undertaking the Project more fully described in the Agreement. The Issuer has assigned certain of its rights under the Agreement, including its right to receive loan payments from the Borrower thereunder, to the owner of the Bond to secure the Issuer’s obligations with respect to the Bond. Reference is made to the Agreement for a description, *inter alia*, of the provisions with respect to the nature and extent of the security for the Bond, the rights, duties, obligations and immunities of the Issuer, the Borrower, and the Bank of this Bond and the terms upon which this Bond is or maybe issued or secured and transferred.

This Bond shall be issued in one denomination equal to the entire principal amount hereof. All payments of principal by the Issuer whether pursuant to optional or mandatory redemption or prepayment or otherwise shall be made directly to the Bank.

INTEREST RATE PROVISIONS

Interest Rate. The rate of interest on this Bond shall be 5.10% per annum.

In the event the Bank shall become a beneficiary of a letter of credit pursuant to the terms of the Agreement for the payment on this Bond, the interest rate payable on this Bond in accordance with the provisions set forth herein shall be decreased by 80 basis points (0.80%).

Tax Indemnification. If at any time, either: (a) in the opinion of counsel for the Bank, any payment of interest or principal or any amount in respect of or measured in whole or in part by reference to interest on or principal of this Bond, shall be subject to a preference tax (meaning a tax imposed by Sections 55-58 of the Code, or any successor sections thereto or any similar federal tax preferences or similar items), excess profits tax or other federal tax on a basis other than as existing on the date of original issuance hereof; or (b) the Bank shall otherwise be subject to any increased cost as a result of any change (whether as a result of a change in law or otherwise) in the tax consequences of ownership of this Bond (including by reason of the disallowance or diminishment of any deduction available to the Bank); then, in any case, upon notice to such effect from the Bank to the Borrower and the Issuer, which notice shall set forth the date as of which any such event shall have occurred, there shall be paid to the Bank, as additional interest on this Bond, an amount which, after giving effect to all taxes, interest and penalties, in addition to any other charges required to be paid by the Bank as a result of such payment, is equal to the amount of any such preference, excess profits or other federal taxes and any interest and penalties, or any other additions to tax, which are payable by the Bank as a consequence of such change (computed on the assumption that taxes are payable by the Bank at the highest marginal statutory rate of tax imposed on individuals), it being the intent and purpose of the parties hereto that the profit of the Bank with respect to the payment of interest to it on this Bond shall not be diminished by any such event (whether through or as a result of direct or indirect federal taxation of the interest on or principal of this Bond, the disallowance or diminishment of a deduction or otherwise).

Taxable Rate. Notwithstanding the foregoing, if at any time hereafter, either before or after the payment of the entire principal of and interest on this Bond, there shall be a

Determination of Taxability as defined in the Agreement (hereinafter a "Determination of Taxability"), then, in such event, the interest rate on this Bond, as in effect during any period from and after the date of the event giving rise to the Determination of Taxability, shall be the interest rate payable on this Bond in accordance with the provisions set forth herein plus 3%, provided however, that upon a Determination of Taxability, not related to any action or inaction of the Borrower, the interest rate on this Bond shall be the interest rate payable on this Bond in accordance with the provisions set forth herein plus .50%. If there is more than one Determination of Taxability, this paragraph shall be fully applicable to each such Determination of Taxability, whether or not the Bank exercised any or all of the rights or remedies that arose under any prior Determination of Taxability, and all the Bank's rights and remedies shall be cumulative except to the extent of any written waiver by the Bank. If the Bank receives written notice of any Determination of Taxability, it will give prompt written notice thereof to the Borrower and the Issuer, and the Borrower shall have the right to require the Bank to prosecute any administrative or judicial remedies available to it unless the Bank determines, in its sole discretion, that the prosecution of such remedies is against its best interests, provided, however, the Borrower shall pay all expenses of prosecuting any such remedies.

Default and Overdue Interest. Upon the occurrence of any Event of Default under the Agreement, and so long as any such Event of Default shall be continuing, the interest rate payable on this Bond in accordance with the provisions set forth above shall be increased by two percent (2%).

General. Interest, calculated on the basis of a 360-day year for the actual number of days elapsed, shall accrue daily in each Interest Period and shall be payable monthly in arrears on each Interest Payment Date to the registered owner hereof, as shown on the registration books of the Borrower on the Business Day preceding such interest payment date (a "Record Date"). The interest due hereon shall be calculated by the Bank in accordance with Section 8.1(a)(i) of the Agreement hereinafter described. Interest on this Bond shall be paid in such manner as the Borrower and the Bank shall agree.

REDEMPTION PROVISIONS

Optional Redemption Notice. The Bond shall be subject to optional redemption by the Issuer, at the written direction of the Borrower, in whole or in part (but if in part in the principal amount of $100,000 or integral multiples of $5,000 in excess thereof), on any Interest Payment Date, at a price equal to 100% of the principal amount thereof to be redeemed, together with accrued interest to the date of redemption. The Borrower shall provide the Bank with notice of the date of any optional redemption pursuant to the provision of Section 6.1 of the Agreement and the principal amount of the Bond to be redeemed by first-class mail, postage prepaid, sent at least fifteen (15) days before such redemption date to the Bank at the registered address of the Bank appearing in the Agreement as of the close of business on the Business Day prior to such mailing. On each such redemption date, payment of the redemption price having been made to the Bank as provided herein and in the Bond, the Bond or the portion thereof so called for redemption shall become due and payable on the redemption date and interest shall cease to accrue thereon from and after the redemption date.

Mandatory Redemption at Option of Bank. On or after December 1, 2010, all or any portion of the Bond shall be redeemed by the Issuer, in whole or in part (but if in part in the principal amount of $100,000 or integral multiples of $5,000 in excess thereof), at a redemption price equal to 100% of the principal amount thereof, together with accrued interest to the date of redemption, upon ninety (90) days written demand of the Bank in the form attached as Exhibit “B” to the Agreement to the Borrower, with a copy to the Issuer. The Bond, or any portion thereof, shall be redeemed, and the redemption price of the Bond shall be paid to the Bank, on the date specified by the owner of the Bond. Notwithstanding the foregoing, if the Bank shall demand the redemption of the Bond in whole pursuant to this paragraph, in lieu of such redemption the Borrower shall have the right to (A) purchase the Bond from the Bank on any date after the date of the Bank’s written demand and prior to the next Business Day preceding the date of the proposed redemption, at a purchase price equal to 100% of the principal amount of the Bond, plus accrued interest to the date of purchase; or (B) deliver a letter of credit to the benefit of the Bank on any date after the date of the Bank’s written demand and prior to the next Business Day preceding the date of the proposed redemption which shall satisfy the requirements set forth under Section 6.1(c) of the Agreement.

On each such redemption date, payment or provision for payment of the redemption price having been made, the Bond or the portion thereof so called for redemption shall become due and payable on the redemption date, and interest shall cease to accrue thereon from and after the redemption date.

In the event of a redemption of this Bond in whole, the redemption price shall be paid to the Bank only upon surrender of this Bond at the principal office of the Borrower or such other place as the Borrower shall designate on such Interest Payment Date. In the event of a partial optional or mandatory redemption, payment shall be made by wire transfer of immediately available funds without presentation and surrender of this Bond, provided that the Borrower’s record of such payment shall be conclusive and binding upon the Bank and each succeeding owner of the Bond, absent manifest error.

In addition to any amounts due in connection with the redemption of this Bond as set forth above, in the event of any redemption or prepayment of this Bond for any reason, whether by redemption, prepayment, acceleration or otherwise, there shall be paid to the Bank an additional amount equal to the sum of all actual losses or expenses suffered or incurred by the Bank as a result of the redemption or prepayment, including any loss, breakage or other cost or expense incurred by reason of the termination of any interest rate protection agreement or the liquidation or reemployment of deposits or other funds acquired by the Bank to make or maintain its investment in the principal amount of this Bond at a fixed interest rate; provided, however, if (i) there is a mandatory redemption pursuant to Section 6.1(c) of the Agreement, (ii) the Borrower is not in default under the Agreement, and (iii) a letter of credit has not been delivered pursuant to Section 6.1(c) of the Agreement, this paragraph shall not apply. The Bank shall provide the calculation of any such loss at the Borrower’s request, which calculation shall be final in the absence of manifest error.

This Bond is transferable, in accordance with the provisions of the Agreement, by the owner hereof or its duly authorized attorney at the designated office of the Borrower, upon surrender of this Bond, accompanied by a duly executed instrument of transfer, in form

satisfactory to the Borrower, and upon payment by the owner hereof of any taxes, fees or other governmental charges incident to such transfer. Upon any such transfer, a new fully-registered Bond in the same aggregate principal amount will be issued to the transferee. The person in whose name this Bond is registered may be deemed the owner thereof by the Issuer and the Borrower, and any notice to the contrary shall not be binding upon the Issuer or the Borrower.

The Agreement permits the amendment thereof and the modifications of the rights and obligations of the Issuer and the rights of the owner of the Bond upon the terms set forth therein. Any consent or waiver by the owner of this Bond shall be conclusive and binding upon such Bank and upon all future owners of this Bond and of the Bond issued upon the transfer of this Bond whether or not notation of such consent or waiver is made hereon. The Agreement also contains provisions permitting the owner of the Bond to waive certain past defaults under the Agreement and their consequences.

This Bond is issued under and pursuant to, and in full compliance with the laws of the Commonwealth of Pennsylvania, including particularly the Act, which shall govern its construction, and by appropriate action duly taken by the Issuer which authorizes the execution and delivery of the Agreement and this Bond.

No covenant or agreement contained in this Bond shall be deemed to be the covenant or agreement of any member, officer, attorney, agent or employee of the Issuer in an individual capacity. No recourse shall be had for the payment of principal, premium, if any, or interest on this Bond or any claim based thereon or on any instruments and documents executed and delivered by the Issuer in connection with the Project, against any officer, member, agent, attorney or employee of the Issuer past, present or future, or any successor body or their representative heirs, personal representatives, successors, as such, either directly or through the Issuer, or any such successor body, whether by virtue of any constitutional provision, statute or rule of law, or by the enforcement of any assessment or penalty, or otherwise, all of such liability being hereby released as a condition of and as a consideration for the execution and delivery of this Bond. Notwithstanding anything in any Borrower Financing Document (as defined in the Agreement) to the contrary, no recourse shall be had against any assets of the Issuer other than its rights under the Agreement and the other Borrower Financing Documents.

This Bond shall not constitute the personal obligation, either jointly or severally, of any director, officer, employee or agent of the Issuer.

IT IS HEREBY CERTIFIED, RECITED AND DECLARED that all acts, conditions and things required to exist, happen and be performed precedent to and in the execution and delivery of the Agreement and issuance of this Bond do exist, have happened, exist and have been performed.

IN WITNESS WHEREOF, the Montgomery County Industrial Development Authority has caused this Bond to be executed in its name by the manual or facsimile signature of its (Vice) Chairperson, and the manual impression or facsimile of its corporate seal to be affixed hereto and attested by the manual or facsimile signature of its (Assistant) Secretary.

Dated: February __, 2006

[SEAL]	MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY
Attest:	
By: ______________________	By: ______________________
Name: ______________________	Name: ______________________
Title: ______________________	Title: ______________________

EXHIBIT “B”

NOTICE OF MANDATORY REDEMPTION

To: Quaker Chemical Corporation
910 Hector Street
Conshohocken, PA 19428
Attention: ________________________

The undersigned, being the owner of the Bond issued under and pursuant to that certain Financing Agreement dated as of ____________, 2007 (the “Agreement”), among the Montgomery County Industrial Development Authority (the “Issuer”), Quaker Chemical Corporation (the “Borrower”) and Brown Brothers Harriman & Co., hereby irrevocably elects that [all] [$________ of the principal amount of the Bond shall be redeemed by the Issuer on [DATE TO BE SPECIFIED BY THE BANK].

If the Bond is to be redeemed in full, the undersigned shall surrender the Bond, duly endorsed for transfer or accompanied by a bond power endorsed in blank, to the Borrower at its office at the address set forth in the Agreement against payment of the redemption price.

If the Bond is to be redeemed in part, payment of the redemption price shall be made on the redemption date to or to the order of the undersigned, as hereby authorized, as follows:

By Wire Transfer:	**By Check:**
Bank:_____________________	Payee:______________________
ABA No.:_________________	Address:___________________
Credit:____________________	_____________________________________
Instructions:________________	_____________________________________
_____________________________________	_____________________________________

All capitalized terms not defined herein shall have the meanings assigned to them in the Agreement.

Dated:_______________

____
Signature of Bank or Authorized Representative

____
Tax Identification Number of Bank

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* if less than all of the principal amount of the Bond is to be redeemed, the principal amount to be redeemed shall be $100,000 or any integral multiple of $5,000 in excess thereof.

EXHIBIT 21

SUBSIDIARIES AND AFFILIATES OF THE REGISTRANT

Name	Jurisdiction of Incorporation	Percentage of voting securities owned directly or indirectly by Quaker
*Quaker Chemical Corporation	Delaware, U.S.A.	100%
+*Quaker Chemical Management Inc.	Delaware, U.S.A.	100%
+SB Decking, Inc. (formerly Selby, Battersby &Co.)	Delaware, U.S.A.	100%
*AC Products, Inc.	California, U.S.A.	100%
*Epmar Corporation	California, U.S.A.	100%
+*Quaker QP, Inc.	Pennsylvania, U.S.A.	100%
*Quaker Automotive Italia, S.r.l.	Italy	90%
*Quaker Chemical Europe B.V.	Holland	100%
*Quaker Chemical B.V.	Holland	100%
*Quaker Chemical (China) Co. Ltd.	China	100%
*Quaker China Holdings B.V.	Holland	100%
*Quaker Chemical Canada Limited	Ontario, Canada	100%
*Quaker Chemical Hungary Ltd.	Hungary	100%
*Quaker Chemical Limited	United Kingdom	100%
*Quaker Chemical S.A.	France	100%
*Quaker Chemical, S.A.	Spain	100%
+*Quaker Denmark ApS	Denmark	100%
*Quaker Chemical S.A.	Argentina	100%
+*Quaker Chemical Participacoes, Ltda.	Brazil	100%
*Quaker Chemical Limited	Hong Kong	100%
*Quaker Chemical Holdings South Africa (Pty) Limited	Republic of South Africa	100%
*Quaker Italia, S.r.l.	Italy	100%
*Quaker Australia Holdings Pty. Limited	Victoria, Australia	100%
*Quaker Shanghai Trading Company Limited	China	100%
*Q2 Technologies, LLC	Nevada, U.S.A.	70%
*Quaker Chemical Industria e Comercio Ltda.	Brazil	100%
*Quaker Chemical Operacoes, Ltda.	Brazil	100%
*Wuxi Quaker Chemical Co., Ltd.	China	100%
*Quaker Chemical India Limited	India	55%
*Quaker Chemical (Australasia) Pty. Limited	New South Wales, Australia	51%
*Quaker Chemical South Africa (Pty.) Ltd.	Republic of South Africa	51%
**Quaker Park Associates, LP	Pennsylvania, U.S.A.	50%
**Nippon Quaker Chemical, Ltd.	Japan	50%
**Kelko Quaker Chemical, S.A.	Venezuela	50%
**TecniQuimia Mexicana S.A. de C.V.	Mexico	40%

+ A non-operating company.

* Included in the consolidated financial statements.

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

EXHIBIT 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (Registration No. 333-19957) and the Registration Statements on Form S-8 (Registration Nos. 002-57924, 033-54158, 033-51655, 333-26793, 333-88229, 333-48130, 333-58676, 333-65400, 333-104354, 333-115713, and 333-136648) of Quaker Chemical Corporation of our report dated March 9, 2007 relating to the financial statements, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Philadelphia, PA
March 9, 2007

EXHIBIT 31.1

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

I, Ronald J. Naples, certify that:

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

Date: March 9, 2007

/s/ RONALD J. NAPLES

Ronald J. Naples
Chief Executive Officer

EXHIBIT 31.2

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

I, Neal E. Murphy, certify that:

1. I have reviewed this annual report on Form 10-K of Quaker Chemical Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

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

Date: March 9, 2007

/s/ NEAL E. MURPHY

Neal E. Murphy
Chief Financial Officer

EXHIBIT 32.1

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

The undersigned hereby certifies that the Form 10-K Annual Report of Quaker Chemical Corporation (the "Company") for the annual period ended December 31, 2006 filed with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 9, 2007

/s/ RONALD J. NAPLES

Ronald J. Naples
Chief Executive Officer of Quaker Chemical Corporation

EXHIBIT 32.2

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

The undersigned hereby certifies that the Form 10-K Annual Report of Quaker Chemical Corporation (the “Company”) for the annual period ended December 31, 2006 filed with the Securities and Exchange Commission (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 9, 2007

/s/ NEAL E. MURPHY

Neal E. Murphy
Chief Financial Officer of Quaker Chemical Corporation