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

FORM 10-Q

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

For the quarterly period ended September 30, 2008

OR

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

For the transition period from _____ to _____

Commission file number 001-12019

QUAKER CHEMICAL CORPORATION

(Exact name of Registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction of
incorporation or organization)

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

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

19428 – 0809
(Zip Code)

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

Not Applicable

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

(Do not check if a smaller reporting company)

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

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

**Number of Shares of Common Stock
Outstanding on September 30, 2008**

10,832,828

[Table of Contents](#)

Table of Contents

QUAKER CHEMICAL CORPORATION AND CONSOLIDATED SUBSIDIARIES

PART I.	<u>FINANCIAL INFORMATION</u>	
Item 1.	<u>Financial Statements</u>	
	<u>Condensed Consolidated Balance Sheet at September 30, 2008 and December 31, 2007</u>	3
	<u>Condensed Consolidated Statement of Income for the Three and Nine Months ended September 30, 2008 and 2007</u>	4
	<u>Condensed Consolidated Statement of Cash Flows for the Nine Months Ended September 30, 2008 and 2007</u>	5
	<u>Notes to Condensed Consolidated Financial Statements</u>	6
Item 2.	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	16
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	22
Item 4.	<u>Controls and Procedures</u>	23
PART II.	<u>OTHER INFORMATION</u>	
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	24
Item 5.	<u>Other Information</u>	24
Item 6.	<u>Exhibits</u>	25
	<u>Signatures</u>	25

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements.

Quaker Chemical Corporation
Condensed Consolidated Balance Sheet

	Unaudited (Dollars in thousands, except par value and share amounts)	
	September 30, 2008	December 31, 2007*
ASSETS		
Current assets		
Cash and cash equivalents	\$ 24,066	\$ 20,195
Construction fund (restricted cash)	9,325	—
Accounts receivable, net	119,538	118,135
Inventories		
Raw materials and supplies	30,043	24,447
Work-in-process and finished goods	37,534	36,291
Prepaid expenses and other current assets	14,562	14,433
Deferred compensation	2,795	—
Total current assets	<u>237,863</u>	<u>213,501</u>
Property, plant and equipment, at cost	180,846	175,878
Less accumulated depreciation	<u>(118,497)</u>	<u>(113,591)</u>
Net property, plant and equipment	62,349	62,287
Goodwill	43,300	43,789
Other intangible assets, net	6,873	7,873
Investments in associated companies	8,027	7,323
Deferred income taxes	31,542	30,257
Other assets	35,275	34,019
Total assets	<u>\$ 425,229</u>	<u>\$ 399,049</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings and current portion of long-term debt	\$ 2,635	\$ 4,288
Accounts and other payables	71,196	67,380
Accrued compensation	14,034	17,287
Deferred compensation	3,006	—
Other current liabilities	17,501	17,396
Total current liabilities	<u>108,372</u>	<u>106,351</u>
Long-term debt	85,364	78,487
Deferred income taxes	8,217	7,583
Other non-current liabilities	68,294	71,722
Total liabilities	<u>270,247</u>	<u>264,143</u>
Minority interest in equity of subsidiaries	4,339	4,513
Shareholders' equity		
Common stock \$1 par value; authorized 30,000,000 shares; issued 2008 – 10,832,828; 2007 – 10,147,239 shares	10,833	10,147
Capital in excess of par value	27,034	10,104
Retained earnings	122,320	115,767
Accumulated other comprehensive loss	<u>(9,544)</u>	<u>(5,625)</u>
Total shareholders' equity	<u>150,643</u>	<u>130,393</u>
Total liabilities and shareholders' equity	<u>\$ 425,229</u>	<u>\$ 399,049</u>

* Condensed from audited financial statements.

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

Quaker Chemical Corporation
Condensed Consolidated Statement of Income

	Unaudited (Dollars in thousands, except per share and share amounts)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net sales	\$ 159,506	\$ 140,715	\$ 465,412	\$ 403,204
Cost of goods sold	112,981	97,547	330,466	278,878
Gross margin	46,525	43,168	134,946	124,326
Selling, general and administrative expenses	38,278	36,602	109,935	103,930
CEO transition costs	1,625	—	3,505	—
Environmental charges	—	3,300	—	3,300
Operating income	6,622	3,266	21,506	17,096
Other (expense) income, net	(96)	382	1,752	1,618
Interest expense	(1,330)	(1,714)	(4,086)	(4,929)
Interest income	286	344	881	708
Income before taxes	5,482	2,278	20,053	14,493
Taxes on income	967	(1,066)	5,848	3,076
	4,515	3,344	14,205	11,417
Equity in net income of associated companies	191	166	490	557
Minority interest in net income of subsidiaries	(266)	(350)	(841)	(1,126)
Net income	\$ 4,440	\$ 3,160	\$ 13,854	\$ 10,848
Per share data:				
Net income – basic	\$ 0.42	\$ 0.32	\$ 1.34	\$ 1.09
Net income – diluted	\$ 0.41	\$ 0.31	\$ 1.31	\$ 1.07
Dividends declared	\$ 0.23	\$ 0.215	\$ 0.69	\$ 0.645
Based on weighted average number of shares outstanding:				
Basic	10,573,497	10,016,801	10,315,769	9,969,739
Diluted	10,796,716	10,134,909	10,544,070	10,095,945

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

Quaker Chemical Corporation
Condensed Consolidated Statement of Cash Flows

	Unaudited (Dollars in thousands)	
	For the Nine Months Ended September 30,	
	2008	2007
Cash flows from operating activities		
Net income	\$ 13,854	\$ 10,848
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	8,279	8,579
Amortization	906	900
Equity in undistributed earnings of associated companies, net of dividends	(490)	(83)
Minority interest in earnings of subsidiaries	841	1,126
Deferred compensation and other, net	840	(620)
Stock-based compensation	3,642	863
Environmental charges	—	3,300
(Gain) loss on disposal of property, plant and equipment	(3)	33
Insurance settlement realized	(981)	(1,266)
Pension and other postretirement benefits	(3,541)	(2,532)
Increase (decrease) in cash from changes in current assets and current liabilities, net of acquisitions:		
Accounts receivable	(3,723)	(5,795)
Inventories	(8,550)	(3,227)
Prepaid expenses and other current assets	(863)	(1,750)
Accounts payable and accrued liabilities	788	6,009
Net cash provided by operating activities	<u>10,999</u>	<u>16,385</u>
Cash flows from investing activities		
Investments in property, plant and equipment	(9,198)	(5,431)
Payments related to acquisitions	(1,000)	(1,543)
Proceeds from disposition of assets	139	176
Insurance settlement received and interest earned	5,234	5,534
Change in restricted cash, net	(13,578)	(4,268)
Net cash used in investing activities	<u>(18,403)</u>	<u>(5,532)</u>
Cash flows from financing activities		
Short-term debt borrowings	—	1,305
Net decrease in short-term borrowings	(1,389)	(3,267)
Proceeds from long-term debt	10,000	3,132
Repayments of long-term debt	(3,165)	(674)
Dividends paid	(6,994)	(6,484)
Stock options exercised, other	13,974	2,935
Distributions to minority shareholders	(252)	(864)
Net cash provided by (used in) financing activities	<u>12,174</u>	<u>(3,917)</u>
Effect of exchange rate changes on cash	(899)	1,226
Net increase in cash and cash equivalents	3,871	8,162
Cash and cash equivalents at beginning of period	20,195	16,062
Cash and cash equivalents at end of period	<u>\$ 24,066</u>	<u>\$ 24,224</u>

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

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

Note 1 – Condensed Financial Information

The condensed consolidated financial statements included herein are unaudited and have been prepared in accordance with generally accepted accounting principles in the United States for interim financial reporting and the United States Securities and Exchange Commission regulations. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the financial statements reflect all adjustments (consisting only of normal recurring adjustments, except as discussed below) which are necessary for a fair statement of the financial position, results of operations and cash flows for the interim periods. The results for the three and nine months ended September 30, 2008 are not necessarily indicative of the results to be expected for the full year. These financial statements should be read in conjunction with the Company's Annual Report filed on Form 10-K for the year ended December 31, 2007.

During the first quarter of 2008 and as required by SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," the Company changed the measurement date of its U.S. pension plan from November 30 to December 31 in order to coincide with the Company's fiscal year end. This change did not have a material impact to the Company's consolidated financial statements.

Effective October 3, 2008, Ronald J. Naples, Chairman, retired as Chief Executive Officer. The Company is recognizing certain accelerated and other costs in accordance with Mr. Naples' Employment, Transition and Consulting Agreement. Over the course of the next three years, the Company anticipates taking an incremental charge to earnings of approximately \$5,800 of which \$3,500 would be incurred in 2008, \$1,900 in 2009, and \$400 in 2010. The \$1,625 charge, or approximately \$0.10 per diluted share, incurred in the third quarter of 2008 includes incremental equity compensation expense of \$1,462, \$65 related to Mr. Naples' annual bonus, and an incremental expense of \$98 related to the Company's Supplemental Retirement Income Plan. During the first nine months of 2008, the Company recognized a \$3,505 charge, or approximately \$0.22 per diluted share, including incremental equity compensation expense of \$2,437, a special bonus of \$642, \$130 related to Mr. Naples' annual bonus, and incremental expense of \$296 related to the Company's Supplemental Retirement Income Plan. Refer to Note 5 – Stock-Based Compensation and the Company's current report on Form 8-K filed on May 13, 2008 for further information.

During the second quarter of 2008, the Company received a net arbitration award of \$956, or approximately \$0.04 per diluted share, related to litigation with one of the former owners of the Company's Italian affiliate. This net award was recorded in "Other income."

During the third quarter of 2007, the Company identified errors of a cumulative \$993 overstatement of its consolidated income tax expense for the years 2004, 2005 and 2006. These errors were related to the deferred tax accounting for the Company's foreign pension plans and intangible assets regarding one of the Company's 2002 acquisitions. The Company corrected these errors during the third quarter 2007, which had the effect of reducing tax expense by \$993, and increasing net income by \$993 for the three and nine months ended September 30, 2007. The Company does not believe this adjustment was material to the consolidated financial statements for the years ended December 31, 2004, 2005, 2006 and 2007, and therefore, has not restated any prior period amounts.

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 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 of 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 \$25,008 and \$40,233 for the nine months ended September 30, 2008 and 2007, respectively.

Note 2 – Recently Issued Accounting Standards

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

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

In March 2008, the FASB issued Statement of Financial Accounting Standard No. 161 (“SFAS 161”), *Disclosures about Derivative Instruments and Hedging Activities*. SFAS 161 requires expanded disclosure about the Company’s hedging activities and use of derivative instruments in its hedging activities. SFAS 161 is effective for fiscal years beginning on or after November 15, 2008 and for interim periods within those fiscal years. The Company is currently assessing the impact of this standard on its financial statements.

In June 2008, the FASB issued FASB Staff Position, FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*. FSP EITF 03-6-1 changes the way earnings per share is calculated for share-based payments that have not vested. FSP EITF 03-6-1 is effective for fiscal years beginning on or after December 15, 2008 and for interim periods within those fiscal years. The Company is currently assessing the impact of this standard on its financial statements.

In October 2008, the FASB issued FASB Staff Position FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active* (“FSP 157-3”). FSP 157-3 clarifies the application of SFAS 157, which the Company adopted as of January 1, 2008, in cases where a market is not active. The Company has considered the guidance provided by FSP 157-3 in its determination of estimated fair values as of September 30, 2008, and the impact was not material.

Note 3 – Uncertain Income Tax Positions

In June 2006, the Financial Accounting Standards Board issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109” (“FIN 48”). FIN 48 prescribes the recognition threshold and measurement attributes for financial statement recognition and measurement of tax positions taken or expected to be taken on a tax return. FIN 48 requires the determination of whether the benefits of tax positions will be more likely than not sustained upon audit based upon the technical merits of the tax position. For tax positions that are determined to be more likely than not sustained upon audit, a company recognizes the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement in the financial statements. For tax positions that are not determined to be more likely than not sustained upon audit, a company does not recognize any portion of the benefit in the financial statements. FIN 48 also provides guidance on de-recognition, classification, penalties and interest, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company adopted the provisions of FIN 48, effective January 1, 2007.

At December 31, 2007, the Company’s cumulative liability for gross unrecognized tax benefits was \$10,861. As of September 30, 2008, the Company’s cumulative liability for gross unrecognized tax benefits was \$10,451.

The Company continues to recognize interest and penalties associated with uncertain tax positions as a component of taxes on income in its Consolidated Statement of Income. The Company had accrued \$1,211 for cumulative interest and \$809 for cumulative penalties at December 31, 2007.

The Company has recognized (\$164) and \$212 for interest and \$(44) and \$2 for penalties on its Consolidated Statement of Income for the three-month period and nine-month period ended September 30, 2008, respectively. The reduction in expense for interest and penalties is reflective of the de-recognition of several uncertain tax positions further discussed below. As of September 30, 2008, the Company had accrued \$1,328 for cumulative interest and \$797 for cumulative penalties.

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

In the third quarter of 2008, the Company has de-recognized several uncertain tax positions during the nine-month period ended September 30, 2008 due to expiration of the applicable statutes of limitations for certain tax years. As a result, the Company recognized a \$776 decrease in its cumulative liability for gross unrecognized tax benefits. Earlier in 2008, the Company had de-recognized uncertain tax positions of \$6 due to the expiration of the statute of limitations.

Additionally, the Company was audited by the United Kingdom tax authorities for the tax year 2005. The United Kingdom tax authorities made no adjustments affecting the Company’s uncertain tax positions for the tax year 2005. As a result, the Company recognized a \$208 decrease in its cumulative liability for gross unrecognized tax benefits.

The Company was audited by the French tax authorities for tax years 2001 through 2004. The French tax authorities made several adjustments to the Company’s transfer pricing transactions and inter-company charges. During the three-month period ended March 31, 2008, the Company resolved several of these issues through the French administrative appeals process and with Competent

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

Authority as provided under the U.S./French tax treaty. As a result of this partial resolution of the issues, the Company recognized a \$381 decrease in its cumulative liability for gross unrecognized tax benefits for the nine-month period ended September 30, 2008.

In 2007, the Internal Revenue Service commenced a routine examination of the Company's U.S. corporate income tax returns for the tax year ended December 31, 2005.

Note 4 – Fair Value Measurements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 ("SFAS 157"), Fair Value Measurement. Subsequently, the FASB issued FASB Staff Position ("FSP") 157-1 and FSP 157-2, which provided exceptions to applying the guidance to leasing transactions and to non-recurring nonfinancial assets and liabilities. Effective January 1, 2008, the Company adopted SFAS 157, with the exception of the application of the statement to non-recurring nonfinancial assets and nonfinancial liabilities. Non-recurring nonfinancial assets and nonfinancial liabilities for which the Company has not applied the provisions of SFAS 157 include those measured at fair value in goodwill impairment testing, indefinite lived intangible assets measured at fair value for impairment testing, asset retirement obligations initially measured at fair value, and those initially measured at fair value in a business combination. SFAS 157 establishes a common definition for fair value to be applied to U.S. GAAP guidance requiring use of fair value, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements. This standard does not require any new fair value measurements, but rather applies to all other accounting pronouncements that require or permit fair value measurements.

The statement utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

- Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs that reflect the reporting entity's own assumptions.

The Company values its interest rate swaps, company-owned life insurance policies and various deferred compensation assets and liabilities at fair value. The Company's assets and liabilities subject to fair value measurement are as follows (in thousands):

	Fair Value as of September 30, 2008	Fair Value Measurements at September 30, 2008 Using Fair Value Hierarchy		
		Level 1	Level 2	Level 3
Assets				
Company-owned life insurance	\$ 3,931	\$ —	\$ 3,931	\$ —
Company-owned life insurance - Deferred compensation assets	1,962	—	1,962	—
Other deferred compensation assets	1,806	1,806	—	—
Total	\$ 7,699	\$ 1,806	\$ 5,893	\$ —
Liabilities				
Deferred compensation liabilities	\$ 4,335	\$ 4,335	\$ —	\$ —
Interest rate derivatives	1,259	—	1,259	—
Total	\$ 5,594	\$ 4,335	\$ 1,259	\$ —

The fair values of Company-owned life insurance ("COLI") and COLI deferred compensation assets are based on quotes for like instruments with similar credit ratings and terms. The fair values of Other deferred compensation assets and liabilities are based on quoted prices in active markets. The fair values of interest rate derivatives are based on quoted market prices from various banks for similar instruments.

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

Note 5 – Stock-Based Compensation

The Company applies Statement of Financial Accounting Standards No. 123 (revised 2004) (“SFAS 123(R)”), *Share-Based Payment*. SFAS 123(R) requires the recognition of the fair value of stock compensation in net income. The Company elected the modified prospective method in adopting SFAS 123(R). Under this method, the provisions of SFAS 123(R) apply to all awards granted or modified after the date of adoption.

Effective October 3, 2008, Ronald J. Naples, Chairman, retired as the Company’s Chief Executive Officer. In accordance with Mr. Naples’ Employment, Transition and Consulting Agreement, Mr. Naples’ equity-based compensation awards (both nonvested stock and stock options) had to be re-measured and vesting accelerated to coincide with the October 3, 2008 retirement date. These actions resulted in incremental equity compensation expense of approximately \$2,437 (\$989 for nonvested stock and \$1,448 for stock options) during the nine months ended September 30, 2008. These incremental expenses are included in the following reconciliation of total equity-based compensation expense.

The Company recognized approximately \$3,691 of share-based compensation expense and \$1,292 of related tax benefits in our unaudited condensed consolidated statement of income for the nine months ended September 30, 2008. The compensation expense was comprised of \$1,891 related to stock options, \$1,670 related to nonvested stock awards, \$35 related to the Company’s Employee Stock Purchase Plan, and \$95 related to the Company’s Director Stock Ownership Plan.

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

The Company has a long-term incentive program (“LTIP”) for key employees which provides for the granting of options to purchase stock at prices not less than market value on the date of the grant. Most options become exercisable between one and three years after the date of the grant for a period of time determined by the Company not to exceed seven years from the date of grant for options issued in 1999 or later and ten years for options issued in prior years. Beginning in 1999, the LTIP program provided for common stock awards, the value of which was generally derived from Company performance over a three-year period. Common stock awards issued in 2006, 2007 and 2008 under the LTIP program are subject only to time vesting over a three to five-year period. In addition, as part of the Company’s Global Annual Incentive Plan (“GAIP”), nonvested shares may be issued to key employees, which generally vest over a two to five-year period.

Stock option activity under all plans is as follows:

	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (years)
Balance at December 31, 2007	1,033,175	\$ 21.36	
Options granted	145,184	19.45	
Options exercised	(683,982)	21.43	
Options expired	(76,462)	17.79	
Balance at September 30, 2008	<u>417,915</u>	<u>\$ 21.24</u>	<u>4.9</u>
Exercisable at September 30, 2008	<u>135,035</u>	<u>\$ 22.10</u>	<u>3.1</u>

The total intrinsic value of options exercised during the nine months ended September 30, 2008 was approximately \$5,954. Intrinsic value is calculated as the difference between the current market price of the underlying security and the strike price of a related option. As of September 30, 2008, the total intrinsic value of options outstanding was approximately \$3,018, and the total intrinsic value of exercisable options was approximately \$859.

A summary of the Company’s outstanding stock options at September 30, 2008 is as follows:

Range of Exercise Prices	Number Outstanding at 9/30/2008	Weighted Average Contractual Life	Weighted Average Exercise Price	Number Exercisable at 9/30/2008	Weighted Average Exercise Price
\$18.63 - \$21.28	238,362	5.3	\$ 19.67	55,978	\$ 20.03
\$21.29 - \$23.94	149,428	4.7	22.77	48,932	22.04
\$23.95 - \$26.60	30,125	2.5	26.05	30,125	26.05
	<u>417,915</u>	4.9	21.24	<u>135,035</u>	22.10

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

As of September 30, 2008, unrecognized compensation expense related to options granted during 2006 was \$28, for options granted during 2007 was \$110 and for options granted during 2008 was \$183.

During the first quarter of 2008, the Company granted 145,184 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 30.31%, risk free interest rate of 3.15%, an expected term of six years, and a forfeiture rate of 3% over the remaining life of the options. Approximately \$937 of expense was recorded on these options during the nine months ended September 30, 2008. The fair value of these awards is amortized on a straight-line basis over the vesting period of the awards.

Under the Company's LTIP plan, 72,110 shares of nonvested stock were outstanding at December 31, 2007. In the first quarter of 2008, 48,431 shares of nonvested stock were granted at a weighted average grant date fair value of \$19.45. In the second quarter of 2008, 5,000 shares of nonvested stock were granted at a weighted average grant date fair value of \$30.51. In addition, in the second quarter of 2008, 1,536 shares of nonvested stock were granted to Directors at a weighted average grant date fair value of \$31.10. In the third quarter of 2008, 15,000 shares were granted at a weighted average grant date fair value of \$27.34. As of September 30, 2008, 1,200 of these awards were vested, 900 shares were forfeited and 139,977 shares were outstanding. The fair value of the nonvested stock is based on the trading price of the Company's common stock on the date of grant. The Company adjusts the grant date fair value for expected forfeitures based on historical experience for similar awards. As of September 30, 2008, unrecognized compensation expense related to these awards was \$1,214, to be recognized over a weighted average remaining period of 2.3 years.

Under the Company's GAIP, 42,500 shares of nonvested stock were granted during the second quarter of 2005 at a weighted average grant date fair value of \$20.12 per share. At December 31, 2007, 27,500 shares were outstanding. Through September 30, 2008, 13,750 shares vested and were issued, no shares were forfeited and 13,750 shares were outstanding. As of September 30, 2008, unrecognized compensation expense related to these awards was \$58, to be recognized over a weighted average remaining period of 1.2 years.

Employee Stock Purchase Plan

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

2003 Director Stock Ownership Plan

In March 2003, the Company's Board of Directors approved a stock ownership plan for each member of the Board to encourage the Directors to increase their investment in the Company. The Plan was effective on the date it was approved and remains in effect for a term of ten years or until it is earlier terminated by the Board. The maximum number of shares of Common Stock which may be issued under the Plan is 75,000, subject to certain conditions that the committee may elect to adjust the number of shares. As of September 30, 2008, the Committee has not made any elections to adjust the shares under this plan. Each Director is eligible to receive an annual retainer for services rendered as a member of the Board of Directors. Currently, each Director who owns less than 7,500 shares of Company Common Stock is required to receive 75% of the annual retainer in Common Stock and 25% of the annual retainer in cash. Each Director who owns 7,500 or more shares of Company Common Stock receives 20% of the annual retainer in Common Stock and 80% of the annual retainer in cash with the option to receive Common Stock in lieu of the cash portion of the retainer. The annual retainer is \$28. During the third quarter of 2008, an immediate \$10 increase to the Directors' retainer, payable in cash, was approved. The number of shares issued in payment of the fees is calculated based on an amount equal to the average of the closing prices per share of Common Stock as reported on the composite tape of the New York Stock Exchange for the two trading days immediately preceding the retainer payment date. The retainer payment date is June 1. For the three and nine months ended September 30, 2008, the Company recorded approximately \$31 and \$95 of compensation expense, respectively. For the three and nine months ended September 30, 2007, the Company recorded approximately \$31 and \$92, respectively.

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

Note 6 – Earnings Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Numerator for basic EPS and diluted EPS—net income	\$ 4,440	\$ 3,160	\$ 13,854	\$ 10,848
Denominator for basic EPS—weighted average shares	10,573,497	10,016,801	10,315,769	9,969,739
Effect of dilutive securities, primarily employee stock options and non-vested stock	223,219	118,108	228,301	126,206
Denominator for diluted EPS—weighted average shares and assumed conversions	10,796,716	10,134,909	10,544,070	10,095,945
Basic EPS	\$ 0.42	\$ 0.32	\$ 1.34	\$ 1.09
Diluted EPS	\$ 0.41	\$ 0.31	\$ 1.31	\$ 1.07

The following number of stock options is not included in the earnings per share since in each case the exercise price is greater than the market price: 0 and 299,540 for the three months ended September 30, 2008 and 2007, and 0 and 787,520 for the nine months ended September 30, 2008 and 2007, respectively.

Note 7 – Business Segments

The Company's reportable segments are as follows:

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

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

The table below presents information about the reported segments:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Metalworking Process Chemicals				
Net sales	\$ 148,321	\$ 129,944	\$ 431,959	\$ 373,090
Operating income	19,562	18,772	55,042	56,020
Coatings				
Net sales	10,345	10,043	30,373	28,200
Operating income	2,446	2,193	7,272	6,360
Other Chemical Products				
Net sales	840	728	3,080	1,914
Operating income	6	22	62	107
Total				
Net sales	159,506	140,715	465,412	403,204
Operating income	22,014	20,987	62,376	62,487
Non-operating expenses	(13,467)	(14,132)	(36,459)	(41,191)
CEO transition costs	(1,625)	—	(3,505)	—
Environmental charges	—	(3,300)	—	(3,300)
Amortization	(300)	(289)	(906)	(900)
Interest expense	(1,330)	(1,714)	(4,086)	(4,929)
Interest income	286	344	881	708
Other income, net	(96)	382	1,752	1,618
Consolidated income before taxes	<u>\$ 5,482</u>	<u>\$ 2,278</u>	<u>\$ 20,053</u>	<u>\$ 14,493</u>

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

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

Note 8 – Comprehensive (Loss) Income

The following table summarizes comprehensive (loss) income:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net income	\$ 4,440	\$3,160	\$13,854	\$10,848
Change in fair value of derivatives	(83)	(595)	(102)	(366)
Unrealized (loss) gain on available-for-sale securities	(242)	49	(454)	181
SFAS 158 liability	169	(164)	514	355
Foreign currency translation adjustments	(12,269)	3,307	(3,877)	7,447
Comprehensive (loss) income	<u>\$ (7,985)</u>	<u>\$5,757</u>	<u>\$ 9,935</u>	<u>\$18,465</u>

Note 9 – Debt and Restricted Cash

In May 2008, the Company entered into a financing agreement to issue a \$10,000 Industrial Development Revenue Bond to finance the expansion of the Company's Middletown, OH manufacturing facility. The bond is redeemable on May 1, 2028, and bears interest at an annual rate of 4.76%, payable monthly.

Proceeds from the bond issuance are restricted, and can be used only for capital expenditures related to the expansion. Of the \$10,000 received from the bond issuance, approximately \$675 had been expended at September 30, 2008.

During the third quarter of 2008, the Company entered into an additional \$5,000 notional value interest rate swap 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 all of the Company's interest rate swaps was \$40,000 and \$35,000 as of September 30, 2008 and December 31, 2007, respectively.

Note 10 – Business Acquisitions and Divestitures

In March 2005, the Company acquired the remaining 40% interest in its Brazilian joint venture for \$6,700. In addition, annual \$1,000 payments for four years will be paid subject to the former minority partners' compliance with the terms of the purchase agreement. The third \$1,000 payment was made in February 2008 and was recorded as goodwill assigned to the Metalworking Process Chemicals segment.

Note 11 – Goodwill and Other Intangible Assets

The Company completed its annual impairment assessment as of the end of the third quarter 2008 and no impairment charge was warranted. The changes in carrying amount of goodwill for the nine months ended September 30, 2008 are as follows:

	Metalworking Process Chemicals	Coatings	Total
	Balance as of December 31, 2007	\$ 35,708	\$ 8,081
Goodwill additions	1,000	—	1,000
Currency translation adjustments	(1,489)	—	(1,489)
Balance as of September 30, 2008	<u>\$ 35,219</u>	<u>\$ 8,081</u>	<u>\$43,300</u>

Gross carrying amounts and accumulated amortization for definite-lived intangible assets as of September 30, 2008 and December 31, 2007 are as follows:

	Gross Carrying Amount		Accumulated Amortization	
	2008	2007	2008	2007
Amortized intangible assets				
Customer lists and rights to sell	\$ 8,272	\$ 8,391	\$ 3,719	\$3,340
Trademarks and patents	1,788	1,788	1,788	1,788
Formulations and product technology	3,278	3,278	2,128	1,931
Other	3,274	3,384	2,704	2,509
Total	<u>\$16,612</u>	<u>\$16,841</u>	<u>\$10,339</u>	<u>\$9,568</u>

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

The Company recorded \$906 and \$900 of amortization expense in the first nine months of 2008 and 2007, respectively. Estimated annual aggregate amortization expense for the current year and subsequent five years is as follows:

For the year ended December 31, 2008	\$ 1,204
For the year ended December 31, 2009	\$ 1,140
For the year ended December 31, 2010	\$ 909
For the year ended December 31, 2011	\$ 837
For the year ended December 31, 2012	\$ 739
For the year ended December 31, 2013	\$ 552

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

Note 12 – Pension and Other Postretirement Benefits

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	Pension Benefits		Other Postretirement Benefits		Pension Benefits		Other Postretirement Benefits	
	2008	2007	2008	2007	2008	2007	2008	2007
Service cost	\$ 690	\$ 631	\$ 6	\$ 5	\$ 2,092	\$ 1,861	\$ 18	\$ 15
Interest cost and other	1,614	1,472	125	135	4,873	4,379	375	405
Expected return on plan assets	(1,543)	(1,271)	—	—	(4,656)	(3,783)	—	—
Other amortization, net	247	324	—	—	742	970	—	—
Net periodic benefit cost	\$ 1,008	\$ 1,156	\$ 131	\$ 140	\$ 3,051	\$ 3,427	\$ 393	\$ 420

Employer Contributions:

The Company previously disclosed in its financial statements for the year ended December 31, 2007, that it expected to make minimum cash contributions of \$6,669 to its pension plans and \$1,000 to its other postretirement benefit plan in 2008. As of September 30, 2008, \$6,165 and \$901 of contributions have been made, respectively.

During the first quarter of 2008 and as required by SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," the Company changed the measurement date of its U.S. pension plan from November 30 to December 31 in order to coincide with the Company's fiscal year end. This change did not have a material impact to the Company's consolidated financial statements.

Note 13 – Commitments and Contingencies

In April of 1992, the Company identified certain soil and groundwater contamination at AC Products, Inc. ("ACP"), a wholly owned subsidiary. In voluntary coordination with the Santa Ana California Regional Water Quality Board, ACP has been remediating the contamination, the principal contaminant of which is perchloroethylene ("PERC"). On or about December 18, 2004, the Orange County Water District ("OCWD") filed a civil complaint in Superior Court, in Orange County, California against ACP and other parties potentially responsible for groundwater contamination. OCWD was seeking to recover compensatory and other damages related to the investigation and remediation of the contamination in the groundwater. Effective October 17, 2007, ACP and OCWD settled all claims related to this litigation. Pursuant to the settlement agreement with OCWD, ACP agreed to pay \$2,000 in two equal installments of \$1,000 (the first installment paid October 31, 2007 and the second installment paid on February 15, 2008). In addition to the \$2,000 payment, ACP agreed to operate the two existing groundwater treatment systems associated with its extraction wells P-2 and P-3 so as to hydraulically contain groundwater contamination emanating from ACP's site until such time as the concentrations of PERC are below the Federal maximum contaminant level for four consecutive quarterly sampling events. During the third quarter of 2007, the Company recognized a \$3,300 charge made up of \$2,000 for the settlement of the litigation, plus an increase in its reserve for its soil and water remediation program of \$1,300. As of September 30, 2008, the Company believes that the range of potential-known liabilities associated with ACP contamination, including the water and soil remediation program, is approximately \$2,000 to \$4,000, for which the Company has sufficient reserves.

The low and high ends of the range are based on the length of operation of the two extraction wells as determined by groundwater modeling with planned higher maintenance costs in later years if a longer treatment period is required. Costs of operation include the operation and maintenance of the extraction wells, groundwater monitoring, one-time expenses to insure P-3 is hydraulically containing the PERC plume and program management. The duration of the well operation was estimated based on historical trends in

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

concentrations in the monitoring wells within the proximity of the applicable extraction wells. Also factored into the model was the impact of water injected into the underground aquifer from a planned recharge basin adjacent to the ACP site, as well as from an injection well to be installed and operated by OCWD as part of the groundwater treatment system for contaminants which are the subject of the aforementioned litigation. Based on the modeling, it is estimated that P-2 will operate for three and half years to up to five years and P-3 will operate for six years to up to nine years. Operation and maintenance costs were based on historical expenditures and estimated inflation. As mentioned above, a significantly higher maintenance expense was factored into the range if the system operates for the longer period. Also included in the reserve are anticipated expenditures to operate an on-site soil vapor extraction system.

The Company believes, although there can be no assurance regarding the outcome of other unrelated environmental matters, that it has made adequate accruals for costs associated with other environmental problems of which it is aware. Approximately \$99 and \$159 was accrued at September 30, 2008 and December 31, 2007, respectively, to provide for such anticipated future environmental assessments and remediation costs.

An inactive subsidiary of the Company that was acquired in 1978 sold certain products containing asbestos, primarily on an installed basis, and is among the defendants in numerous lawsuits alleging injury due to exposure to asbestos. The subsidiary discontinued operations in 1991 and has no remaining assets other than the proceeds from insurance settlements received. To date, the overwhelming majority of these claims have been disposed of without payment and there have been no adverse judgments against the subsidiary. Based on a continued analysis of the existing and anticipated future claims against this subsidiary, it is currently projected that the subsidiary's total liability over the next 50 years for these claims is approximately \$13,800 (excluding costs of defense). Although the Company has also been named as a defendant in certain of these cases, no claims have been actively pursued against the Company, and the Company has not contributed to the defense or settlement of any of these cases pursued against the subsidiary. These cases were handled by the subsidiary's primary and excess insurers who had agreed in 1997 to pay all defense costs and be responsible for all damages assessed against the subsidiary arising out of existing and future asbestos claims up to the aggregate limits of the policies. A significant portion of this primary insurance coverage was provided by an insurer that is now insolvent, and the other primary insurers have asserted that the aggregate limits of their policies have been exhausted. The subsidiary has challenged the applicability of these limits to the claims being brought against the subsidiary. In response to this challenge, two of the three carriers entered into separate settlement and release agreements with the subsidiary in late 2005 and in the first quarter of 2007 for \$15,000 and \$20,000, respectively. The payments under the latest settlement and release agreement are structured to be received over a four-year period with annual installments of \$5,000, the first of which was received early in the second quarter of 2007 and the second of which was received in the first quarter of 2008. The subsequent installments are contingent upon whether or not Federal asbestos legislation is adopted by the due date of each annual installment. If Federal asbestos legislation is so enacted and such legislation eliminates the carrier's obligation to make the installment payment and requires the carrier to contribute into a trust or similar vehicle as a result of the policies issued to the subsidiary, the insurance carrier's obligation to make the subsequent installments will be cancelled. The proceeds of both settlements are restricted and can only be used to pay claims and costs of defense associated with the subsidiary's asbestos litigation. During the third quarter of 2007, the subsidiary and the remaining primary insurance carrier entered into a Claim Handling and Funding Agreement, under which the carrier will pay 27% of defense and indemnity costs incurred by or on behalf of the subsidiary in connection with asbestos bodily injury claims for a minimum of five years beginning July 1, 2007. At the end of the term of the agreement, the subsidiary may choose to again pursue its claim against this insurer regarding the application of the policy limits. The Company also believes, that if the coverage issues under the primary policies with the remaining carrier are resolved adversely to the subsidiary and all settlement proceeds were used, the subsidiary may have limited additional coverage from a state guarantee fund established following the insolvency of one of the subsidiary's primary insurers. Nevertheless, liabilities in respect of claims may exceed the assets and coverage available to the subsidiary.

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-subsidary relationship. Although asbestos litigation is particularly difficult to predict, especially with respect to claims that are currently not being actively pursued against the Company, the Company does not believe that such claims would have merit or that the Company would be held to have liability for any unsatisfied obligations of the subsidiary as a result of such claims. After evaluating the nature of the claims filed against the subsidiary and the small number of such claims that have resulted in any payment, the potential availability of additional insurance coverage at the subsidiary level, the additional availability of the Company's own insurance and the Company's strong defenses to claims that it should be held responsible for the subsidiary's obligations because of the parent-subsidary 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-subsidary 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.

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

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.

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

Executive Summary

Quaker Chemical Corporation is a leading global provider of process chemicals, chemical specialties, services, and technical expertise to a wide range of industries – including steel, automotive, mining, aerospace, tube and pipe, coatings and construction materials. Our products, technical solutions, and chemical management services enhance our customers' processes, improve their product quality, and lower their costs.

The revenue growth in the third quarter of 2008 was primarily due to increased selling prices, as volume growth in Asia/Pacific and South America was more than offset by declines in the Company's other regions. Higher selling prices helped to partially offset higher raw material costs resulting in a 7.8% increase in gross margin dollars, although gross margin as a percentage of sales declined compared to the third quarter of 2007. Raw material costs continued to be higher as compared to the prior year period. The Company's selling, general and administrative expenses as a percentage of sales declined to 24.0% for the third quarter of 2008 compared to 26.0% for the third quarter of 2007. Investments in higher growth areas as well as inflationary increases were more than offset by lower legal, environmental and other costs.

There are some unusual items affecting the quarterly comparisons. The third quarter 2008 results include approximately \$1.6 million of incremental pre-tax charges, or approximately \$0.10 per diluted share, related to the previously announced retirement of the Company's Chief Executive Officer. Additionally, the third quarter 2008 results include a tax rate of 17.6%, reflecting the de-recognition of various FIN 48 uncertain tax positions due to the expiration of applicable statutes of limitations and resolution of tax audits for certain tax years for approximately \$1.0 million, or approximately \$0.09 per diluted share.

The third quarter 2007 results include a \$3.3 million, or \$0.21 per diluted share, environmental charge related to the settlement of environmental litigation involving AC Products, Inc. ("ACP"), a wholly owned subsidiary of Quaker, as well as additional costs for the estimated future remediation costs. Additionally, in the third quarter of 2007, two charges totaling \$1.2 million, or approximately \$0.08 per diluted share, were taken relating to certain customer bankruptcies and a discontinued strategic initiative. The tax benefit recorded in the third quarter of 2007 includes a \$0.7 million, or approximately \$0.07 per diluted share, refund of taxes in China as a result of the Company's increased investment and includes a non-cash out-of-period tax benefit adjustment of \$1.0 million, or approximately \$0.10 per diluted share, related to certain deferred tax items.

The net result was earnings per diluted share of \$0.41 for the third quarter of 2008, up 32%, compared to \$0.31 for the third quarter of 2007. The business environment is subject to limited visibility due to an uncertain global economic environment, as further discussed below in Liquidity and Capital Resources. In addition, raw material prices, which have remained at record levels despite recent declines in crude oil prices, continue to be a challenge. Any improvement in gross margin as a percentage of sales will depend in part upon a sustained period of stable or declining raw material costs. Demand in the fourth quarter is expected to significantly soften due to customer end-market issues, particularly related to our steel and automotive customers in North America and Europe. As a result, the Company expects the fourth quarter results to be the lowest quarterly earnings of the year. The Company will remain focused on pursuing revenue opportunities, managing its raw material and other costs, and pursuing pricing initiatives.

CMS Discussion

In 2003, 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.

Consistent with the foregoing approach, the Company was awarded a series of multi-year CMS contracts, primarily at General Motors Powertrain, Chrysler and Ford manufacturing sites, since 2003. 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. 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, in the alternative structure the Company recognizes 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 those contracts have reverted to a "pass-through" basis, while others have remained on a gross 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.

Liquidity and Capital Resources

Quaker's cash and cash equivalents increased to \$24.1 million at September 30, 2008 from \$20.2 million at December 31, 2007. The increase resulted primarily from \$11.0 million of cash provided operating activities, \$18.4 million of cash used in investing activities, offset by \$12.2 million of cash provided by financing activities.

Net cash flows provided by operating activities were \$11.0 million for the first nine months of 2008, compared to \$16.4 million of cash provided by operating activities for the first nine months of 2007. The Company's higher net income was more than offset by higher pension plan contributions and a greater investment in working capital. In 2007, the Company received a refund of pension premiums attributable to one of its foreign pension plans. The Company remains focused on limiting the pace of its investment in working capital despite significant factors impacting the working capital accounts for the first nine months of 2008 such as increased selling prices, higher raw material costs, the first quarter payment of the Company's annual incentive compensation, as well as the final \$1.0 million payment pursuant to the settlement agreement with AC Products, Inc., a wholly owned subsidiary, and the Orange County Water District. See also Note 13 of Notes to Condensed Consolidated Financial Statements. Further, the Company has incurred significantly more stock-based compensation in 2008 versus the prior year largely due to the previously announced retirement of the Company's Chief Executive Officer. However, the inflow from increased stock-based compensation was offset by the third quarter 2007 environmental charges discussed below.

Net cash flows used in investing activities were \$18.4 million for the first nine months of 2008, compared to \$5.5 million used in investing activities for the first nine months of 2007. The increased use of cash was primarily related to the restricted proceeds received from the Company's second quarter 2008 bond offering, discussed below. Capital expenditures were higher than the prior year primarily due to the Company's expansion of its Middletown, OH manufacturing facility. In the first quarter of 2008, the Company made the third of four annual payments of \$1.0 million related to the 2005 acquisition of the remaining 40% interest in its Brazilian joint venture. In the second quarter of 2007, the Company's Q2 Technologies ("Q2T") joint venture acquired the hydrogen sulfide and natural gas field business of Frontier Research and Chemicals Company, Inc. for \$0.5 million. In addition, the second of four annual \$5.0 million payments was received in the first quarter of 2008 pursuant to the settlement agreement and release entered into during the first quarter of 2007 by an inactive subsidiary of the Company and one of its insurance carriers. These proceeds are restricted and can only be used to pay claims and costs of defense associated with the subsidiary's asbestos litigation. The subsequent installments are contingent upon whether or not Federal asbestos legislation is adopted by the due date of each annual installment. If Federal asbestos legislation is so enacted and such legislation eliminates the carrier's obligation to make the installment payment and requires the carrier to contribute into a trust or similar vehicle as a result of the policies issued to the subsidiary, the insurance carrier's obligation to make the subsequent installments will be cancelled.

Net cash flows provided by financing activities were \$12.2 million for the first nine months of 2008, as compared to \$3.9 million of cash used in financing activities in the first nine months of 2007. During the second quarter of 2008, the Company completed a \$10.0 million industrial revenue bond offering related to the expansion of its Middletown, OH manufacturing facility. The proceeds of this bond are restricted and can only be used for capital expenditures related to the expansion. With strong cash flow from operations the Company was able to make other debt repayments versus borrowings in the prior year. A high level of cash received from stock option exercises as compared to the prior year also impacted the change in cash flows from financing activities.

Recently, general worldwide economic conditions have experienced a downturn due to the credit conditions impacted by the subprime-mortgage turmoil and other factors. Financial markets in the United States, Europe and Asia have been experiencing extreme disruption, including, among other things, extreme volatility in security prices, severely diminished liquidity and credit availability, rating downgrades of certain investments and declining valuations of others. Further, concerns over slower economic activity, inflation and deflation, increased energy costs, decreased consumer confidence, reduced corporate profits and capital spending could lead to adverse business conditions for the Company. We are unable to predict the likely duration and severity of the current disruption in financial markets and adverse global economic conditions. Reference is made to Item 1A of the Company's Annual Report on Form 10-K filed on March 7, 2008.

While currently these conditions have not impaired our ability to access credit lines and finance our operations, there can be no assurance that there will not be a further deterioration in financial markets and confidence in major economies. The Company's primary credit line is a syndicated multicurrency credit agreement with Bank of America, N.A. (administrative agent) and certain other major financial institutions, which expires in 2012. The maximum principal amount available for revolving credit borrowings is \$125.0 million. At September 30, 2008, the Company had approximately \$69.7 million outstanding under its credit lines, compared to \$73.8 million at December 31, 2007. The Company's access to this credit is largely dependent on its consolidated leverage ratio covenant, which cannot exceed 3.5 to 1; at September 30, 2008, the consolidated leverage ratio was below 2.0 to 1. The Company had a net debt-to-total-capital ratio of 27% at September 30, 2008 compared to 36% at September 30, 2007 and 32% at December 31, 2007. In addition, the Company has entered into eight interest rate swaps in order to fix a portion of its variable rate debt, with a combined notional value of \$40.0 million as of September 30, 2008. Outstanding financial derivative instruments expose the Company to credit loss in the event of nonperformance by the counterparties to the agreements. To manage credit risk, the Company limits its exposure to a single counterparty. However, the Company does not expect any of the counterparties to fail to meet their obligations.

Table of Contents

The economic concerns, noted above, can affect our business in a number of ways including, but not limited to, those addressed in the following discussion. Although the Company's financial results remained strong for the third quarter of 2008, the tightening of credit in financial markets adversely affects the ability of customers to obtain financing. This led certain customers to extend payment terms, which may directly impact our working capital investment and need for increased borrowings. Such events increase the Company's exposure to concentration of credit risk, particularly in the automotive and steel industries. In addition, the Company believes demand for steel and automobiles is softening as a result of the reduced general level of economic activity. Downturns in the overall economic climate may also tend to exacerbate specific customer financial issues. 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 write-down or disposal of certain inventory due to its estimated obsolescence or limited marketability.

Our pension plans have not experienced any significant impact on liquidity or counterparty exposure due to the volatility in the credit markets. However, as a result of losses experienced in global equity markets, our pension funds are likely to have a negative return for 2008, which in turn would create increased pension costs and contributions in 2009.

At September 30, 2008, the Company's gross FIN 48 liability, including penalties and interest, was \$12.6 million. The Company cannot determine a reliable estimate of the timing of the cash flows by period related to its FIN 48 liability. However should the FIN 48 liability be paid, the amount of the payment may be reduced by offsetting benefits in other tax jurisdictions by \$5.0 million.

The Company believes it is capable of supporting its operating requirements, including pension plan contributions, payment of dividends to shareholders, possible acquisitions and business opportunities, capital expenditures and possible resolution of contingencies, through internally generated funds supplemented with debt as needed.

Operations

Comparison of Third Quarter 2008 with Third Quarter 2007

Net sales for the third quarter were \$159.5 million, up 13% compared to \$140.7 million for the third quarter of 2007. The increase in net sales was primarily due to higher sales prices and foreign exchange rate translation. Volume growth in Asia/Pacific and South America was more than offset by volume declines in the Company's other regions. Foreign exchange rate translation increased revenues by approximately 5%. Selling price increases were realized, in part, as a result of an ongoing effort to offset higher raw material costs.

Gross margin dollars were up by approximately \$3.4 million, or 8%, over the third quarter of 2007. The gross margin percentage of 29.2% was lower than the third quarter of 2007 at 30.7% but represented an improvement versus 28.3% in the second quarter of 2008. The Company's larger mix of CMS contracts reported on a gross versus pass-through basis and lower Quaker product sales due to lower customer production levels resulted in a gross margin percentage decline of approximately 0.6 percentage points. The remaining decline in the gross margin percentage was due to increased raw material costs partially offset by price increases, as well as product and regional sales mix.

Selling, general and administrative expenses ("SG&A") increased \$1.7 million compared to the third quarter of 2007 due to foreign exchange rate translation. Investments in higher growth areas, as well as inflationary increases, were offset by lower legal, environmental and other costs. SG&A as a percent of sales was 24% versus 26% in the third quarter of 2007.

Effective October 3, 2008, Ronald J. Naples, Chairman, retired as Quaker's Chief Executive Officer. As further discussed in the Company's 8-K filed on May 13, 2008, the Company is recognizing certain accelerated and other costs, in accordance with Mr. Naples' Employment, Transition and Consulting Agreement, which are expected to total \$5.8 million over the 2008-2010 period. Of the \$3.5 million, or approximately \$0.22 per diluted share, in incremental costs incurred in 2008, \$1.6 million, or approximately \$0.10 per diluted share, was recognized in the third quarter of 2008.

In the third quarter of 2007, the Company recorded environmental charges of \$3.3 million. The charges consisted of \$2.0 million related to the settlement of environmental litigation involving AC Products, Inc. a wholly owned subsidiary, as well as an additional \$1.3 million charge for the estimated remaining remediation costs.

The decrease in other income is due to higher foreign exchange losses in the third quarter of 2008 versus the third quarter of 2007. The decrease in interest expense is due to lower average debt balances and interest rates.

The third quarter 2008 effective tax rate of 17.6%, includes the de-recognition of various FIN 48 uncertain tax positions due to the expiration of applicable statutes of limitations and resolution of tax audits for certain tax years for approximately \$1.0 million (including penalties and interest). The tax benefit recorded in the third quarter of 2007 includes a \$0.7 million refund of taxes in China as a result of the Company's increased investment. In addition, the third quarter 2007 includes a non-cash out-of-period tax

[Table of Contents](#)

benefit adjustment of \$1.0 million related to certain deferred tax items. Many external and internal factors can impact this rate and the Company will continue to refine this rate, if necessary, as the year progresses. Refer to the Comparison of the First Nine Months of 2008 with the First Nine Months of 2007 section below for further discussion.

Net income for the third quarter of 2008 was \$4.4 million, up 40% compared to \$3.2 million for the third quarter of 2007, primarily as a result of increased sales and gross margin offset in part by higher selling, general and administrative expenses. As discussed above, the results for the third quarter of 2008 include approximately \$1.6 million, or approximately \$0.10 per diluted share, of incremental charges related to the announced retirement of the Company's chief executive officer. Included in the third quarter 2007 results is a charge of \$3.3 million, or approximately \$0.21 per diluted share, related to an environmental litigation settlement.

Segment Reviews – Comparison of the Third Quarter 2008 with Third Quarter 2007

Metalworking Process Chemicals

Metalworking Process Chemicals consists of industrial process fluids for various heavy industrial and manufacturing applications and represented approximately 93% of the Company's net sales for the third quarter of 2008. Net sales were up \$18.4 million, or 14.1%, compared with the third quarter of 2007. Foreign currency translation positively impacted net sales by approximately 6%, driven by the euro to U.S. dollar, Brazilian real to U.S. dollar and Chinese renminbi to U.S. dollar exchange rates. The average euro to U.S. dollar exchange rate was 1.50 in the third quarter of 2008 compared to 1.37 in the third quarter of 2007, the average Brazilian real to U.S. dollar exchange rate was 0.60 in the third quarter of 2008 compared to 0.52 in the third quarter of 2007, and the average Chinese renminbi to U.S. dollar exchange rate was 0.15 in the third quarter of 2008 compared to 0.13 in the third quarter of 2007. Net sales were positively impacted by growth of 18.3% in Asia/Pacific, 7.7% in North America, 4.5% in Europe and 10.5% in South America, all on a constant currency basis. The growth in sales was attributable to higher sales prices as volume growth in Asia/Pacific and South America were largely offset by declines in the Company's other regions. The increased selling prices were implemented, in part, to offset higher raw material costs. The \$0.8 million increase in this segment's operating income compared to the third quarter of 2007 on a sales increase of 14.1% is reflective of the pace at which raw material costs have continued to increase. This segment's operating income was also negatively impacted by higher selling costs, as well as CMS profitability being negatively impacted by lower Quaker product sales due to lower customer production levels.

Coatings

The Company's coatings segment, which represented approximately 6% of the Company's net sales for the third quarter of 2008, contains products that provide temporary and permanent coatings for metal and concrete products and chemical milling maskants. Net sales for this segment were up \$0.3 million, or 3%, for the third quarter of 2008 compared with the prior year period, primarily due to higher chemical milling maskant product sales sold to the aerospace industry. This segment's operating income was up \$0.3 million.

Other Chemical Products

Other Chemical Products, which represented approximately 1% of the Company's net sales for the third quarter of 2008, consists of sulfur removal products for industrial gas streams sold by the Company's Q2 Technologies joint venture. Net sales were up \$0.1 million, reflective of this segment's second quarter 2007 acquisition of Frontier Research and Chemicals Company. Operating income for the third quarter of 2008 was flat compared to the third quarter of 2007.

Comparison of the First Nine Months of 2008 with the First Nine Months of 2007

Net sales for the first nine months of 2008 were \$465.4 million, up 15% from \$403.2 million for the first nine months of 2007. The increase in net sales was attributable to higher selling prices, higher revenue related to the Company's CMS channel and foreign exchange rate translation. Volume growth in Asia/Pacific and South America was more than offset by volume declines in the Company's other regions. Foreign exchange rate translation increased revenues by approximately 7%. Selling price increases were realized, in part, as a result of an ongoing effort to offset higher raw material costs. CMS revenues were higher due to the impact of additional CMS accounts gained in 2007, as well as the renewal and restructuring of several of the Company's CMS contracts.

Gross margin dollars were up \$10.6 million, almost 9% for the first nine months of 2008, compared to the first nine months of 2007. However, the gross margin percentage was 29.0% for the first nine months of 2008, compared to 30.8% in the first nine months of 2007. The Company's larger mix of CMS contracts reported on a gross versus pass-through basis and lower Quaker product sales due to lower customer production levels resulted in a gross margin percentage decline of approximately 0.5 percentage points. The remaining decline in the gross margin percentage was due to increased raw material costs partially offset by price increases, as well as product and regional sales mix.

SG&A for the first nine months of 2008 increased \$6.0 million compared to the first nine months of 2007 due to foreign exchange rate translation. Investments in higher growth areas, as well as inflationary increases, were offset by lower legal and environmental costs and lower incentive compensation expense. The previously noted charges related to the Company's CEO transition in 2008 and environmental charges in 2007 also impacted the year-to-date comparisons.

Table of Contents

Other income for 2008 includes a net arbitration award of approximately \$1.0 million, or approximately \$0.04 per diluted share, related to litigation with one of the former owners of the Company's Italian subsidiary. The remaining change in other income is due to foreign exchange losses in 2008 compared to foreign exchange gains in 2007. The decrease in interest expense is due to lower average debt balances and interest rates, as well as higher interest income.

The effective tax rate was 29.2% for the first nine months of 2008, compared to 21.2% for the first nine months of 2007. Many external and internal factors can impact this rate and the Company will continue to refine this rate, if necessary, as the year progresses. Included in the effective tax rate for the first nine months of 2008 is a tax refund of \$0.5 million relating to the Company's increased investment in China, as well as the de-recognition of various FIN 48 uncertain tax positions due to the expiration of applicable statutes of limitations and resolution of tax audits for certain tax years for approximately \$1.0 million (including penalties and interest). Included in the effective tax rate for the first nine months of 2007 is a similar tax refund of \$0.7 million relating to the Company's investment in China, as well as the previously noted non-cash out-of-period tax benefit adjustment of \$1.0 million related to certain deferred tax items. At the end of 2007, the Company had net U.S. deferred tax assets totaling \$16.8 million, excluding deferred tax assets relating to additional minimum pension liabilities. The Company records valuation allowances when necessary to reduce its deferred tax assets to the amount that is more likely than not to be realized. The Company considers future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for a valuation allowance. However, in the event the Company were to determine that it would not be able to realize all or part of its net deferred tax assets in the future, an adjustment to the deferred tax assets would be a non-cash charge to income in the period such determination was made, which could have a material adverse impact on the Company's financial statements. The continued price pressure in the Company's raw materials has been negatively impacting profitability in certain taxing jurisdictions. The Company continues to closely monitor this situation as it relates to its net deferred tax assets and the assessment of valuation allowances. The Company is continuing to evaluate alternatives that could positively impact taxable income in these jurisdictions.

Net income for the first nine months of 2008 was \$13.9 million, up 28% compared to \$10.8 million for the first nine months of 2007, primarily as a result of increased sales and gross margin offset in part by higher selling, general and administrative expenses. As discussed above, the results for the first nine months of 2008 include approximately \$3.5 million of incremental pre-tax charges, or approximately \$0.22 per diluted share, related to the retirement of the Company's chief executive officer, as well as a net arbitration award of \$1.0 million, or approximately \$0.04 per diluted share, related to litigation with one of the former owners of the Company's Italian affiliate. The results for the first nine months of 2007 include a \$3.3 million charge, or approximately \$0.21 per diluted share, related to an environmental litigation settlement, as noted above.

Segment Reviews – Comparison of the First Nine Months 2008 with the First Nine Months 2007

Metalworking Process Chemicals

Metalworking Process Chemicals consists of industrial process fluids for various heavy industrial and manufacturing applications and represented approximately 93% of the Company's net sales for the first nine months of 2008. Net sales were up \$58.9 million, or 15.8%, compared with the first nine months of 2007. Foreign currency translation positively impacted net sales by approximately 8%, driven by the euro to U.S. dollar, Brazilian real to U.S. dollar and Chinese renminbi to U.S. dollar exchange rates. The average euro to U.S. dollar exchange rate was 1.52 in the first nine months of 2008 compared to 1.34 in the first nine months of 2007, the average Brazilian real to U.S. dollar exchange rate was 0.59 in the first nine months of 2008 compared to 0.50 in the first nine months of 2007, and the average Chinese renminbi to U.S. dollar exchange rate was 0.14 in the first nine months of 2008 compared to 0.13 in the first nine months of 2007. Net sales were positively impacted by growth of 19.6% in Asia/Pacific, 8.0% in North America, 4.0% in Europe and 6.5% in South America, all on a constant currency basis. The growth in sales was attributable to higher sales prices and mix, volume growth and higher CMS sales due to the renegotiation of certain contracts in 2007. The increased selling prices were implemented, in part, to offset higher raw material costs. The \$0.9 million decrease in this segment's operating income compared to the first nine months of 2007 on a sales increase of 15.8% is reflective of the pace at which raw material costs have continued to increase. This segment's operating income was also negatively impacted by higher selling costs, as well as CMS profitability being negatively impacted by the American Axle strike and lower Quaker product sales due to lower customer production levels.

Coatings

The Company's coatings segment, which represented approximately 6% of the Company's net sales for the first nine months of 2008, contains products that provide temporary and permanent coatings for metal and concrete products and chemical milling maskants. Net sales for this segment were up \$2.2 million, or 8%, for the first nine months of 2008 compared with the prior year period, primarily due to higher chemical milling maskant product sales sold to the aerospace industry. This segment's operating income was up \$0.9 million, consistent with the volume increases noted above.

Other Chemical Products

Other Chemical Products, which represented approximately 1% of the Company's net sales for the first nine months of 2008, consists of sulfur removal products for industrial gas streams sold by the Company's Q2 Technologies joint venture. Net sales were up \$1.1 million, reflective of this segment's second quarter 2007 acquisition of Frontier Research and Chemicals Company. Operating income for the first nine months of 2008 was flat with the first nine months of 2007.

Factors that May Affect Our Future Results

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

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

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

Such statements include information relating to current and future business activities, operational matters, capital spending, and financing sources. From time to time, forward-looking statements are also included in Quaker's reports on Forms 10-K, 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 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. Furthermore, the Company is subject to the same business cycles as those experienced by steel, automobile, aircraft, appliance, and durable goods manufacturers. These risks, uncertainties, and possible inaccurate assumptions relevant to our business could cause our actual results to differ materially from expected and historical results. Other factors beyond those discussed could also adversely affect us. Therefore, we caution you not to place undue reliance on our forward-looking statements. This discussion is provided as permitted by the Private Securities Litigation Reform Act of 1995.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

Interest Rate Risk. Quaker's exposure to market rate risk for changes in interest rates relates primarily to its short and long-term debt. Most of Quaker's debt is negotiated at market rates which can be either fixed or variable. Accordingly, if interest rates rise significantly, the cost of debt to Quaker will increase. This can have an adverse effect on Quaker, depending on the extent of Quaker's borrowings. As of September 30, 2008, Quaker had \$69.7 million in borrowings under its credit facilities, compared to \$73.8 million at December 31, 2007, at a weighted average borrowing rate of approximately 5.8%. 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. During the third quarter of 2008, the Company entered into an additional \$5.0 million notional value interest rate swap. In total, the Company has entered into eight interest rate swaps in order to fix a portion of its variable rate debt as of September 30, 2008. The swaps had a combined notional value of \$40.0 million and \$35.0 million and a fair value of (\$1.3) million and (\$1.1) million at September 30, 2008 and December 31, 2007, respectively. The counterparties to the swaps are major financial institutions. Outstanding financial derivative instruments expose the Company to credit loss in the event of nonperformance by the counterparties to the agreements. To manage credit risk, the Company limits its exposure to a single counterparty. However, the Company does not expect any of the counterparties to fail to meet their obligations. 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 of these operations use the local currency as their functional currency. Accordingly, Quaker's financial results are affected by risks typical of a global business, such as currency fluctuations, particularly between the U.S. dollar, the Brazilian real, the Chinese renminbi and the E.U. euro. As exchange rates vary, Quaker's results can be materially affected.

The Company generally does not use financial instruments that expose it to significant risk involving foreign currency transactions; however, the size of non-U.S. activities has a significant impact on reported operating results and the attendant net assets. During the past three most recent fiscal years, sales by non-U.S. subsidiaries accounted for approximately 55% to 58% of the consolidated net annual sales.

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

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

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

Item 4. Controls and Procedures.

Evaluation of disclosure controls and procedures. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Securities Exchange Act of 1934 (the “Exchange Act”) is accumulated and communicated to the issuer’s management, including its principal executive officer and principal financial officer, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. Based on their evaluation of such controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q, the Company’s principal executive officer and principal financial officer have concluded that the Company’s disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)), are effective to reasonably assure that information required to be disclosed by the Company in the reports it files under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission.

Changes in internal controls. The Company is in the process of implementing a global ERP system. At the end of 2007, subsidiaries representing more than 75% of consolidated revenue were operational on the global ERP system. Additional subsidiaries and CMS sites have been implemented and are planned to be implemented during 2008. The Company is taking the necessary steps to monitor and maintain its internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) during this period of change.

PART II.
OTHER INFORMATION

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

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The following table sets forth information concerning shares of the Company's common stock acquired by the Company during the period covered by this report, all of which were acquired from employees in payment of the exercise price of employee stock options exercised during the period.

Issuer Purchases of Equity Securities

<u>Period</u>	(a) Total Number of Shares Purchased (1)	(b) Average Price Paid per Share (2)	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (3)	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (3)
July 1 – July 31	8,805	\$ 30.66	—	252,600
August 1 – August 31	9,469	\$ 32.65	—	252,600
September 1 – September 30	—	\$ —	—	252,600
Total	18,274	\$ 31.69	—	252,600

- (1) All of the 18,274 shares acquired by the Company during the period covered by this report were acquired from employees upon their surrender of previously owned shares in payment of the exercise price of employee stock options.
- (2) The price per share, in each case, represented either a) the average of the high and low price of the Company's common stock on date of exercise; or b) the closing price of the Company's common stock on date of exercise, as specified by the plan pursuant to which the applicable option was granted.
- (3) On February 15, 1995, the Board of Directors of the Company authorized a share repurchase program authorizing the repurchase of up to 500,000 shares of Quaker common stock, and, on January 26, 2005, the Board authorized the repurchase of up to an additional 225,000 shares. Under the 1995 action of the Board, 27,600 shares may yet be purchased. Under the 2005 action of the Board, none of the shares authorized has been purchased and, accordingly, all of those shares may yet be purchased. Neither of the share repurchase authorizations has an expiration date.

Item 5. Other Information.

As previously announced on October 1, 2008, Mark A. Harris announced his resignation from his position as the Company's Senior Vice President, Global Strategy and Marketing, effective December 31, 2008. On October 29, 2008, the Company entered into a Compromise Agreement and Consultancy Agreement with Mr. Harris. The Compromise Agreement provides for release and settlement of claims against the Company and its affiliates in consideration for entering into the Consultancy Agreement. The Consultancy Agreement is for a five-year term commencing January 1, 2009. In the first three years, Mr. Harris will provide consultancy services to the Company of up to ten days a month for a monthly fee of GBP 18,500 during the first year and GBP 10,500 in the second and third years of the consultancy period. After year three, no consultancy services will be required, but Mr. Harris will be paid a monthly fee of GBP 4,500, subject to continued compliance with certain restrictive covenants. In addition, the Company will pay on July 1st during the first three years of the Consultancy Agreement, an annual fee of GBP 40,000, again subject to continued compliance with certain restrictive covenants. The Company can not terminate the Consultancy Agreement during its term except for breach or non-compliance with its terms and conditions. On October 29, 2008, the GBP to USD exchange rate was 1.56.

[Table of Contents](#)

Item 6. Exhibits.

(a) Exhibits

10.1 - By-Laws (as amended, effective October 4, 2008)

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 Michael F. Barry Pursuant to 18 U.S. C. Section 1350

32.2 - Certification of Mark A. Featherstone Pursuant to 18 U.S. C. Section 1350

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

QUAKER CHEMICAL CORPORATION
(Registrant)

/s/ Mark A. Featherstone

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

Date: October 30, 2008

QUAKER CHEMICAL CORPORATION
(a Pennsylvania Corporation)

BY-LAWS
(as amended, effective October 4, 2008)

Section 1.1. Registered Office

The Registered Office of the Corporation shall be at One Quaker Park, 901 Hector Street, Conshohocken, Pennsylvania until otherwise changed by the Board of Directors.

Section 2.1. Place of Shareholders' Meetings

Meetings of the shareholders shall be held at the Registered Office of the Corporation or at such other place within or without Pennsylvania as the Board of Directors may fix.

Section 2.2. Annual Meeting of Shareholders

An Annual Meeting of shareholders shall be held in every calendar year at such time as the Board of Directors may fix. At the Annual Meeting of shareholders, directors shall be elected to serve for the ensuing year or until their successors shall be duly elected and qualified, and there shall be transacted such other business as may properly be brought before the Meeting.

A financial report of the Corporation's business as of the close of the preceding fiscal year shall be presented at the Annual Meeting, and shall be sent to shareholders.

Section 2.3. Special Meetings of Shareholders

Special Meetings of shareholders may be called at any time by the Chairman of the Board, the President or the Board of Directors, or shareholders entitled to cast not less than four-fifths of the votes which all shareholders are entitled to cast at the particular meeting. At any time, upon the written request of any person entitled to call a Special Meeting, it shall be the duty of the Secretary to fix the date of such Special Meeting to be held not less than five nor more than sixty days after the receipt of the request and to give due notice thereof. If the Secretary shall neglect or refuse to fix the date of the meeting and give notice thereof, the person or persons making the request may do so.

Section 2.4. Notice of Shareholders' Meetings

At least five days written notice shall be given of any meeting of shareholders, unless a greater period of notice is required by law. Such notice shall specify the place, day and hour of the meeting, and in the case of a Special Meeting of shareholders, the general nature of the business to be transacted.

Section 2.5. Waiver of Notice of Shareholders' Meetings

Whenever written notice is required to be given by law, by the Articles or these By-Laws, a written waiver thereof signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice. Except in the case of a Special Meeting of shareholders, neither the business to be transacted nor the purpose of the meeting need be specified in the Waiver of Notice of such Meeting.

Attendance of a person, either in person or by proxy, at any meeting shall constitute a waiver of notice of such meeting, except where a person attends a meeting for the express purpose of objecting to the transaction of any business because the meeting was not lawfully called or convened.

Section 2.6. Quorum for Shareholders' Meetings

The presence, in person or by proxy, of the shareholders entitled to cast a majority of the votes which all shareholders are entitled to cast on a matter to be voted upon at a meeting of shareholders shall constitute a quorum, and the acts of such quorum, at a duly organized meeting of shareholders, shall constitute the acts of all the shareholders. The shareholders present at a duly organized meeting can continue to do business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum.

Section 2.7. Conduct of Shareholders' Meetings

Meetings of the shareholders shall be presided over by the Chairman of the Board, or if he is not present, by the President, or if he is not present, by a Vice President, or if none of the Chairman of the Board or the President or Vice President is present, by a Chairman to be chosen at the meeting. The Secretary of the Corporation, or in his absence, an Assistant Secretary or one temporarily designated as such, shall act as Secretary of the meeting.

Section 2.8. Shareholder Participation by Telephone

One or more shareholders may participate in any meeting of shareholders by means of conference telephone or similar communications equipment by means of which all persons participating in such meeting can hear each other.

Section 2.9. Voting by Shareholders

Except as otherwise provided by law or in the Articles, every shareholder of record shall have the right at every shareholders' meeting to those votes as provided for pursuant to Article 5 of the Articles, for every share standing in his name on the books of the Corporation. Every shareholder entitled to vote at a meeting of shareholders or to express consent to corporate action in writing without a meeting may authorize another person or persons to act for him by proxy.

All voting and elections shall be taken by voice vote unless a vote by ballot shall be demanded by a shareholder or by the Chairman of the meeting before the voting or election begins, or unless otherwise required by law or by the Articles.

Section 2.10. Judges of Election

In advance of any meeting of shareholders, the Board of Directors may appoint Judges of Election, who need not be shareholders, to act at such meeting or any adjournment thereof. If Judges of Election be not so appointed, the Chairman of the meeting may, and on the request of any shareholder or his proxy shall, make such appointment at the meeting. The number of Judges shall be one or three, and no candidate shall act as a Judge. On request of the Chairman of the meeting or of any shareholder or his proxy, the Judges shall make a report in writing of any challenge or question or matter determined by them and execute a certificate of any fact found by them.

Section 2.11. Adjournment of Meetings

Adjournment of any meeting may be taken, but any meetings at which Directors are to be elected shall be adjourned only from day to day, or for such longer periods not exceeding fifteen days each, as may be directed by the shareholders who are entitled to cast at least a majority of the votes which all such shareholders would be entitled to cast at an election of directors, until such directors have been elected. When a meeting is adjourned, it shall not be necessary to give any notice of the adjourned meeting or of the business to be transacted thereat, other than by announcement of the meeting at which such adjournment is taken. In case of any meeting called for the election of Directors, those who attend the second of such adjourned meeting, although less than a quorum, shall nevertheless constitute a quorum for the purpose of electing Directors.

Section 3.1. Board of Directors, Number Qualifications, Elections, Term of Office, and Compensation

The business and affairs of the Corporation shall be managed by a Board of not less than five (5) nor more than fifteen (15) Directors, as may be fixed from time to time by the vote of a majority of the whole Board. Directors shall be of full age, but need not be residents of Pennsylvania or shareholders of the Corporation.

The Board of Directors shall have authority to fix the compensation of Directors for their services and to authorize payment for expenses of attendance at meetings. A Director may also be a salaried officer or employee of the Corporation.

Section 3.2. Quorum for Directors' Meetings

A majority of the Directors in office shall be necessary to constitute a quorum for the transaction of business, and the acts of a majority of the Directors present at a meeting at which a quorum is present shall be the acts of the Board of Directors. A Director who is present at a meeting shall be counted in determining the presence of a quorum even though a contract or transaction between the Corporation and such Director or another business in which such Director has a financial interest is authorized at the meeting.

Section 3.3. Directors' Consent in Lieu of Meeting

Any action which may be taken at a meeting of the Board of Directors or of any Committee thereof may be taken without a meeting if a consent or consents in writing, setting forth the action so taken, shall be signed by all of the Directors or the members of the Committee, as the case may be, and shall be filed with the Secretary of the Corporation. One or more Directors may participate in a meeting of the Board of Directors or a Committee thereof by means of a conference telephone or similar communications equipment by means of which all persons participating in such meeting can hear each other.

Section 3.4. Vacancies in Board of Directors

Except as otherwise provided in the Articles, vacancies in the Board of Directors, including vacancies resulting from an increase in the number of Directors, may be filled by a majority of the remaining members of the Board though less than a quorum, and each person so elected shall be a Director until his successor is elected by the shareholders, who may make such election at the next Annual Meeting of the shareholders.

Section 3.5. Place of Meeting of Board of Directors

The meetings of the Board of Directors may be held at such place within Pennsylvania, or elsewhere, as a majority of the Directors may from time to time appoint or as may be designated in the notice calling the meeting.

Section 3.6. Organization Meeting of the Board of Directors

After the election of Directors by the shareholders, the newly elected Board may meet for the purpose of organization or otherwise:

(a) Immediately following their election, or at such time and place as shall be fixed by vote of the shareholders at the Annual Meeting (and in either such case no notice of such meeting to the newly elected Directors shall be necessary in order legally to constitute the meeting, provided a majority of the whole Board shall be present): or

(b) At such time and place as may be fixed by consent in writing of all the Directors.

Section 3.7. Regular Meetings of the Board of Directors

Regular Meetings of the Board of Directors shall be held at such time and place as shall be determined by a majority of the Board.

Section 3.8. Special Meeting of the Board of Directors

Special Meetings of the Board of Directors may be called by the Chairman of the Board, President or Secretary on at least two days notice to each Director, either personally or by mail or by telegram, of the time and place of such Special Meeting. At the written request of two Directors, Special Meetings shall be called by the Chairman of the Board, President or Secretary in like manner and on like notice.

Section 3.9. Adjournments of Meetings of Board of Directors

If a meeting of the Board of Directors is adjourned, it shall not be necessary to give any notice of the adjourned meeting, or of the business to be transacted at an adjourned meeting, other than by announcement at the meeting at which such adjournment is taken.

Section 3.10. Powers of Board of Directors

A. *Organizational Meeting:* At the first meeting of the Board of Directors in each year (at which a quorum shall be present) held next after the Annual Meeting of Shareholders, it shall be the duty of the Board of Directors to elect or appoint the officers of the Corporation.

B. *General Powers:* The Board of Directors shall have all the power and authority granted by law to Directors except as may be specifically excepted by the Articles or by these By-Laws.

C. *Committees:* The Board of Directors, by Resolution adopted by a majority thereof, may designate an Executive Committee and one or more other committees, each of which shall consist of at least two Directors and such other Directors as shall be appointed by the Board of Directors to serve as alternate members of any such Committee to replace any absent or disqualified member at any Committee Meeting. In the event that any member of any such Committee shall be absent from or disqualified at such Meeting, the member or members thereof present at any such Meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another Director to act at the Meeting in the place of any such absent or disqualified member. Any such Committee shall have and exercise the authority of the Board of Directors in the management of the business and affairs of the Corporation to the extent provided in the Resolution creating such Committee.

Section 3.11. Removal of Directors by Shareholders

The entire Board of Directors, or any individual Director may be removed from office with or without assigning any cause, only by the affirmative vote of the shareholders entitled to cast at least four-fifths of the votes entitled to be cast generally in the election of Directors. In case the Board or any one or more Directors be so removed, new Directors may be elected at the same meeting.

Section 3.12. Limitation on Personal Liability of Directors

A Director of the Corporation shall not be personally liable for monetary damages for any action taken, or any failure to take any action, unless he or she has both (i) breached the standards set forth in Title 42, Chapter 83, Section 8363 of the Pennsylvania Consolidated Statutes relating to performance of a director's duties and (ii) such breach or failure to perform constitutes self-dealing, willful misconduct or recklessness. This exemption from liability shall not apply to the responsibility or liability of a Director pursuant to any criminal statute or the liability of a Director for the payment of taxes pursuant to local, State or Federal law. If the Pennsylvania Consolidated Statutes hereafter are amended to authorize the further elimination or limitation of the liability of directors, then the liability of a Director of the Corporation, in addition to the limitation on personal liability provided herein, shall be limited to the fullest extent permitted by the amended Pennsylvania Consolidated Statutes. Any repeal or modification of this section shall be prospective only, and shall not adversely affect any limitation on the personal liability of a Director of the Corporation existing at the time of such repeal or modification.

Section 3.13. Directors Emeriti

The Board of Directors may, from time to time, in its discretion confer upon such of its former members as it may determine the title of "Director Emeritus," and, if conferred, such title may be withdrawn by the Board of Directors at any time thereafter. Such title shall be honorary in nature to designate the conferee as a former member of the Board, and persons upon whom the title may be conferred shall not be members of the Board of Directors, shall not vote upon matters submitted to a vote of the Board of Directors, and, in the absence of a specific invitation to the contrary, shall not be entitled to attend any meetings of the Board of Directors or of committees thereof.

Section 3.14. Chairman Emeritus

The Board of Directors may, in its discretion, confer on such of its members or former members as shall have served as Chairman of the Board the title of Chairman Emeritus. Such title shall be honorary in nature to designate the conferee as a former Chairman of the Board. If serving as a Director, the title shall not be construed to grant any rights, duties, or authority beyond that of any other Director. If not serving as a Director, the conferee shall not be construed to be a Director of the Company.

Section 4.1. Officers

The Officers of the Corporation shall be a Chairman of the Board, a President, a Secretary, and a Treasurer, all of whom shall be elected or appointed by the Board of Directors. The Board of Directors may also elect one or more Vice Presidents, one or more Assistant Treasurers and one or more Assistant Secretaries. Any two or more offices may be held by the same person.

The Board of Directors may at any time also elect or appoint such other officers, assistant officers and agents as it shall deem necessary and as the needs of the Corporation may require. Such other officers, assistant officers and agents shall have such authority and shall perform such duties as from time to time may be prescribed by the Board of Directors.

The Officers shall be elected each year at the organization meeting of the Board of Directors, but if not so elected, they, and any assistant officers or agents the Board of Directors shall desire to appoint, may be elected from time to time during the year. It shall not be necessary for any officer of the Corporation to be a Director.

Section 4.2. The Chairman of the Board - Powers and Duties

The Chairman of the Board shall, when present, preside at all meetings of the Board and at all meetings of shareholders. He shall do and perform such duties as from time to time may be assigned to him by the Board of Directors.

Section 4.3 The President - Powers and Duties

The President shall be the chief executive and chief operating officer of the Corporation. He shall have the ordinary duties of an executive officer with responsibility for general supervision and direction of the operations of the Corporation, including strategic planning. He is authorized to execute in the name of the Corporation contracts and other documents requiring the signature of the Corporation. He shall also do and perform such other duties as from time to time may be assigned to him by the Board of Directors.

Unless otherwise ordered by the Board of Directors, the President shall have full power and authority on behalf of the Corporation to attend and act and vote at any meeting of the shareholders of any corporation in which the Corporation may hold stock, and at any such meeting shall possess and may exercise any and all the rights and powers incident to the ownership of such stock which the Corporation, as the owner thereof, might have possessed and exercised if present. The Board of Directors may, by resolution, from time to time confer like powers upon any other person or persons.

Section 4.4. The Vice President - Powers and Duties

A Vice President or Vice Presidents shall be elected by the Board of Directors, if the Board of Directors determines that such offices shall be created. The Vice President (or, if there are more than one, then each Vice President) shall have such powers and shall perform such duties as may from time to time be assigned to him or them by the Board of Directors or by the Chairman of the Board or by the President. Unless otherwise ordered by the Board of Directors, the Vice President (or Vice Presidents in order of their numbered designations) shall, in the case of the death, resignation, absence or disability of the President, perform the duties of that Officer, until the return of the President, or until the disability shall have been removed or a new President shall have been elected.

Section 4.5. Treasurer - Powers and Duties

The Treasurer shall have the custody of all the funds and securities of the Corporation which may come into his hands. When necessary or proper (unless otherwise ordered by the Board of Directors) he shall (a) endorse for collection on behalf of the Corporation checks, notes and other obligations, (b) deposit the same to the credit of the Corporation in such banks or depositories as the Board of Directors may designate and (c) sign all receipts and vouchers for payments made by the Corporation. He shall, at all reasonable times, exhibit his books and accounts to the Board of Directors of the Corporation upon the request of any Director, and he shall also, if so directed by the Board of Directors, annually prepare and submit to the Annual Meeting of the shareholders a full statement of the assets and liabilities of the Corporation and of its transactions during the preceding year, and he shall have such other powers and shall perform such other duties as may be assigned to him from time to time by the Board of Directors. He shall give such bond for the faithful performance of his duties as may be required by the Board of Directors.

Section 4.6. Assistant Treasurer - Powers and Duties

Each Assistant Treasurer shall have such powers and perform such duties as may be assigned to him by the Board of Directors.

Section 4.7. Secretary - Powers and Duties

Unless otherwise ordered by the Board of Directors, the Secretary shall keep the minutes of all meetings of the shareholders and of the Board of Directors in proper books to be kept for such purpose, and shall attend to the giving of all notices by the Corporation, including notices of meetings of shareholders and of the Board of Directors. He shall have charge of the share certificate books, transfer books, capital stock ledger and such other books and papers as the Board of Directors may direct. He shall in general perform all the duties incident to the office of Secretary and shall have such other powers and perform such other duties as may be assigned to him by the Board of Directors.

Section 4.8. Assistant Secretary - Powers and Duties

Each Assistant Secretary shall have such powers and perform such duties as may be assigned to him or them by the Board of Directors.

Section 4.9. Removal and Vacancies

The Board of Directors shall have power to remove any officer from office at any time and shall also have the power to fill any vacancies in any office occurring from whatever reason. Such power shall be exercised by a majority vote of the Directors in office at the time of such removal or vacancy, although less than a quorum.

Section 5.1. Share Certificates

Every shareholder of record shall be entitled to a share certificate representing the shares owned by him, provided that the shares represented thereby shall have been fully paid for. Such share certificate shall be signed by the Chairman of the Board, President, or a Vice President, and by the Secretary or Treasurer except where such share certificate is signed by a transfer agent or a registrar, in which case the signature of any officer of the Corporation upon such share certificate may be a facsimile, engraved or printed.

Section 5.2. Transfer of Share Certificates

The transfer of a share certificate and the shares represented thereby shall be made on the books of the Corporation only by the registered owner thereof or by his attorney duly authorized in writing to make such transfer, and only upon surrender of such share certificate, which shall be canceled at the time of transfer.

The Corporation shall be entitled to treat the holder of record of any share certificate or certificates and the shares represented thereby as the holder in fact thereof, and accordingly shall not be bound to recognize any equitable or other claim to or interest in such share certificate or certificates and shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise expressly provided by law or by the Articles.

Section 5.3. Lost Share Certificate

The holder of any certificate representing shares of stock of the Corporation shall immediately notify the Corporation of any mutilation, loss or destruction thereof, and the Board of Directors may, in its discretion, cause one or more new certificates for the same number of shares in the aggregate to be issued to such holder upon the surrender of the mutilated certificate, or in case of loss or destruction of the certificate, upon satisfactory proof of such loss or destruction and deposit of indemnity by bond or otherwise in such form and amount and with such surety or sureties as the Board of Directors may require to indemnify the Corporation against loss or liability by reason of the issuance of such new certificate, but the Board may, in its discretion, refuse to issue such new certificates save upon the order of some court having jurisdiction in such matters.

Section 6.1. Fiscal Year

The fiscal year of the Corporation shall be established by the Board of Directors.

Section 7.1. Indemnification and Insurance

A. *Right to Indemnification*: Each person who was or is made a party or is threatened to be made a party to or is involved in any action, suit or proceeding (hereinafter a "proceeding"), whether civil, criminal, administrative or investigative, including, without limitation, an action or suit by or in the right of the Corporation, by reason of the fact that he or she, or a person of whom he or she is the legal representative, is or was a director or officer of the Corporation or is or was serving at the request of the Corporation as a director or officer of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether the basis of such proceeding is alleged action in an official capacity as director or officer, or in any other capacity, shall be indemnified and held harmless by the Corporation to the fullest extent and manner authorized or permitted by the laws of the Commonwealth of Pennsylvania, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said law permitted the Corporation to provide prior to such amendment), against all expense, liability and loss (including attorneys' fees, judgments, penalties, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by such person in connection therewith and such indemnification shall continue as to a person who as ceased to be a director or officer and shall inure to the benefit of his or her heirs, executors and administrators; provided, however, that, except as provided in subsection D hereof, the Corporation shall indemnify any such person seeking indemnification in connection with a proceeding (or part thereof) initiated by such person only if such proceeding (or part thereof) was authorized by the Board of Directors of the Corporation. The right to indemnification conferred in this Section shall be a contract right and each person to whom this right to indemnification applies shall be a third party beneficiary of such right and shall be entitled to enforce against the Corporation all indemnification and other rights granted to such person by this Section. Such right shall include the right to be paid by the Corporation the expenses incurred in any such proceeding in advance of its final disposition; provided, however, that, if the laws of the Commonwealth of Pennsylvania require, the payment of such expenses incurred by a director or officer in advance of the final

disposition of a proceeding shall be made only upon delivery to the Corporation of an undertaking, by or on behalf of such director or officer, to repay all amounts so advanced if it shall ultimately be determined that such director or officer is not entitled to be indemnified under this Section or otherwise. The Corporation may, by action of its Board of Directors, provide indemnification to employees, agents or fiduciaries of the Corporation or to any person who is or was serving at the request of the Corporation as an employee, agent or fiduciary of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to any employee benefit plan, with the same or lesser scope and effect as set forth herein and in the other subsections of this Section. If and to the extent that the laws of the Commonwealth of Pennsylvania require that indemnification be provided in a given instance only if the person acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal proceeding, had no reasonable cause to believe his or her conduct was unlawful, then termination of any proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not of itself create a presumption that the person did not act in good faith and in a manner which he or she reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal proceeding, that he or she had reasonable cause to believe that his or her conduct was unlawful. Termination of any proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not of itself be a determination by a court that the act or failure to act giving rise to a claim for indemnification constituted willful misconduct or recklessness.

B. Denial of Right to Indemnification: Indemnification under subsection A above shall be made by the Corporation unless a determination is reasonably and promptly made that indemnification of a director or officer is not proper in the circumstances because of grounds for denying indemnification under this Section or under applicable law. Such determination may be made only (i) by the Board of Directors by a majority vote of a quorum consisting of directors who were not parties to such proceeding (“disinterested directors”), or (ii) if such quorum is not obtainable, or even if obtainable, if a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or (iii) by the shareholders.

C. Expenses in Successful Defense: Notwithstanding any other provisions of this Section, to the extent that a director or officer of the Corporation has been successful on the merits or otherwise in defense of any proceeding referred to in subsection A above or in defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys’ fees) actually and reasonably incurred by him in connection therewith.

D. Right of Claimant to Bring Suit: If a claim under subsection A of this Section is not paid in full by the Corporation within thirty (30) days after a written claim has been received by the Corporation, the claimant may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall be entitled to be paid also the expense of prosecuting such claim. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition where the required undertaking, if any is

required, has been tendered to the Corporation) that the claimant has not met the standards of conduct which make it permissible under the laws of the Commonwealth of Pennsylvania for the Corporation to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the Corporation. Neither the failure of the Corporation (including its Board of Directors, independent legal counsel, or its shareholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he or she has met the applicable standard of conduct set forth in the laws of the Commonwealth of Pennsylvania, nor an actual determination by the Corporation (including its Board of Directors, independent legal counsel, or its shareholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct.

E. *Non-Exclusivity of Rights*: The rights to indemnification and the payment of expenses incurred in a proceeding in advance of its final disposition conferred in this Section shall not be exclusive of any right which any person may have or hereafter acquire under any statute, provision of the Articles of Incorporation, By-Law, agreement, vote of shareholders or disinterested directors or otherwise.

F. *Insurance*: The Corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee, agent or fiduciary of the Corporation or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the laws of the Commonwealth of Pennsylvania.

G. *Interpretations*: For purposes of this Section:

(a) References to “the Corporation” shall upon written resolution of the Board of Directors of the Corporation include, in addition to the Corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had the power and authority to indemnify its directors or officers, so that any person who is or was a director or officer of such constituent corporation, or is or was serving at the request of such constituent corporation as a director or officer of another corporation, shall for purposes of this Section be deemed to hold the same position in the Corporation as he or she held in such constituent corporation.

(b) A person who acted in good faith and in a manner he or she reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner “not opposed to the best interests of the Corporation” as referred to in this Section.

H. *Amendment or Repeal*: This Section may hereafter be amended or repealed; provided, however, that no amendment or repeal shall reduce, terminate or otherwise adversely affect the right of a person who is or was a director or officer to obtain indemnification or advancement of expenses with respect to a proceeding that pertains to or arises out of actions or omissions that occur prior to the effective date of such amendment or repeal, which date cannot be retroactive.

Section 8.1. Inapplicability of Section 910 of the Pennsylvania Business Corporation Law

Sections 2541 through 2548, Sections 2561 through 2567, and Sections 2571 through 2575 of The Pennsylvania Business Corporation Law shall not be applicable to the Corporation.

Section 8.2. Amendments to By-Laws

The holders of all the shares outstanding and entitled to vote may, by a majority vote, make, alter, amend or repeal any provision of these By-Laws at any Annual or Special Meeting duly convened after notice to the shareholders of such purpose.

The Board of Directors, by a majority vote of the members thereof, may make, alter, amend or repeal any provisions of these By-Laws at any Regular or Special Meeting, duly convened after notice to the Directors of such purpose. The shareholders shall have the right to change such action by a majority vote of the shareholders entitled to vote thereon at any Annual or Special Meeting duly convened after notice to the shareholders of such purpose.

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

I, Michael F. Barry, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Quaker Chemical Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by 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: October 30, 2008

/s/ Michael F. Barry

Michael F. Barry
Chief Executive Officer

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

I, Mark A. Featherstone, certify that:

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

Date: October 30, 2008

/s/ Mark A. Featherstone
Mark A. Featherstone
Chief Financial Officer

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

The undersigned hereby certifies that the Form 10-Q Quarterly Report of Quaker Chemical Corporation (the "Company") for the quarterly period ended September 30, 2008 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: October 30, 2008

/s/ Michael F. Barry

Michael F. Barry

Chief Executive Officer of Quaker Chemical Corporation

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

The undersigned hereby certifies that the Form 10-Q Quarterly Report of Quaker Chemical Corporation (the "Company") for the quarterly period ended September 30, 2008 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: October 30, 2008

/s/ Mark A. Featherstone

Mark A. Featherstone

Chief Financial Officer of Quaker Chemical Corporation