

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 1997

or

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

Commission file number 0-7154

QUAKER CHEMICAL CORPORATION

(Exact name of Registrant as specified in its charter)

A Pennsylvania Corporation

No. 23-0993790

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. EMPLOYER IDENTIFICATION NO.)

Elm and Lee Streets, Conshohocken, Pennsylvania

19428

(Address of principal executive offices)

(Zip Code)

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

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

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

Securities registered pursuant to Section 12(g) of the Act:  
None

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

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

State the aggregate market value of the voting stock held by non-  
affiliates of the Registrant. (The aggregate market value is computed by  
reference to the last reported sale on the New York Stock Exchange on March  
13, 1998): \$152,969,813.

Indicate the number of shares outstanding of each of the Registrant's  
classes of common stock as of the latest practicable date: 8,775,344 shares  
of Common Stock, \$1.00 Par Value, as of March 13, 1998.

DOCUMENTS INCORPORATED BY REFERENCE

- (1) Portions of the Registrant's Annual Report to Shareholders for the year  
ended December 31, 1997 are incorporated into Parts I and II.
- (2) Portions of the Registrant's definitive Proxy Statement dated March 30,  
1998 in connection with the Annual Meeting of Shareholders to be held on  
May 6, 1998 are incorporated into Part III.

The exhibit index is located on page 13.

PART I

As used in this Report, the term "Quaker," unless the context otherwise  
requires, means Quaker Chemical Corporation, its subsidiaries, and associated  
companies.

Item 1. Business.

General Description

Quaker develops, produces, and markets a broad range of formulated  
chemical specialty products for various heavy industrial and manufacturing  
applications and, in addition, offers and markets chemical management  
services, including recycling services. Quaker's principal products and  
services include: (i) rolling lubricants (used by manufacturers of steel in  
the hot and cold rolling of steel and by manufacturers of aluminum in the cold  
rolling of aluminum); (ii) corrosion preventives (used by steel and  
metalworking customers to protect metal during manufacture, storage, and  
shipment); (iii) metal finishing compounds (used to prepare metal surfaces for  
special treatments such as galvanizing and tin plating and to prepare metal  
for further processing); (iv) machining and grinding compounds (used by

metalworking customers in cutting, shaping, and grinding metal parts which require special treatment to enable them to tolerate the manufacturing process); (v) forming compounds (used to facilitate the drawing and extrusion of metal products); (vi) paper production products (used as defoamers, release agents, softeners, debonders, and dispersants); (vii) hydraulic fluids (used by steel, metalworking, and other customers to operate hydraulically activated equipment); (viii) products for the removal of hydrogen sulfide in various industrial applications; (ix) chemical milling maskants for the aerospace industry; (x) construction products such as flexible sealants and protective coatings for various applications; and (xi) programs to provide recycling and chemical management services.

Substantially all of Quaker's sales worldwide are made directly through its own sales force. Quaker sales persons visit the plants of customers regularly, and through training and experience, identify production needs which can be resolved or alleviated either by adapting Quaker's existing products or by applying new formulations developed in Quaker's laboratories. Sales personnel may call upon Quaker's regional managers, product managers, and members of its laboratory staff for assistance in obtaining and setting up product tests and evaluating the results of such tests. In 1997, certain products were also sold in Canada, Korea, and India by exclusive licensees under long-term royalty agreements. Generally, separate manufacturing facilities of a single customer are served by different sales personnel.

The business of the Company and its operating results are subject to certain risks, of which the principal ones are referred to in the following subsections.

In 1997, the Company acquired a 55% interest in a joint venture with its Indian licensee, Asianol Lubricants Ltd., to manufacture lubricants for the cold rolling of steel and other products for the steel industry in India. For additional information regarding this transaction, see Note 11 of Notes to Consolidated Financial Statements which appears on p. 30 of the Registrant's 1997 Annual Report to Shareholders, the incorporated portion of which is included as Exhibit 13 to this Report.

#### Competition

The chemical specialty industry is composed of a number of companies of similar size as well as companies larger and smaller than Quaker. Quaker cannot readily determine its precise position in every industry it serves. Based on information available to Quaker, however, it is estimated that Quaker holds a dominant position (among a group in excess of 25 other suppliers) in the market for process fluids used in the production of hot and cold rolling of steel. Many competitors are in fewer and more specialized product classifications or provide different levels of technical services in terms of specific formulations for individual customers. Competition in the industry is based primarily on the ability to provide products which meet the needs of the customer and render technical services and laboratory assistance to customers and, to a lesser extent, on price.

#### Major Customers and Markets

During 1997, Quaker's five largest customers (each composed of multiple subsidiaries or divisions with semi-autonomous purchasing authority) accounted for approximately 16% of its consolidated net sales with the largest of these customers accounting for approximately 4% of consolidated net sales. Furthermore, a significant portion of Quaker's revenues are realized from the sale of process fluids to manufacturers of hot and cold rolling steel, and, therefore, Quaker is subject to the same business cycles as those experienced by these manufacturers and their customers (the majority of which are automobile, appliance, and durable good manufacturers or in the construction industry).

#### Raw Materials

Quaker uses over 500 raw materials, including mineral oils, fats and fat derivatives, ethylene derivatives, solvents, surface active agents, chlorinated paraffinic compounds, and a wide variety of organic and inorganic compounds. In 1997, only one raw material accounted for as much as 12% of the total cost of Quaker's raw material purchases. Many of the raw materials used by Quaker are "commodity" chemicals, and, therefore, Quaker's earnings can be affected by market changes in raw material prices caused by factors beyond Quaker's control. Quaker has multiple sources of supply for most materials, and management believes that the failure of any single supplier would not have a material adverse effect upon its business.

## Patents and Trademarks

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

## Research and Development--Laboratories

Quaker's research and development laboratories are directed primarily toward applied research and development since the nature of Quaker's business requires continuing modification and improvement of formulations to provide chemical specialties to satisfy customer requirements. Incorporated by reference is the information contained under the caption "Research and Development Costs" appearing in Note 1 of Notes to Consolidated Financial Statements on page 23 of the Registrant's 1997 Annual Report to Shareholders, the incorporated portions of which are included as Exhibit 13 to this Report.

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

Most of Quaker's subsidiaries and associates also have laboratory facilities. Although not as complete as the Conshohocken laboratories, these facilities are generally sufficient for the requirements of the customers being served. If problems are encountered which cannot be resolved by local laboratories, such problems may be referred to the corporate laboratory staff, which also defines and supervises corporate research projects.

Approximately 155 persons, of whom 72 have B. S. degrees and 41 have B.S. and advanced degrees, are employed in Quaker's laboratories.

#### Number of Employees

On December 31, 1997, Quaker's consolidated companies had 871 full-time employees of whom 382 were employed by the parent company and its U.S. subsidiaries and 489 were employed by its non-U.S. subsidiaries. Associated companies of Quaker (in which it owns 50% or less) employed 250 people on December 31, 1997.

#### Product Classification

Incorporated by reference is the information concerning product classification by markets served appearing under the caption "Supplemental Financial Information" on page 34 of the Registrant's 1997 Annual Report to Shareholders, the incorporated portions of which are included as Exhibit 13 to this Report.

#### Non-U.S. Activities

Incorporated by reference is the information concerning non-U.S. activities appearing in Note 10 of Notes to Consolidated Financial Statements on page 30 of the Registrant's 1997 Annual Report to Shareholders and under the caption "General" of the Operations section of Management's Discussion and Analysis of Financial Condition and Results of Operations which appears on page 18 of the aforementioned Annual Report, the incorporated portions of which are included as Exhibit 13 to this Report. Since significant revenues and earnings are generated by its non-U.S. operations, Quaker's financial results are affected by currency fluctuations, particularly between the U.S. dollar and the Dutch guilder.

#### Item 2. Properties.

Quaker's principal facilities in the United States are located in Conshohocken, Pennsylvania and Detroit, Michigan. Quaker's non-U.S. subsidiaries own facilities in Woodchester, England; Uithoorn, The Netherlands; Villeneuve, France; and Santa Perpetua de Mogoda, Spain and lease small sales facilities in other locations. All of these facilities are owned mortgage free. Financing for the Technical Center in Conshohocken, Pennsylvania was arranged through the use of industrial revenue and development bonds with an outstanding balance at December 31, 1997 of \$5,000,000.

Quaker's aforementioned facilities consist of various manufacturing, administrative, warehouse, and laboratory buildings. Substantially all of the buildings are of fire-resistant construction and are equipped with sprinkler systems. All facilities are primarily of masonry and/or steel construction and are adequate and suitable for Quaker's present operations. The Company has a program to identify needed capital improvements which will be implemented as management considers necessary or desirable. Most locations have various numbers of raw material storage tanks ranging from 6 to 63 having a capacity from 500 to 80,000 gallons each and processing or

manufacturing vessels ranging in capacity from 50 to 12,000 gallons each. Manufacturing and warehouse facilities located in Conshohocken, Pennsylvania, were closed in 1996 but are being maintained in a state of readiness that will permit resuming operations in all or some of such facilities if necessary or desirable.

In order to facilitate compliance with applicable federal, state, and local statutes and regulations relating to occupational health and safety and protection of the environment, the Company has an ongoing program of site assessment, currently directed primarily to facilities in the United States for the purpose of identifying capital expenditures or other actions that may be necessary to comply with such requirements. The program includes periodic inspections of each facility in the United States by Quaker and/or independent environmental experts, as well as ongoing inspections by on-site personnel. Such inspections are addressed to operational matters, record keeping, reporting requirements, and capital improvements. In 1997, capital expenditures directed solely or primarily to regulatory compliance amounted to approximately \$125,000.

Quaker's executive offices are located in a four-story building containing a total of approximately 47,000 square feet. A Technical Center containing approximately 28,700 square feet houses the laboratory facility. Both of these facilities are adjacent to Quaker's closed manufacturing facility in Conshohocken.

Quaker's 50% or less owned non-U.S. associates own or lease a plant and/or sales facilities in various locations.

### Item 3. Legal Proceedings.

On or about October 24, 1996, Petrolite Corporation and its subsidiary, Petrolite Holdings, Inc. (collectively, "Petrolite"), filed a Demand for Arbitration with the American Arbitration Association and a Petition with the Circuit Court for the County of St. Louis, Missouri, against the Company and certain of its subsidiaries. Petrolite asserts claims for negligent misrepresentation and breach of contract arising out of a Technology Purchase Agreement (the "Agreement") between Petrolite and the Company (and certain of its subsidiaries) dated April 13, 1993, as amended, pursuant to which the Company sold various assets, including patent rights, to Petrolite for a purchase price of approximately \$8.5 million plus an obligation to pay royalties. In its actions against the Company, Petrolite seeks damages in an unspecified amount, rescission of the Agreement, costs, and other relief. The Company believes that it has complete and meritorious defenses to the Petrolite actions and intends to vigorously defend the actions and deny liability and to pursue a claim against Petrolite for royalties. Notwithstanding the foregoing, based upon the advice of counsel, on information developed to date and settlement discussions which have been held, the Company has established a reserve of \$2,000,000 against its potential liability in these actions which it believes to be adequate. However, the Company's potential liability could be in excess of the amount of the reserve.

The Company is a party to other proceedings, cases, and requests for information from, and negotiations with, various claimants and federal and state agencies relating to various matters including environmental matters, none of which is expected to result in monetary sanctions in an amount or in an award that would have a material adverse effect on the Company's results of operations or financial condition. For information concerning pending asbestos-related cases against a non-operating subsidiary and amounts accrued associated with certain environmental investigatory and noncapital remediation costs, refer to Note 12 of Notes to Consolidated Financial Statements which appears on page 30 in the Registrant's 1997 Annual Report to Shareholders, the incorporated portions of which are included as Exhibit 13 to this Report.

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

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

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

Name	Office (since)	Age	Year First Elected as an Executive Officer
Ronald J. Naples	Chairman of the Board (1997), President, and Chief Executive Officer (1995)	52	1995
Joseph W. Bauer	President and Chief Operating Officer (1998)	55	1998
Jose Luiz Bregolato	Vice President-South America (1993)	52	1993
James A. Geier	Vice President-Human Resources (1997)	42	1997
Daniel S. Ma	Vice President-Asia/Pacific (1995)	57	1995
Marcus C. J. Meijer	Vice President-Europe (1990)	50	1990
Joseph F. Virdone	Vice President-U.S. Commercial Operations (1996)	53	1996

Mr. Meijer has served as an officer of the Registrant for more than the past five years. Prior to his election as an officer of the Registrant, Mr. Bregolato served as Financial Consultant and Administrative Director of Fabrica Carioca de Catalisadores, S.A. to which he was appointed in 1985. Prior to his election as an officer of the Registrant, Mr. Ma was Managing Director, Asia/Pacific Region, to which he was appointed in 1993 and was Business Manager, PPG Industries from 1991 to 1993. Prior to his election as President and Chief Executive Officer, effective October 2, 1995, Mr. Naples served as Chairman of the Board and Chief Executive Officer of Hunt Manufacturing Company until April 6, 1995, a position held for over five years. Mr. Naples was elected Chairman of the Board of the Registrant in 1997. Mr. Naples has been a Director of the Registrant since 1988. Prior to his election as an officer of the Registrant, Mr. Virdone served as Industry Manager-Steel since August 15, 1994. Prior to that date, Mr. Virdone was employed by FMC Corporation as National Sales Director-Industrial Chemicals and also served in various consulting capacities. Prior to his election as an officer of the Registrant in 1997, Mr. Geier was employed by Rhone-Poulenc Rorer Pharmaceuticals, Inc., where he held a variety of human resource positions. Prior to his election as an officer of the Registrant effective March 9, 1998, Mr. Bauer was employed by M.A. Hanna since 1992 and served as President of M.A. Hanna Color Division from 1996 to 1998 and President of PMS Consolidated form 1992 to 1995.

There is no family relationship between the Registrant and any of the Registrant's Executive Officers. Each officer is elected for a term of one year.

## PART II

### Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

Incorporated by reference is the information appearing under the caption "Stock Market and Related Security Holder Matters" on page 34 of the Registrant's 1997 Annual Report to Shareholders, the incorporated portions of which are included as Exhibit 13 to this Report.

### Item 6. Selected Financial Data.

Incorporated by reference is the information appearing under the caption "Eleven-Year Financial Information" on pages 32 and 33 of the Registrant's 1997 Annual Report to Shareholders, the incorporated portions of which are included as Exhibit 13 to this Report.

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

Incorporated by reference is the information appearing under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 16 through 18 of the Registrant's 1997 Annual Report to



Shareholders, the incorporated portions of which are included as Exhibit 13 to this Report.

Item 8. Financial Statements and Supplementary Data.

Incorporated by reference is the information appearing on pages 19 through 34 of the Registrant's 1997 Annual Report to Shareholders, the incorporated portions of which are included as Exhibit 13 to this Report.

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

None.

PART III

Item 10. Directors and Executive Officers of the Registrant.

Incorporated by reference is the information beginning immediately following the caption "Election of Directors" to, but not including, the caption "Executive Compensation" contained in the Registrant's definitive Proxy Statement to be filed no later than 120 days after the close of its fiscal year ended December 31, 1997 (the "1998 Proxy Statement") and the information appearing in Item 4(a) on pages 6 and 7 of this Report.

Section 16(a) Beneficial Ownership Reporting Compliance.

Based solely on the Company's review of certain reports filed with the Securities and Exchange Commission pursuant to Section 16(a) of the Securities Exchange Act of 1934 (the "1934 Act"), as amended, and written representations of the Company's officers and directors, the Company believes that all reports required to be filed pursuant to the 1934 Act with respect to transactions in the Company's Common Stock through December 31, 1997 were filed on a timely basis except for one filing on Form 4 covering one transaction for Patricia C. Barron.

Item 11. Executive Compensation.

Incorporated by reference is the information beginning immediately following the caption "Executive Compensation" to, but not including, the caption "Compensation/Management Development Committee Report on Executive Compensation" contained in the Registrant's 1998 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

Incorporated by reference is the information beginning immediately following the caption "Security Ownership of Certain Beneficial Owners and Management" to, but not including, the caption "Election of Directors" contained in the Registrant's 1998 Proxy Statement.

Item 13. Certain Relationships and Related Transactions.

No information is required to be provided in response to this Item 13.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

(a) Exhibits and Financial Statement Schedules

1. Financial Statements

The following is a list of the Financial Statements and related documents which have been incorporated by reference from the Registrant's Annual Report to Shareholders for the fiscal year ended December 31, 1997, as set forth in Item 8:

Consolidated Statement of Operations  
Consolidated Balance Sheet  
Consolidated Statement of Cash Flows  
Consolidated Statement of Shareholders' Equity  
Notes to Consolidated Financial Statements  
Report of Independent Accountants

2. Financial Statement Schedules

All schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

Financial statements of 50% or less owned companies have been omitted because none of the companies meets the criteria requiring inclusion of such statements.

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

- 3(a)--Amended and Restated Articles of Incorporation. Incorporated by reference to Exhibit 3(a) as filed by Registrant with Form 10-K for the year 1996.
- 3(b)--By-Laws. Incorporated by reference to Exhibit 3(b) to Form 10-Q as filed by the Registrant for the quarter ended June 30, 1993.
- 4--Shareholder Rights Plan. Incorporated by reference to Form 8-K as filed by the Registrant on February 20, 1990.
- 10(a)--Long-Term Performance Incentive Plan as approved May 5, 1993. Incorporated by reference to Exhibit 10(a) as filed by the Registrant with Form 10-K for the year 1993.
- 10(h)--Documents constituting employment contract by and between Quaker Chemical Europe B.V. and M. C. J. Meijer. Incorporated by reference to Exhibit 10(h) as filed by Registrant with Form 10-K for the year 1993.
- 10(i)--Employment Agreement by and between the Registrant and Ronald J. Naples. Incorporated by reference to Exhibit 10(i) as filed by Registrant with Form 10-Q for the quarter ended September 30, 1995.
- 10(j)--Amendment to the Stock Option Agreement by and between the Registrant and Ronald J. Naples. Incorporated by reference to Exhibit 10(i) as filed by Registrant with Form 10-Q for the quarter ended September 30, 1995.
- 10(k)--Employment Agreement by and between Registrant and Jose Luiz Bregolato. Incorporated by reference to Exhibit 10(k) as filed by Registrant with Form 10-K for the year 1995.
- 10(l)--Employment Agreement by and between Registrant and Daniel S. Ma. Incorporated by reference to Exhibit 10(l) as filed by Registrant with Form 10-K for the year 1995.
- 10(n)--Deferred Compensation Plan as adopted by the Registrant on July 10, 1996. Incorporated by reference to Exhibit 10(n) as filed by Registrant with Form 10-K for the year 1996.

10

- 10(o)--Amendment No. 1 to Employment Agreement by and between Registrant and Ronald J. Naples.
- 10(p)--Amendment No. 1 to 1995 Naples Restricted Stock Plan and Agreement by and between Registrant and Ronald J. Naples.
- 10(q)--Employment Agreement by and between Registrant and Joseph F. Virdone.
- 10(r)--Employment Agreement by and between Registrant and James A. Geier.
- 10(s)--Employment Agreement by and between Registrant and Joseph W. Bauer.
- 13 -- Portions of the 1997 Annual Report to Shareholders incorporated by reference.
- 21 -- Subsidiaries and Affiliates of the Registrant.
- 23 -- Consent of Independent Accountants.
- 27 -- Financial Data Schedule.

(b) Reports on Form 8-K.

No reports on Form 8-K were filed by the Registrant during the last quarter of the period covered by this Report.

(c) The exhibits required by Item 601 of Regulation S-K filed as part of this Report or incorporated herein by reference are listed in subparagraph (a)(3) of this Item 14.

(d) The financial statement schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

SIGNATURES

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

QUAKER CHEMICAL CORPORATION

-----  
Registrant

Date: March 18, 1998

By: /s/ Ronald J. Naples

-----  
Ronald J. Naples  
Chairman of the Board and Chief  
Executive Officer

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

Signatures -----	Capacity -----	Date -----
/s/ Ronald J. Naples ----- Ronald J. Naples Chairman of the Board and Chief Executive Officer	Principal Executive Officer and Director	March 18, 1998
/s/ Richard J. Fagan ----- Richard J. Fagan Controller and Treasurer	Principal Financial Officer	March 18, 1998
/s/ Joseph B. Anderson, Jr. ----- Joseph B. Anderson, Jr.	Director	March 18, 1998
----- Patricia C. Barron	Director	March , 1998
/s/ William L. Batchelor ----- William L. Batchelor	Director	March 18, 1998
/s/ Peter A. Benoliel ----- Peter A. Benoliel	Director	March 18, 1998
/s/ Lennox K. Black ----- Lennox K. Black	Director	March 18, 1998
/s/ Donald R. Caldwell ----- Donald R. Caldwell	Director	March 18, 1998
/s/ Robert E. Chappell ----- Robert E. Chappell	Director	March 18, 1998
/s/ Edwin J. Delattre ----- Edwin J. Delattre	Director	March 18, 1998
/s/ Robert P. Hauptfuhrer ----- Robert P. Hauptfuhrer	Director	March 18, 1998
/s/ Robert H. Rock ----- Robert H. Rock	Director	March 18, 1998

EXHIBIT INDEX

Exhibit No. -----	Description -----
10(o)	Amendment No. 1 to Employment Agreement by and between Registrant and Ronald J. Naples
10(p)	Amendment No. 1 to 1995 Naples Restricted Stock Plan and Agreement by and between Registrant and Ronald J. Naples
10(q)	Employment Agreement by and between Registrant and Joseph F. Virdone
10(r)	Employment Agreement by and between Registrant and James A. Geier
10(s)	Employment Agreement by and between Registrant and Joseph W. Bauer
13	Portions of the 1997 Annual Report to Shareholders Incorporated by Reference
21	Subsidiaries and Affiliates of the Registrant
23	Consent of Independent Accountants
27	Financial Data Schedule



AMENDMENT NO. 1 TO EMPLOYMENT AGREEMENT  
 DATED AUGUST 14, 1995 BETWEEN  
 QUAKER CHEMICAL CORPORATION AND RONALD J. NAPLES

AMENDMENT NO. 1 ("Amendment"), dated and effective as of January 1, 1997, between QUAKER CHEMICAL CORPORATION, a Pennsylvania corporation (the "Company"), and RONALD J. NAPLES ("Executive").

BACKGROUND:

The Company and Executive entered into an Employment Agreement dated August 14, 1995 (the "Employment Agreement"). The Company and Executive desire, by this Amendment No. 1, to amend the Employment Agreement in certain respects.

NOW, THEREFORE, intending to be legally bound hereby, the Company and Executive agree as follows:

1. Paragraph 4(b) of the Employment Agreement is hereby amended by adding thereto the following sentence:

"Notwithstanding anything contained in this Paragraph 4(b) to the contrary, this Paragraph 4(b) shall not apply to and Executive shall not participate in the Quaker Annual Incentive Compensation Plan for the years 1997 and 1998."

2. The Employment Agreement is hereby amended by adding thereto a new Paragraph 4.1 which reads as follows:

"4.1 1997 and 1998 Restricted Stock Awards.

(a) On or before June 30, 1997, the Company shall cause to be issued in Executive's name 35,000 shares of the Company's Common Stock as a restricted stock award for the years 1997 and 1998 (the "Award Shares"). Certificates representing the Award Shares shall

Exhibit 10(o)  
 Page 1

be deposited with the Company together with stock powers endorsed by Executive in blank to be held in custody by the Company for the Executive's account. The certificates representing the Award Shares shall bear the following legend:

"The transferability of this certificate and the shares of stock represented hereby are subject to the terms and conditions of Paragraph 4.1 of an Employment Agreement between Quaker Chemical Corporation and Ronald J. Naples dated August 14, 1995, as amended. A copy of such Employment Agreement is on file in the offices of Quaker Chemical Corporation."

(b) On or before May 1 of each of the years 1997 and 1998, the Compensation Committee shall establish "Operating Income Financial Performance Criteria" for the Company for each of those years, and shall set levels thereof to be achieved so as to permit the delivery of 30%, 40% or 50% of the Award Shares to Executive for each such year.

(c) The Company shall deliver Award Shares to Executive free of the aforesaid legend and of all restrictions (except as otherwise provided in this Paragraph 4.1) in two installments of up to 17,500 Award Shares each on March 31, 1998 and 1999, provided that Executive is employed by the Company on the immediately preceding December 31. The number, if any, of Award Shares to be delivered to Executive in each such installment shall be determined by comparing the Company's actual results for the years 1997 and 1998, as the case may be, with the Operating Income Financial Performance Criteria established and levels set for such year pursuant to Paragraph 4.1(b). Interpolation shall be applied to determine the exact number of Award Shares to be delivered if the Company's results fall between the levels for a 30%, 40% or 50% delivery.

If by March 31, 1998, less than 17,500 Award Shares have been delivered or are deliverable to Executive, the difference between the number of Award Shares so delivered or deliverable and 17,500 shall be forfeited and transferred to the Company without further action by Executive or the Company.

Exhibit 10(o)  
 Page 2

If by March 31, 1999, less than 35,000 Award Shares have been delivered or are deliverable to Executive, the difference between the number of Award Shares so delivered or deliverable and 35,000 shall be forfeited and transferred to the Company without further action by Executive or the Company.

(d) During the period Award Shares are held in custody by the Company, Executive shall generally have the rights and privileges of a shareholder as to the Award Shares including the right to all cash or stock dividends paid with respect to the Award Shares and the right to vote the Award Shares, except that none of the Award Shares may be sold, transferred, assigned, pledged, or otherwise encumbered or disposed of by Executive except by will or the laws of dissent and distribution. Subject to Paragraph 4.1(e), all of the Award Shares remaining in the custody of the Company shall be forfeited to the Company and all rights of Executive to the Award Shares shall terminate without further obligation on the part of the Company upon the termination of Executive's employment with the Company. Upon such forfeiture of any Award Shares, the forfeited shares shall be transferred to the Company without further action by Executive or the Company.

(e) Notwithstanding anything contained in this Paragraph 4.1 to the contrary, if prior to December 31, 1998 Executive's employment with the Company shall terminate by reason of his death or by reason of his disability or if the Company shall terminate Executive's employment with the Company without "Cause", or Executive shall terminate his employment with the Company for "Good Reason", or there shall occur a "First Event" or a "Significant Transaction" (as each of said terms are defined in this Agreement), then, and in any such event, the Company shall, within thirty days after the occurrence of such event, pay and deliver to Executive or his personal representative, as the case may be, free of all restrictions (except as otherwise provided in this Paragraph 4.1), the remaining Award Shares in the custody of the Company which have not been delivered to Executive. The termination of Executive's



employment on or after December 31, 1998 shall not affect his right, if any, to receive the delivery of Award Shares pursuant to Paragraph 4.1(c).

(f) In the event of a change in the outstanding shares of the Company's Common Stock through reorganization, merger, consolidation, recapitalization, reclassification, stock split-up, stock dividend, stock consolidation or otherwise, or in the event of a sale of all or substantially all of the assets of the Company, appropriate and proportionate adjustments shall be made by the Compensation Committee in the number and kind of shares of capital stock to be paid by the Company.

(g) The Company shall determine the appropriate amount of Federal, state and local withholding taxes or charges due as a result of the payment of the Award Shares, which amount the Company shall transmit to the appropriate taxing authority (the "Withholding Amount"). Executive may satisfy any such withholding tax obligation by any of the following means or by a combination of such means: (a) authorizing the Company to deduct from the number of Award Shares otherwise deliverable hereunder, such number of Award Shares as shall have a fair market value equal to the Withholding Amount; (b) delivering to the Company such number of unencumbered shares of the Company's Common Stock as shall have an aggregate fair market value equal to the Withholding Amount; or (c) tendering a cash payment.

(h) Award Shares will not be paid and delivered to Executive hereunder except in compliance with all applicable Federal and state laws and regulations including, without limitation, compliance with all Federal and state securities laws, withholding tax requirements and the rules of all stock exchanges, if any, on which the Company's Common Stock may be listed.

(i) Executive represents and warrants to the Company that he is and will be acquiring the Award Shares to be paid and delivered to him hereunder for investment for his own account and not with a view to the resale, distribution or public offering thereof. Executive

acknowledges that he has been informed and is aware that the Award Shares are not and may not be registered under the Securities Act of 1933 and applicable state securities laws (and that the Company has no obligation to effect such registration) and must be held indefinitely until they are subsequently registered under said Act or an exemption from such registration is available; and that routine sales of securities made in reliance upon SEC Rule 144 can be made only in limited amounts in accordance with the terms and conditions of that Rule and subject to compliance with Section 16 of the Securities Exchange Act of 1934.

(j) Any share certificate delivered to Executive hereunder may bear such legends and statements as the Company shall deem advisable to assure compliance with Federal and state laws and regulations. The Company may require Executive to execute and deliver to the Company an agreement or other instrument evidencing Executive's acceptance of the terms and conditions hereof or as may be deemed necessary to effectuate the provisions of this Agreement."

3. Except as specifically provided herein, the Employment Agreement remains in full force and effect without further modification or amendment.

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Amendment No. 1 as of the day and year first above written.

QUAKER CHEMICAL CORPORATION

By: \_\_\_\_\_

-----  
RONALD J. NAPLES

Exhibit 10(o)  
Page 5



AMENDMENT NO. 1 TO  
1995 NAPLES RESTRICTED STOCK PLAN AND AGREEMENT  
DATED AUGUST 14, 1995

AMENDMENT NO. 1 ("Amendment"), dated and effective as of January 21, 1998, by and between QUAKER CHEMICAL CORPORATION, a Pennsylvania corporation (the "Company") and RONALD J. NAPLES ("Executive").

BACKGROUND

The Company and Executive entered into the 1995 Naples Restricted Stock Plan and Agreement on August 14, 1995 (the "Stock Plan Agreement"). The Company and Executive desire by this Amendment No. 1 to amend the Stock Plan Agreement in certain respects.

NOW, THEREFORE, intending to be legally bound hereby, the Company and Executive agree as follows:

1. Paragraph 4(a) of the Stock Plan Agreement ("Additional Stock Bonus") shall be amended in its entirety as follows:

4. Additional Stock Bonus

(a) The Company shall issue and pay to Naples as an additional stock bonus (the "Additional Stock Bonus") up to an aggregate of 50,000 additional shares of Common Stock on the following terms: Commencing for the year 1996, and for each year thereafter during the term of Naples' employment with the Company, the Company will pay and deliver to Naples, free of all restrictions (except as otherwise provided in Paragraph 9 of this Plan and Agreement), 1,000 shares of Common Stock for each \$.01 per share increase, on a cumulative basis, in net income per share ("EPS"), starting from a base equal to the greater of 1995 EPS or \$1.10 per share. Notwithstanding anything contained herein to the contrary, for the purposes of calculating the Additional Stock Bonus, foreign currency translation fluctuations, and extraordinary and non-recurring gains and losses will be excluded from the determination of EPS. Shares of the Additional Stock Bonus will be deemed to have been earned by Naples as of the last day of the year in question (provided Naples is employed by the Company on the last day of the year), shall be issued not later than April 15 of the following year and shall be issued even if Naples is not employed by the Company on the date of payment and delivery of such shares.

Exhibit 10(p)  
Page 1

The application of the preceding paragraph may be illustrated as follows: If for 1995, EPS is \$1.15 and for 1996 EPS is \$1.35 per share, an Additional Stock Bonus of 20,000 shares will be paid; if for 1997 EPS is \$1.33, no shares will be paid; and if for 1998 EPS is \$1.45, an Additional Stock Bonus of 10,000 shares will be paid.

2. Except as specifically provided herein, the Stock Plan Agreement remains in full force and effect without further modification or amendment.

IN WITNESS WHEREOF, the parties have executed and delivered this Amendment No. 1 as of the day and year first above written.

QUAKER CHEMICAL CORPORATION

By: \_\_\_\_\_  
Ronald J. Naples

Exhibit 10(p)  
Page 2

## EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT, made and entered into as of the 17th day of July 1996, by and between QUAKER CHEMICAL CORPORATION, a Pennsylvania corporation (hereinafter referred to as "QUAKER"), and JOSEPH F. VIRDONE (hereinafter referred to as "VIRDONE").

## W I T N E S S E T H:

WHEREAS, QUAKER wishes to employ VIRDONE, and VIRDONE wishes to be employed by QUAKER.

NOW, THEREFORE, in consideration of the mutual promises and covenants herein contained, and intending to be legally bound hereby, the parties hereto agree as follows:

1. QUAKER agrees to employ VIRDONE, and VIRDONE agrees to serve as Vice President, U.S. Commercial Operations of QUAKER. He shall perform all duties consistent with such position as well as any other duties which are assigned to him from time to time by the Board of Directors or President of QUAKER. VIRDONE covenants and agrees that he will, during the term of this Employment Agreement or any extension or renewal thereof, devote his knowledge, skill, and working time solely and exclusively to the business and interests of QUAKER.

Exhibit 10(q)  
Page 1

2. The term of VIRDONE's employment shall continue until December 31, 1996 and continuing thereafter until either party hereto shall have given the other at least ninety (90) days' written notice of a desire to terminate.

3. QUAKER shall pay to VIRDONE and VIRDONE shall accept an annual rate of salary as set forth in Exhibit A attached hereto, payable semi-monthly, during the term of this Employment Agreement or any extension or renewal thereof.

4. VIRDONE shall participate in such QUAKER Incentive Programs as described and set forth in Exhibit A. As an Officer of QUAKER, the particulars of Exhibit A may be amended by the Board of Directors at any time as to any matter set forth therein including rate of annual salary, eligibility to participate in any given QUAKER incentive plan, the level of participation in any QUAKER incentive plan, and the terms and conditions of any QUAKER incentive plan. Any changes to Exhibit A shall not affect any of the other terms and conditions hereof including, without limitation, the provisions of Paragraphs 7 through 9. For the purposes of this Agreement, the term "QUAKER Incentive Program" shall refer to each individual as well as the combined incentive programs approved by the Board of Directors. Revisions to Exhibit A shall become effective upon notification in writing by QUAKER and VIRDONE's acceptance by his signature on the notification.

5. (a) With respect to Quaker's Long-Term Performance Incentive Plan (the "Incentive Plan"), VIRDONE shall be eligible to participate in the 1995-1998 performance award period under the terms and conditions of the Incentive Plan. In connection therewith, he has been granted Stock Options to purchase

Exhibit 10(q)  
Page 2

5,000 shares (to be priced as of the close of business July 17, 1996). He is also eligible for an award of 7,000 performance units.

(b) VIRDONE shall be entitled to his current vacation eligibility, paid holidays, and such other employee benefits, including insurance, medical benefits, profit sharing, and retirement benefits as are made generally available to all QUAKER employees. In addition, VIRDONE shall be eligible to participate in Quaker's Supplemental Retirement Income Program.

(c) QUAKER shall reimburse VIRDONE for all reasonable expenses incurred by VIRDONE on behalf of QUAKER in the course of VIRDONE's employment under this Employment Agreement, provided that such expenses shall have been approved by QUAKER in accordance with such expense reimbursement procedures as shall be adopted by QUAKER.

6. In the event of the death of VIRDONE while this Employment Agreement is in effect and as to which no notice of termination has been given by either party, QUAKER shall (i) continue to pay a sum of money equal to the salary that would have been paid to him for four months following his death just as if he were living, and (ii) QUAKER shall pay a death benefit equal to his then current annual salary plus \$30,000 to be paid in three equal payments, without interest, on the 16, 28, and 40 month anniversary of the date of his death. Payments made pursuant to this Paragraph 6 shall be made to the person or persons who may be designated by VIRDONE, in writing, and, in the event he fails to so designate to whom payments shall be made, payments shall be made to VIRDONE's personal representatives.

Exhibit 10(q)

Page 3

7. VIRDONE acknowledges that information concerning the method and conduct of QUAKER's (and any affiliates') business, including, without limitation, strategic and marketing plans, budgets, corporate practices and procedures, financial statements, customer and supplier information, formulae, formulation information, application technology, manufacturing information, and laboratory test methods and all of QUAKER's (and any affiliates') manuals, documents, notes, letters, records, and computer programs are QUAKER's (and/or QUAKER's affiliates', as the case may be) trade secrets ("Trade Secrets") and are the sole and exclusive property of QUAKER (and/or QUAKER's affiliates, as the case may be). VIRDONE agrees that at no time during or following his employment with QUAKER will he use, divulge, or pass on, directly or through any other individual or entity, any Trade Secrets. Upon termination of VIRDONE'S employment with QUAKER, or at any other time upon QUAKER's request, VIRDONE agrees to forthwith surrender to QUAKER any and all materials in his possession or control which include or contain any such Trade Secrets. The words "Trade Secrets" do not include information already known to the public through no act or failure to act on the part of VIRDONE, required by law to be disclosed, or which can be clearly shown to have been known by VIRDONE prior to the commencement of his employment with QUAKER.

8. VIRDONE agrees that during his employment and for a period of one (1) year thereafter, regardless of the reason for the termination of VIRDONE's employment hereunder, he will not:

(a) directly or indirectly, together or separately or with any third party, whether as an individual proprietor, partner, stockholder, officer, director, joint venturer, investor, or in any other capacity whatsoever engage in business or assist anyone or any firm in business as a manufacturer, seller, or distributor of specialty chemical products or chemical management services which are the same, like, similar to, or which compete with the products and services offered by QAKER (or any of its affiliates);

(b) recruit or solicit any employee of QAKER or otherwise induce such employee to leave the employ of QAKER or to become an employee or otherwise be associated with his or any firm, corporation, business or other entity with which he is or may become associated; and

(c) solicit, directly or indirectly, for himself or as agent or employee of any person, partnership, corporation, or other entity (other than for QAKER) any then or former customer, supplier, or client of QAKER.

Exhibit 10(q)

Page 5



VIRDONE acknowledges and agrees that all of the foregoing restrictions are reasonable as to the period of time and scope. However, if any paragraph, sentence, clause, or other provision is held invalid or unenforceable by a court of competent and relevant jurisdiction, such provision shall be deemed to be modified in a manner consistent with the intent of such original provision so as to make it valid and enforceable, and this Agreement and the application of such provision to persons and circumstances other than those with respect to which it would be invalid or unenforceable shall not be affected thereby. VIRDONE agrees and recognizes that in the event of a breach or threatened breach of the provisions of the restrictive covenants contained in Paragraph 7 or in this Paragraph 8, QUAKEK may suffer irreparable harm, and monetary damages may not be an adequate remedy. Therefore, if any breach occurs or is threatened, in addition to all other remedies available to QUAKEK at law or in equity, Quaker shall be entitled as a matter of right to specific performance of the covenants of Quaker contained herein by way of temporary or permanent injunctive relief. In the event of any breach of the restrictive covenant contained in this Paragraph 8, the term of the restrictive covenant specified herein shall be extended by a period of time equal to that period beginning on the date such violation commenced and ending when the activities constituting such violation cease.

9. (a) Definitions. For the purposes of this agreement, the following definitions shall apply and will be used:

(i) "Act" means the Securities Exchange Act of 1934, as amended;

(ii) "QUAKER's Common Stock" means shares of Common Stock, \$1.00 par value, of QUAKEK;

Exhibit 10(q)

Page 6

(iii) "Termination for Cause" means VIRDONE's employment with QAKER shall have been terminated by QAKER by reason of either:

(1) The willful and continued failure by VIRDONE to execute his duties under this Employment Agreement; or

(2) The willful engaging by VIRDONE in a continued course of misconduct which is materially injurious to QAKER, monetarily or otherwise.

VIRDONE shall have been given notice thereof from QAKER's Board of Directors and an opportunity (with counsel) to be heard by said Board of Directors, and the Board of Directors shall have made a reasonable and good faith finding that VIRDONE was guilty of the conduct set forth in clause (1) or (2) hereof.

(iv) "Termination for Good Reason" means VIRDONE's employment with QAKER shall have been terminated by VIRDONE by reason of a material change announced or promulgated by QAKER in the terms, conditions, duties, compensation, or benefits of VIRDONE's employment with QAKER and not agreed to by VIRDONE.

(b) The purpose of this Paragraph 9 is to reinforce and encourage the continued dedication and attention of VIRDONE to VIRDONE's assigned duties under this Employment Agreement without distraction as a result of circumstances which may arise from the possibility of a change of control or an attempt to change the control of QAKER.

(i) Upon the occurrence of a "First Event," QAKER will deposit in an escrow account at CoreStates Bank, N.A. (or such other bank as QAKER may hereafter designate) (the "Bank") an amount equal to VIRDONE's then current

annual salary for an eighteen (18) month period ("Termination Pay"). A First Event for the purposes of this Agreement shall mean any one of the following events.

(1) Shares of QUAKER's Common Stock are acquired (other than directly from QUAKER in exchange for cash or property) by any person (as used in Sections 13 and 14 of the Act) other than a person who is a present Officer or Director of QUAKER, who thereby becomes the beneficial owner (as defined in Rule 13d-3 under the Act) of more than 10% of the issued and outstanding shares of QUAKER's Common Stock.

(2) Any person, firm, or corporation (including a shareholder of QUAKER) makes a tender offer or exchange offer for, or a request or invitation to tenders or exchanges of, shares of QUAKER's Common Stock.

(ii) If a "Second Event" shall occur and thereafter (but within three (3) years after date of the occurrence of the First Event) VIRDONE's employment with QUAKER shall terminate for a reason other than (1) VIRDONE's death, (2) VIRDONE's normal retirement for age, (3) VIRDONE's physical or mental disability in accordance with prevailing QUAKER policy, (4) by QUAKER as a Termination for Cause, or (5) by VIRDONE other than as a Termination for Good Reason, VIRDONE may demand that the Bank pay VIRDONE the Termination Pay (the "Demand").

A "Second Event" for the purposes of this Agreement shall mean any of the following events occurring after a First Event:

(1) A new Director of QUAKER is elected in an election in which the acquirer of the shares or the offeror or the requester voted, in person or by proxy, and such new Director was not nominated as a candidate in a proxy management prior to the occurrence of the First Event.

Exhibit 10(q)

Page 8

(2) More than 20% of the issued and outstanding shares of QUAKER's Common Stock are owned by one person (as used in Sections 13 and 14 of the Act) other than a person who is a present Officer or Director of QUAKER.

(3) During any period of two (2) consecutive calendar years, individuals who at the beginning of such period constitute QUAKER's Board of Directors cease for any reason to constitute at least a majority thereof, unless the election or the nomination for election by QUAKER's shareholders of each new Director was approved by a vote of at least two-thirds (2/3) of the Directors then still in office who were Directors at the beginning of the two (2) year period.

(iii) After the receipt of the Demand, the Bank will pay VIRDONE the Termination Pay in eighteen (18) equal consecutive monthly installments, the first such installment to be paid within thirty (30) days from the date of the demand. VIRDONE shall not be required to diminish the amount of any payment to which he is entitled under this subparagraph (c) by seeking other employment or otherwise, nor shall the amount of any payment provided for in this subparagraph (c) be reduced by any compensation earned by VIRDONE as the result of employment by another employer after the date of termination.

(iv) QUAKER may withdraw the deposited Termination Pay if three (3) years elapse from the date of deposit thereof and if no demand has been made. If, prior to the expiration of said three (3) year period, there shall occur another First Event, QUAKER will not be required to make an additional deposit of Termination Pay, but the three (3) year period described herein shall be deemed to commence on the date of the occurrence of the last such First Event.

(v) QAKER shall pay the usual and customary charges of the Bank for acting as escrow agent. QAKER will be entitled to the payment of any and all interest and other income earned by the Bank through the investment of the deposited Termination Pay. Said interest shall be paid to QAKER as earned. The escrow arrangement may be subject to the Bank's usual rules and procedures, and QAKER will indemnify the Bank against any loss or liability for any action taken by it in good faith as escrow agent.

10. In the event that QAKER, in its sole discretion and at any time terminates this Agreement with VIRDONE (other than for Termination for Cause), QAKER agrees to provide VIRDONE with reasonable out-placement assistance and a severance payment (contingent upon VIRDONE executing a form of release satisfactory to Quaker) in an amount equal to three (3) months' salary calculated at VIRDONE'S then current rate plus an additional one (1) month for each additional year of employment up to a maximum of twelve (12) months' compensation

11. Termination. This Employment Agreement also can be terminated at any time by "Termination for Cause" or "Termination for Good Reason" as defined in Paragraph 9.

12. VIRDONE represents and warrants to QAKER that:

(a) there are no restrictions, agreements, or understandings whatsoever to which VIRDONE is a party which would prevent or make unlawful his execution of this Employment Agreement or his employment hereunder; and

Exhibit 10(q)

Page 10

(b) his execution of this Employment Agreement and his employment hereunder shall not constitute a breach of any contract, agreement, or understanding, oral or written, to which he is a party or by which he is bound.

13. This Employment Agreement contains all the agreements and understandings between the parties hereto with respect to VIRDONE's employment by QUAKER and supersedes all prior or contemporaneous agreements with respect thereto and shall be binding upon and for the benefit of the parties hereto and their respective personal representatives, successors, and assigns. This Employment Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania without regard to any conflict of laws.

IN WITNESS WHEREOF, QUAKER has caused this Employment Agreement to be signed by its President, thereunto duly authorized, and its corporate seal to be hereunto affixed and attested by its Corporate Secretary, and VIRDONE has hereunto set his hand and seal all as of the day and year first above written.

ATTEST: QUAKER CHEMICAL CORPORATION  
[SEAL]

\_\_\_\_\_  
Karl H. Spaeth  
Corporate Secretary

By: \_\_\_\_\_  
Ronald J. Naples  
President and Chief Executive Officer

WITNESS:  
  
\_\_\_\_\_

\_\_\_\_\_  
Joseph F. Virdone

EMPLOYMENT AGREEMENT

EXHIBIT A

Effective: July 17, 1996

Name of Employee: Joseph F. Virdone  
Address: 654 Creighton Road  
Villanova, Pennsylvania 19085  
Title: Vice President, U.S. Commercial Operations  
Term of Employment: To December 31, 1996 and continuing thereafter until  
either party gives ninety (90) days' written notice of  
termination  
Annual Rate of  
Salary at  
Starting Date: \$140,000

Participation in Quaker Incentive Programs for 1996 Only:

Incentive Bonus Plan

Bonus will be based on the newly-adopted Incentive Bonus Plan  
Business Unit - Corporation -- 41% of mid-point  
Discretionary - 9% of mid-point  
Incentive Award Amount - 50% of mid-point - \$136,980

Long-Term Performance Incentive Plan 1995-1998

Type of stock options offered - Qualified and Non-Qualified  
Stock Options  
Number of shares subject to option - 5,000  
Performance Units - 7,000  
Option price per share - Closing price on July 17, 1996  
Participation under and subject to the terms of a  
Stock Option Agreement





## EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT, made and entered into as of the 5th day of November 1997, by and between QUAKER CHEMICAL CORPORATION, a Pennsylvania corporation (hereinafter referred to as "QUAKER"), and JAMES A. GEIER (hereinafter referred to as "GEIER").

## W I T N E S S E T H:

WHEREAS, QUAKER wishes to employ GEIER, and GEIER wishes to be employed by QUAKER.

NOW, THEREFORE, in consideration of the mutual promises and covenants herein contained, and intending to be legally bound hereby, the parties hereto agree as follows:

1. QUAKER agrees to employ GEIER, and GEIER agrees to serve as Vice President-Human Resources of QUAKER. He shall perform all duties consistent with such position as well as any other duties which are assigned to him from time to time by the Board of Directors or Chief Executive Officer of QUAKER. GEIER covenants and agrees that he will, during the term of this Employment Agreement or any extension or renewal thereof, devote his knowledge, skill, and working time solely and exclusively to the business and interests of QUAKER.
2. The term of GEIER's employment shall continue until December 31, 1997 and shall continue for annual calendar year terms thereafter until either party hereto shall have given the other at least ninety (90) days' prior written notice of a desire to terminate this Agreement (and thereby terminate GEIER's employment with QUAKER) except as otherwise provided under Paragraph 11 below.

Exhibit 10(r)  
Page 1

3. QUAKER shall pay to GEIER and GEIER shall accept an annual rate of salary as set forth in Exhibit A attached hereto, payable semi-monthly, during the term of this Employment Agreement or any extension or renewal thereof. The rate of salary will be reviewed on an annual basis consistent with Quaker's then current practice for reviewing officers' salaries and performance.
4. GEIER shall participate in such QUAKER Incentive Programs as described and set forth in Exhibit A. As an Officer of QUAKER, the particulars of Exhibit A may be amended by the Board of Directors at any time as to any matter set forth therein including rate of annual salary, eligibility to participate in any given QUAKER incentive plan, the level of participation in any QUAKER incentive plan, and the terms and conditions of any QUAKER incentive plan. Any changes to Exhibit A shall not affect any of the other terms and conditions hereof including, without limitation, the provisions of Paragraphs 7 through 9. For the purposes of this Agreement, the term "QUAKER Incentive Program" shall refer to each individual as well as the combined incentive programs approved by the Board of Directors. Revisions to Exhibit A shall become effective upon notification in writing by QUAKER and GEIER's acceptance by his signature on the notification.

5. (a) With respect to Quaker's Long-Term Performance Incentive Plan (the "Incentive Plan"), GEIER shall be eligible to participate in the 1995-1998 performance award period under the terms and conditions of the Incentive Plan. In connection therewith, GEIER will be granted:
  - \* Stock options - 9,000 to be issued to GEIER on the first day of employment - 4,000 of which shall first become exercisable on the second anniversary of the first day of employment and the remaining 5,000 to first become exercisable on the third anniversary of the first day of employment.
  - \* Type of stock option offered - non-qualified stock options.
  - \* Option price per share - closing price on first day of employment.

Exhibit 10(r)  
Page 2

\* Performance incentive units - 3,500 @ \$18.625 (equal to 100% of target value).

(b) GEIER shall be entitled to four (4) weeks vacation per year, beginning the calendar year 1998, paid holidays, and such other employee benefits, including, without limitation, life insurance, medical benefits, disability, profit sharing, and retirement benefits as are made generally available to all senior QAKER salaried officers as a group. In addition, GEIER shall be eligible to participate in Quaker's Supplemental Retirement Income Program.

(c) QAKER shall reimburse GEIER for all reasonable expenses incurred by GEIER on behalf of QAKER in the course of GEIER's employment under this Employment Agreement, provided that such expenses shall have been approved by QAKER in accordance with such expense reimbursement procedures as shall be adopted by QAKER. In addition, QAKER shall provide for GEIER's use a cellular phone, and QAKER will reimburse GEIER for all business-related calls.

6. In the event of the death of GEIER while this Employment Agreement is in effect and as to which no notice of termination has been given by GEIER or, in the case of a Termination for Cause, by QAKER, QAKER shall (i) continue to pay a sum of money equal to the salary that would have been paid to him for four months following his death just as if he were living, and (ii) QAKER shall pay a death benefit equal to his then current annual salary plus \$30,000 to be paid in three equal payments, without interest, on the 16-, 28-, and 40-month anniversary of the date of his death. Payments made pursuant to this Paragraph 6 shall be made to the person or persons who may be designated by GEIER in writing, and, in the event he fails to so designate to whom payments shall be made, payments shall be made to GEIER's personal representatives.

7. GEIER acknowledges that information concerning the method and conduct of QAKER's (and any affiliates') business, including, without limitation, strategic and marketing plans, budgets, corporate practices and procedures, financial statements, customer and supplier information, formulae,

formulation information, application technology, manufacturing information, and laboratory test methods and all of QUAKER's (and any affiliates') manuals, documents, notes, letters, records, and computer programs are QUAKER's (and/or QUAKER's affiliates', as the case may be) trade secrets ("Trade Secrets") and are the sole and exclusive property of QUAKER (and/or QUAKER's affiliates, as the case may be). GEIER agrees that at no time during or following his employment with QUAKER will he use, divulge, or pass on, directly or through any other individual or entity, any Trade Secrets. Upon termination of GEIER's employment with QUAKER, or at any other time upon QUAKER's request, GEIER agrees to forthwith surrender to QUAKER any and all materials in his possession or control which include or contain any such Trade Secrets. The words "Trade Secrets" do not include information already known to the public through no act or failure to act on the part of GEIER, required by law to be disclosed, or which can be clearly shown to have been known by GEIER prior to the commencement of his employment with QUAKER.

8. GEIER agrees that during his employment and for a period of one (1) year thereafter, regardless of the reason for the termination of GEIER'S employment hereunder, he will not:

(a) directly or indirectly, together or separately or with any third party, whether as an individual proprietor, partner, stockholder, officer, director, joint venturer, investor, or in any other capacity whatsoever actively engage in business or assist anyone or any firm in business as a manufacturer, seller, or distributor of specialty chemical products or chemical management services which are the same, like, similar to, or which compete with the products and services offered by QUAKER (or any of its affiliates);

(b) recruit or solicit any employee of QUAKER or otherwise induce such employee to leave the employ of QUAKER or to become an employee or otherwise be associated with his or any firm, corporation, business or other entity with which he is or may become associated; and

(c) solicit, directly or indirectly, for himself or as agent or employee of any person, partnership, corporation, or other entity (other than for QUAKER) any then or former customer, supplier, or client of QUAKER with the intent of actively engaging in business which would cause competitive harm to QUAKER.

GEIER acknowledges and agrees that all of the foregoing restrictions are reasonable as to the period of time and scope. However, if any paragraph, sentence, clause, or other provision is held invalid or unenforceable by a court of competent and relevant jurisdiction, such provision shall be deemed to be modified in a manner consistent with the intent of such original provision so as to make it valid and enforceable, and this Agreement and the application of such provision to persons and circumstances other than those with respect to which it would be invalid or unenforceable shall not be affected thereby. GEIER agrees and recognizes that in the event of a breach or threatened breach of the provisions of the restrictive covenants contained in Paragraph 7 or in this Paragraph 8, QUAKER may suffer irreparable harm, and monetary damages may not be an adequate remedy. Therefore, if any breach occurs or is threatened, in addition to all other remedies available to QUAKER at law or in equity, QUAKER shall be entitled as a matter of right to specific performance of the covenants of QUAKER contained herein by way of temporary or permanent injunctive relief. In the event of any breach of the restrictive covenant contained in this Paragraph 8, the term of the restrictive covenant specified herein shall be extended by a period of time equal to that period beginning on the date such violation commenced and ending when the activities constituting such violation cease.

9. (a) Definitions. For the purposes of this agreement, the following definitions shall apply and will be used.

(i) "Act" means the Securities Exchange Act of 1934, as amended:

(ii) "QUAKER's Common Stock" means shares of Common Stock, \$1.00 par value, of QUAKER;

(iii) "Termination for Cause" means GEIER's employment with QUAKER shall have been terminated by QUAKER by reason of either:

(1) The willful and continued failure (following written notice) by GEIER to execute his duties under this Employment Agreement; or

(2) The willful engaging by GEIER in a continued course of misconduct which is materially injurious to QUAKER, monetarily or otherwise.

GEIER shall have been given notice thereof from QUAKER's Board of Directors and an opportunity (with counsel) to be heard by said Board of Directors, and the Board of Directors shall have made a reasonable and good faith finding that GEIER was guilty of the conduct set forth in clause (1) or (2) hereof.

(iv) "Termination for Good Reason" means GEIER's employment with QUAKER shall have been terminated by GEIER by reason of a material change announced or promulgated by QUAKER in the terms, conditions, duties, compensation, or benefits of GEIER's employment with QUAKER and not agreed to by GEIER.

(b) The primary purpose of this Paragraph 9 is to reinforce and encourage the continued dedication and attention of GEIER to GEIER's assigned duties under this Employment Agreement without distraction as a result of circumstances which may arise from the possibility of a change of control or an attempt to change the control of QUAKER.

(i) Upon the occurrence of a "First Event," QUAKER will deposit in an escrow account at CoreStates Bank, N.A. (or such other bank as QUAKER may hereafter designate) (the "Bank") an amount equal to GEIER's then current annual salary for an eighteen (18) month period ("Termination Pay"). A First Event for the purposes of this Agreement shall mean any one of the following events.

(1) Shares of QUAKER's Common Stock are acquired (other than directly from QUAKER in exchange for cash or property) by any person (as used in Sections 13 and 14 of the Act) other than a person who is a present Officer or Director of QUAKER, who thereby becomes the beneficial

owner (as defined in Rule 13d-3 under the Act) of more than 10% of the issued and outstanding shares of QUAKER's Common Stock.

(2) Any person, firm, or corporation (including a shareholder of QUAKER) makes a tender offer or exchange offer for, or a request or invitation for tenders or exchanges of shares of QUAKER's Common Stock.

(ii) If a "Second Event" shall occur and thereafter (but within three (3) years after date of the occurrence of the First Event) GEIER's employment with QUAKER shall terminate for a reason other than (1) GEIER's death, (2) GEIER's normal retirement for age, (3) GEIER's physical or mental disability in accordance with prevailing QUAKER policy, (4) by QUAKER as a Termination for Cause, or (5) by GEIER other than as a Termination for Good Reason, GEIER may demand that the Bank pay GEIER the Termination Pay (the "Demand").

A "Second Event" for the purposes of this Agreement shall mean any of the following events occurring after a First Event:

(1) A new Director of QUAKER is elected in an election in which the acquirer of the shares or the offeror or the requester voted, in person or by proxy, and such new Director was not nominated as a candidate in a proxy statement forwarded to shareholders by QUAKER's management prior to the occurrence of the First Event.

(2) More than 20% of the issued and outstanding shares of QUAKER's Common Stock are owned by one person (as used in Sections 13 and 14 of the Act) other than a person who is a present Officer or Director of QUAKER.

(3) During any period of two (2) consecutive calendar years, individuals who at the beginning of such period constitute QUAKER's Board of Directors cease for any reason to constitute at least a majority thereafter, unless the election or the nomination for election by QUAKER's shareholders of each new Director was approved by a vote of at least two-thirds (2/3) of the Directors then still in office who were Directors at the beginning of the two (2) year period.

(iii) After the receipt of the Demand, the Bank will pay GEIER the Termination Pay in eighteen (18) equal consecutive monthly installments, the first such installment to be paid within thirty (30) days from the date of the demand. GEIER shall not be required to diminish the amount of any payment to which he is entitled under this subparagraph (b) by seeking other employment or otherwise, nor shall the amount of any payment provided for in this subparagraph (b) be reduced by any compensation earned by GEIER as the result of employment by another employer after the date of termination.

(iv) QUAKER may withdraw the deposited Termination Pay if three (3) years elapse from the date of deposit thereof and if no demand has been made. If, prior to the expiration of said three (3) year period, there shall occur another First Event, QUAKER will not be required to make an additional deposit of Termination Pay, but the three (3) year period described herein shall be deemed to commence on the date of the occurrence of the last such First Event.

(v) QUAKER shall pay the usual and customary charges of the Bank for acting as escrow agent. QUAKER will be entitled to the payment of any and all interest and other income earned by the Bank through the investment of the deposited Termination Pay. Said interest shall be paid to QUAKER as earned. The escrow arrangement may be subject to the Bank's usual rules and procedures, and QUAKER will indemnify the Bank against any loss or liability for any action taken by it in good faith as escrow agent.

10. In the event that QUAKER in its sole discretion and at any time terminates this Agreement with GEIER (other than for Termination for Cause), QUAKER agrees to provide GEIER with reasonable out-placement assistance and a severance payment (contingent upon GEIER executing a form of release satisfactory to QUAKER) that shall be equal to but not less than twelve (12) months' salary calculated at GEIER's then current rate.

11. Termination. This Employment Agreement also can be terminated (and thereby terminate GEIER's employment with QUAKER) at any time and without notice by "Termination for Cause" or "Termination for Good Reason" as defined in and pursuant to Paragraph 9.

12. GEIER represents and warrants to QUAKER that:

(a) there are no restrictions, agreements, or understandings whatsoever to which GEIER is a party which would prevent or make unlawful his execution of this Employment Agreement or his employment hereunder; and

(b) his execution of this Employment Agreement and his employment hereunder shall not constitute a breach of any contract agreement, or understanding, oral or written, to which he is a party or by which he is bound.

13. This Employment Agreement contains all the agreements and understandings between the parties hereto with respect to GEIER's employment by QUAKER and supersedes all prior or contemporaneous agreements with respect thereto and shall be binding upon and for the benefit of the parties hereto and their respective personal representatives, successors, and assigns. This Employment Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania without regard to any conflict of laws.

IN WITNESS WHEREOF, QUAKER has caused this Employment Agreement to be signed by its President, thereunto duly authorized, and its corporate seal to be hereunto affixed and attested by its Corporate Secretary, and GEIER has hereunto set his hand and seal all as of the day and year first above written.

ATTEST: QUAKER CHEMICAL CORPORATION  
(SEAL)

\_\_\_\_\_  
Karl H. Spaeth  
Corporate Secretary

By: \_\_\_\_\_  
Ronald J. Naples  
Chairman, President and Chief  
Executive Officer

WITNESS:

\_\_\_\_\_  
James A. Geier



EMPLOYMENT AGREEMENT

EXHIBIT A

Effective: November 17, 1997

Name of Employee: James A. Geier  
Address: 8016 Narvon Street  
Philadelphia, PA 19136  
Title: Vice President-Human Resources

Annual Rate of Salary at Starting Date: \$152,000

Participation in Quaker Incentive Programs

Annual Bonus Plan (1997)

Bonus will be based on achieving certain benchmarks and/or a discretionary award, as follows:

Threshold level	- 10% of midpoint
Target level	- 19% of midpoint
Maximum level	- 37% of midpoint
Discretionary	- 8% of midpoint
Total Bonus Opportunity	- 45% of midpoint

For the year 1997 only, the Annual Bonus (payable in early 1998) will not be less than \$30,000.

Long-Term Performance Incentive Plan 1997-2000

Will be full participant in Plan, even though entering one (1) year after the start, at an appropriate level in relation to other officers. (Awards not yet designated by Compensation/Management Development Committee of the Board.)

## EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT, made and entered into as of the 9th day of March 1998, by and between QUAKER CHEMICAL CORPORATION, a Pennsylvania corporation (hereinafter referred to as "QUAKER"), and JOSEPH W. BAUER (hereinafter referred to as "EXECUTIVE").

## W I T N E S S E T H:

WHEREAS, QUAKER wishes to employ EXECUTIVE, and EXECUTIVE wishes to be employed by QUAKER.

NOW, THEREFORE, in consideration of the mutual promises and covenants herein contained, and intending to be legally bound hereby, the parties hereto agree as follows:

1. QUAKER agrees to employ EXECUTIVE, and EXECUTIVE agrees to serve as President and Chief Operating Officer of QUAKER. He shall perform all duties consistent with such position as well as any other duties which are assigned to him from time to time by the Board of Directors or Chief Executive Officer of QUAKER. EXECUTIVE covenants and agrees that he will, during the term of this Employment Agreement or any extension or renewal thereof, devote his knowledge, skill, and working time solely and exclusively to the business and interests of QUAKER.

Exhibit 10(s)  
Page 1

2. Except as otherwise provided for in Paragraph 11, the term of EXECUTIVE's employment shall continue until December 31, 1998 and shall continue for annual calendar year terms thereafter until either party hereto shall have given the other at least ninety (90) days' prior written notice of a desire to terminate this Agreement (and thereby terminate EXECUTIVE's employment with QUAKER) except as otherwise provided under Paragraph 11 below.

3. QUAKER shall pay to EXECUTIVE and EXECUTIVE shall accept an annual rate of salary as set forth in Exhibit A attached hereto, payable semi-monthly, during the term of this Employment Agreement or any extension or renewal thereof. The rate of salary will be reviewed on an annual basis consistent with QUAKER's then current practice for reviewing officers' salaries and performance.

4. EXECUTIVE shall participate in such QUAKER Incentive Programs as described and set forth in Exhibit A. The particulars of the Incentive Programs described in Exhibit A may be amended by the Board of Directors at any time as to any matter set forth therein (with the exception of the items covered in Paragraph 5 below) including eligibility to participate in any given QUAKER incentive plan, the level of participation in any QUAKER incentive plan, and the terms and conditions of any QUAKER incentive plan. Any changes to Exhibit A shall not affect any of the other terms and conditions hereof including, without limitation, the provisions of Paragraphs 7 through 9. For the purposes of this Agreement, the term "QUAKER Incentive Program" shall refer to each individual as well as the combined incentive

Exhibit 10(s)  
Page 2

programs approved by the Board of Directors. Revisions to Exhibit A shall become effective upon notification in writing by QUAKER.

5. (a) With respect to QUAKER's Annual Bonus Plan for the 1998 year only, EXECUTIVE's annual bonus (payable in early 1999) will not be less than \$100,000.

(b) With respect to QUAKER's Long Term Bonus Payment, FY95-FY98, EXECUTIVE will be paid \$75,000 in March, 1999, as long as regular participants in the plan qualify for at least a 100% award level.

(c) With respect to QUAKER's Long-Term Performance Incentive Plan (the "Incentive Plan"), for the 1997-2000 performance award period under the terms and conditions of the Incentive Plan, EXECUTIVE will be granted:

- \* Stock options - 30,000 to be issued to EXECUTIVE on the first day of employment -- 14,000 of which shall first become exercisable on the second anniversary of the first day of employment and the remaining 16,000 to first become exercisable on the third anniversary of the first day of employment; in addition, if EXECUTIVE makes a demand for his Termination Pay (as defined hereinafter) pursuant to Paragraph 9(b)(ii), any of the aforementioned 30,000 options not then exercisable shall become immediately exercisable in accordance with the terms of the Incentive Plan.
- \* Type of stock option offered - non-qualified stock options.
- \* Option price per share - closing price on first day of employment.

\* Performance incentive units - 11,000 @ \$16.9375 (equal to 100% of target value).

For the 1999-2002 performance award period, level of EXECUTIVE's participation will be consistent with his position and the then current program, except that the amount of options granted shall be reduced by 8,000.

(d) EXECUTIVE shall be entitled to four (4) weeks vacation per year, beginning the calendar year 1998, paid holidays, and such other employee benefits, including, without limitation, life insurance, medical benefits, disability, profit sharing, and retirement benefits as are made generally available to all senior QUAKER salaried officers as a group. In addition, EXECUTIVE will participate in Quaker's Supplemental Retirement Income Program (SERP) under the plan's standard provisions, except as follows. If EXECUTIVE leaves Quaker prior to age 60 for any reason, other than for termination of employment due to performance (as determined in good faith) during the first two years of employment as specified below, EXECUTIVE's SERP benefit will be payable at age 65. If EXECUTIVE leaves for any reason after age 60, the SERP benefit will be payable the first of the month following EXECUTIVE's last day of active full time employment. If EXECUTIVE leaves during the first two years of employment due to performance (as determined in good faith), EXECUTIVE will not be eligible for benefits under the SERP.

(e) QUAKER shall reimburse EXECUTIVE for all reasonable expenses incurred by EXECUTIVE on behalf of QUAKER in the course of EXECUTIVE's employment under this Employment Agreement, provided that such expenses shall have been approved by QUAKER in accordance with such expense reimbursement

procedures as shall be adopted by QUAKER. In addition, QUAKER shall pay for EXECUTIVE's country club membership, specifically, initiation fees, regular dues and business related entertainment expenses.

(f) In addition to the benefits provided under QUAKER's policy, EXECUTIVE will seek to sell his house at his own expense for 120 days from the effective date of this Agreement. If EXECUTIVE has not signed an agreement of sale for his house at the end of such period, QUAKER will buy EXECUTIVE's house, probably through a third party, at its then appraised value. EXECUTIVE can either accept the price, as determined by the appraisal or continue to sell the house himself at his own expense. If QUAKER sells the house, EXECUTIVE will receive any profit realized in excess of QUAKER's costs. Further, EXECUTIVE will be eligible for temporary living expenses for 90 days, as discussed.

6. In the event of the death of EXECUTIVE while this Employment Agreement is in effect and as to which no notice of termination has been given by EXECUTIVE or, in the case of a Termination for Cause, by QUAKER, QUAKER shall (i) continue to pay a sum of money equal to the salary that would have been paid to him for four months following his death just as if he were living, and (ii) QUAKER shall pay a death benefit equal to his then current annual salary plus \$30,000 to be paid in three equal payments, without interest, on the 16-, 28-, and 40-month anniversary of the date of his death. Payments made pursuant to this Paragraph 6 shall be made to the person or persons who may be designated by EXECUTIVE in writing, and, in the event he

fails to so designate to whom payments shall be made, payments shall be made to EXECUTIVE's personal representatives.

7. EXECUTIVE acknowledges that information concerning the method and conduct of QUAKER's (and any affiliates') business, including, without limitation, strategic and marketing plans, budgets, corporate practices and procedures, financial statements, customer and supplier information, formulae, formulation information, application technology, manufacturing information, and laboratory test methods and all of QUAKER's (and any affiliates') manuals, documents, notes, letters, records, and computer programs are QUAKER's (and/or QUAKER's affiliates', as the case may be) trade secrets ("Trade Secrets") and are the sole and exclusive property of QUAKER (and/or QUAKER's affiliates, as the case may be). EXECUTIVE agrees that at no time during or following his employment with QUAKER will he use, divulge, or pass on, directly or through any other individual or entity, any Trade Secrets. Upon termination of EXECUTIVE's employment with QUAKER, or at any other time upon QUAKER's request, EXECUTIVE agrees to forthwith surrender to QUAKER any and all materials in his possession or control which include or contain any such Trade Secrets. The words "Trade Secrets" do not include information already known to the public through no act or failure to act on the part of EXECUTIVE, required by law to be disclosed, or which can be clearly shown to have been known by EXECUTIVE prior to the commencement of his employment with QUAKER.

Exhibit 10(s)

Page 6

8. EXECUTIVE agrees that during his employment and for a period of one (1) year thereafter, regardless of the reason for the termination of EXECUTIVE'S employment hereunder, he will not:

(a) directly or indirectly, together or separately or with any third party, whether as an individual proprietor, partner, stockholder (unless such holdings are less than 5% of the outstanding equity securities of a publicly traded company), officer, director, joint venturer, investor, or in any other capacity whatsoever actively engage in business or assist anyone or any firm in business as a manufacturer, seller, or distributor of specialty chemical products or chemical management services which are the same, like, similar to, or which compete with the products and services offered by QUAKER (or any of its affiliates);

(b) recruit or solicit any employee of QUAKER or otherwise induce such employee to leave the employ of QUAKER or to become an employee or otherwise be associated with his or any firm, corporation, business or other entity with which he is or may become associated; and

(c) solicit, directly or indirectly, for himself or as agent or employee of any person, partnership, corporation, or other entity (other than for QUAKER) any then or former customer, supplier, or client of QUAKER with the intent of actively engaging in business which would cause competitive harm to QUAKER.

EXECUTIVE acknowledges and agrees that all of the foregoing restrictions are reasonable as to the period of time and scope. However, if any paragraph, sentence, clause, or other provision is held invalid or unenforceable by a court of competent and relevant jurisdiction, such provision shall be deemed to be modified in a manner consistent with the

intent of such original provision so as to make it valid and enforceable, and this Agreement and the application of such provision to persons and circumstances other than those with respect to which it would be invalid or unenforceable shall not be affected thereby. EXECUTIVE agrees and recognizes that in the event of a breach or threatened breach of the provisions of the restrictive covenants contained in Paragraph 7 or in this Paragraph 8, QAKER may suffer irreparable harm, and monetary damages may not be an adequate remedy. Therefore, if any breach occurs or is threatened, in addition to all other remedies available to QAKER at law or in equity, QAKER shall be entitled as a matter of right to specific performance of the covenants of QAKER contained herein by way of temporary or permanent injunctive relief. In the event of any breach of the restrictive covenant contained in this Paragraph 8, the term of the restrictive covenant specified herein shall be extended by a period of time equal to that period beginning on the date such violation commenced and ending when the activities constituting such violation cease.

9. (a) Definitions. For the purposes of this Paragraph 9, the following definitions shall apply and will be used.

(i) "Act" means the Securities Exchange Act of 1934, as amended:

(ii) "QAKER's Common Stock" means shares of Common Stock, \$1.00 par value, of QAKER;

(iii) "Termination for Cause" means EXECUTIVE's employment with QAKER shall have been terminated by QAKER by reason of either:

Exhibit 10(s)

Page 8



(1) The willful and continued failure (following written notice) by EXECUTIVE to execute his duties under this Employment Agreement; or

(2) The willful engaging by EXECUTIVE in a continued course of misconduct which is materially injurious to QUAKER, monetarily or otherwise.

EXECUTIVE shall have been given notice thereof from QUAKER's Board of Directors and an opportunity (with counsel) to be heard by said Board of Directors, and the Board of Directors shall have made a reasonable and good faith finding that EXECUTIVE was guilty of the conduct set forth in clause (1) or (2) hereof.

(iv) "Termination for Good Reason" means EXECUTIVE's employment with QUAKER shall have been terminated by EXECUTIVE by reason of a material change announced or promulgated by QUAKER in the terms, conditions, duties, compensation, or benefits of EXECUTIVE's employment with QUAKER and not agreed to by EXECUTIVE.

(b) The primary purpose of this Paragraph 9 is to reinforce and encourage the continued dedication and attention of EXECUTIVE to EXECUTIVE's assigned duties under this Employment Agreement without distraction as a result of circumstances which may arise from the possibility of a change of control or an attempt to change the control of QUAKER.

(i) Upon the occurrence of a "First Event," QUAKER will deposit in an escrow account at CoreStates Bank, N.A. (or such other bank as QUAKER may hereafter designate) (the "Bank") an amount equal to EXECUTIVE's then current annual salary for a twenty four (24) month period ("Termination

Pay"). A First Event for the purposes of this Agreement shall mean any one of the following events.

(1) Shares of QUAKER's Common Stock are acquired (other than directly from QUAKER in exchange for cash or property) by any person (as used in Sections 13 and 14 of the Act) other than a person who is a present Officer or Director of QUAKER, who thereby becomes the beneficial owner (as defined in Rule 13d-3 under the Act) of more than 10% of the issued and outstanding shares of QUAKER's Common Stock.

(2) Any person, firm, or corporation (including a shareholder of QUAKER) makes a tender offer or exchange offer for, or a request or invitation for tenders or exchanges of shares of QUAKER's Common Stock.

(ii) If a "Second Event" shall occur and thereafter (but within three (3) years after date of the occurrence of the First Event) EXECUTIVE's employment with QUAKER shall terminate for a reason other than (1) EXECUTIVE's death, (2) EXECUTIVE's normal retirement for age, (3) EXECUTIVE's physical or mental disability in accordance with prevailing QUAKER policy, (4) by QUAKER as a Termination for Cause, or (5) by EXECUTIVE other than as a Termination for Good Reason, EXECUTIVE may demand that the Bank pay EXECUTIVE the Termination Pay (the "Demand").

A "Second Event" for the purposes of this Agreement shall mean any of the following events occurring after a First Event:

(1) A new Director of QUAKER is elected in an election in which the acquirer of the shares or the offeror or the requester voted, in

Exhibit 10(s)

Page 10

person or by proxy, and such new Director was not nominated as a candidate in a proxy statement forwarded to shareholders by QUAKER's management prior to the occurrence of the First Event.

(2) More than 20% of the issued and outstanding shares of QUAKER's Common Stock are owned by one person (as used in Sections 13 and 14 of the Act) other than a person who is a present Officer or Director of QUAKER.

(3) During any period of two (2) consecutive calendar years, individuals who at the beginning of such period constitute QUAKER's Board of Directors cease for any reason to constitute at least a majority thereafter, unless the election or the nomination for election by QUAKER's shareholders of each new Director was approved by a vote of at least two-thirds (2/3) of the Directors then still in office who were Directors at the beginning of the two (2) year period.

(iii) After the receipt of the Demand, the Bank will pay EXECUTIVE the Termination Pay in twenty four (24) equal consecutive monthly installments, the first such installment to be paid within thirty (30) days from the date of the demand. EXECUTIVE shall not be required to diminish the amount of any payment to which he is entitled under this subparagraph (b) by seeking other employment or otherwise, nor shall the amount of any payment provided for in this subparagraph (b) be reduced by any compensation earned by EXECUTIVE as the result of employment by another employer after the date of termination.

(iv) QUAKER may withdraw the deposited Termination Pay if three (3) years elapse from the date of deposit thereof and if no demand has been made. If, prior to the expiration of said three (3) year period, there shall

occur another First Event, QAKER will not be required to make an additional deposit of Termination Pay, but the three (3) year period described herein shall be deemed to commence on the date of the occurrence of the last such First Event.

(v) QAKER shall pay the usual and customary charges of the Bank for acting as escrow agent. QAKER will be entitled to the payment of any and all interest and other income earned by the Bank through the investment of the deposited Termination Pay. Said interest shall be paid to QAKER as earned. The escrow arrangement may be subject to the Bank's usual rules and procedures, and QAKER will indemnify the Bank against any loss or liability for any action taken by it in good faith as escrow agent.

10. In the event that QAKER in its sole discretion and at any time terminates this Agreement with EXECUTIVE (other than for Termination for Cause, death, disability, or normal retirement age), QAKER agrees to provide EXECUTIVE with reasonable out-placement assistance and a severance payment (contingent upon EXECUTIVE executing a form of release satisfactory to QAKER) that shall be equal to but not less than twelve (12) months' salary calculated at EXECUTIVE's then current rate.

11. Termination. This Employment Agreement also can be terminated (and thereby terminate EXECUTIVE's employment with QAKER) at any time and without notice by "Termination for Cause" as defined in Paragraph 9 (a) (iii).

12. EXECUTIVE represents and warrants to QAKER that:

(a) there are no restrictions, agreements, or understandings whatsoever to which EXECUTIVE is a party which would prevent or make unlawful his execution of this Employment Agreement or his employment hereunder; and

(b) his execution of this Employment Agreement and his employment hereunder shall not constitute a breach of any contract agreement, or understanding, oral or written, to which he is a party or by which he is bound.

13. This Employment Agreement contains all the agreements and understandings between the parties hereto with respect to EXECUTIVE's employment by QUAKER and supersedes all prior or contemporaneous agreements with respect thereto and shall be binding upon and for the benefit of the parties hereto and their respective personal representatives, successors, and assigns. This Employment Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania without regard to any conflict of laws.

IN WITNESS WHEREOF, QUAKER has caused this Employment Agreement to be signed by its Chairman of the Board, thereunto duly authorized, and its corporate seal to be hereunto affixed and attested by its Corporate Secretary, and EXECUTIVE has hereunto set his hand and seal all as of the day and year first above written.

ATTEST: QUAKER CHEMICAL CORPORATION  
(SEAL)

\_\_\_\_\_  
Karl H. Spaeth  
Corporate Secretary

By: \_\_\_\_\_  
Ronald J. Naples  
Chairman, President, and Chief  
Executive Officer

WITNESS:  
  
\_\_\_\_\_

\_\_\_\_\_  
Joseph W. Bauer

EMPLOYMENT AGREEMENT

EXHIBIT A

Effective: March 9, 1998

Name of Employee: Joseph W. Bauer  
Address: 4035 Old Southwick  
Alpharetta, GA 30202  
Title: President and Chief Operating Officer

Annual Rate of  
Salary at  
Starting Date: \$250,000

Participation in Quaker Incentive Programs

Annual Bonus Plan (1998)

Bonus will be based on achieving certain benchmarks, as follows:

Threshold level	-15% of midpoint
Target level	-30% of midpoint
Maximum level	-60% of midpoint

For the year 1998 only, the Annual Bonus (payable in early 1999)  
will not be less than \$100,000.

Long-Term Bonus Payment, FY95-FY98

You will be paid \$75,000 in March, 1999, as long as regular participants  
in the plan qualify for at least a 100% award level.

Long-Term Performance Incentive Plan, 1997-2000

\* Stock options - 30,000 to be issued to EXECUTIVE on the first day  
of employment -- 14,000 of which shall first become exercisable  
on the second anniversary of the first day of employment and the  
remaining 16,000 to first become exercisable on the third  
anniversary of the first day of employment; in addition, if  
EXECUTIVE makes a demand for his Termination Pay (as defined

hereinafter) pursuant to Paragraph 9(b)(ii), any of the  
aforementioned 30,000 options not then exercisable shall become  
immediately exercisable in accordance with the terms of the  
Incentive Plan.

- \* Type of stock option offered - non-qualified stock options.
- \* Option price per share - closing price on first day of employment.
- \* Performance incentive units - 11,000 @ \$16.9375 (equal to 100% of target value).

For the 1999-2002 performance award period, will participate at an appropriate level in relation to other officers, except that the amount of options granted shall be reduced by 8,000.





## QUAKER CHEMICAL CORPORATION

## Financial Review

## 1997 Annual Report

Management's Discussion and Analysis of Financial Condition and Results of Operations .....	16
Consolidated Statement of Operations .....	19
Consolidated Balance Sheet .....	20
Consolidated Statement of Cash Flows .....	21
Consolidated Statement of Shareholders' Equity .....	22
Notes to Consolidated Financial Statements.....	23
Report of Independent Accountants .....	31
Eleven-Year Financial Summary .....	32
Supplemental Financial Information .....	34

## Exhibit 13

## Page 15

Management's Discussion and Analysis  
of Financial Condition and Results of Operations

## Liquidity and Capital Resources

Management continues to believe that the Company is capable of generating adequate cash to meet the needs of current operations and to fund strategic initiatives.

Net cash flow provided by operating activities amounted to \$15.2 million in 1997 compared to \$28 million in 1996. The decrease principally resulted from changes in working capital.

Net cash used in investing activities decreased to \$1.4 million in 1997 from \$6.3 million in 1996. The decrease was due mainly to a decline in expenditures for property, plant, and equipment (\$5.6 million in 1997 versus \$6.9 million in 1996); \$3.5 million in proceeds from the sale of the European pulp and paper business; and reduced investments and advances in the Company's Fluid Recycling Services Company, LLC ("FRS") joint venture (\$.8 million in 1997 versus \$2 million in 1996).

In addition to the items noted above, the Company issued \$20 million of long-term debt and made payments of \$17.4 million to reduce outstanding short-term debt. As a result of the reduction of short-term debt, the Company's net cash position (cash and cash equivalents less short-term borrowings and current portion of long-term debt) increased \$27.3 million in 1997 compared to a \$9.4 million increase in 1996. The current ratio was 2.1 to 1 in 1997 as compared to 1.4 to 1 in 1996 reflecting the impact of the aforementioned changes in net cash.

The majority of expenditures for property, plant, and equipment in 1997 included upgrades of manufacturing capabilities at various locations. Capital expenditures for 1998 are expected to be in the range of \$7-9 million and include various upgrades of manufacturing capabilities in the U.S. and Europe, and an estimated \$1.0 million for environmental and regulatory compliance. The Company believes that funds generated internally should be sufficient to finance payments for capital expenditures.

The Company has \$10 million in a line of credit and believes that additional bank borrowings could be negotiated at competitive rates, based on its debt-equity ratio and current levels of operating performance. The Company is capable of supporting its operating requirements during 1998, payment of dividends to shareholders, possible acquisition opportunities and possible resolution of contingencies (see Note 12 to the consolidated financial statements) through internally generated funds supplemented with debt as needed.

## Operations

## Comparison of 1997 with 1996

Consolidated net sales for 1997 increased \$1.3 million (.5%) over 1996. The sales growth was the net result of (i) a 6% increase in volume, and (ii) a 1.5% improvement in price/mix resulting primarily from better pricing, mainly in Europe, and an overall positive shift in sales mix, offset by (iii) a 1% decrease associated with the 1997 divestiture of the European pulp and paper business, and (iv) a 6% negative impact from currency translation (fluctuations in foreign currency exchange rates used to translate local currency statements to U.S. dollars). The volume improvement for the year was attributable to sales growth in Europe, mainly attributable to the strong demand from the European steel industry, increased sales to aircraft producers, and increased demand from the South American steel and metalworking markets. Sales in the major U.S. markets were steady throughout most of the year. In Asia/Pacific, sales were hurt in the first half of 1997 due to a decrease in customer production levels in order to work down earlier buildups of inventories but increased in the second half of the year.

Operating income (excluding the gain on the sale of the European pulp and paper business in 1997) increased to \$18.5 million from \$15.2 million (excluding the repositioning charge in 1996). The improvement was due in large part to the higher level of sales combined with an increased gross margin percentage. The Company's gross margin as a percentage of sales improved 1.6% points, when compared to 1996 mainly as a result of the benefits associated with the consolidation of manufacturing operations in the U.S., pricing

initiatives implemented over the past year, and a more favorable sales mix. Selling, administrative, and general expenses as a percent of sales were near last year's level.

The \$2,000 litigation charge relates to a reserve established in the fourth quarter of 1997 for the Company's potential liability in a legal proceeding (see Note 12 to the consolidated financial statements). Net interest costs decreased as a result of the increase in the Company's net cash position.

The increase in equity in net income from associated companies was due primarily to improved profitability in the Company's FRS joint venture. The negative influence of currency translation on net income in 1997 was approximately \$.21 per share compared to \$.08 per share in 1996.

#### 1996 Repositioning

In 1996, the Company announced and implemented a series of measures designed to improve manufacturing capacity utilization, responsiveness to customers, operating efficiencies, and return on assets. The consolidated statement of operations for 1996 included total pre-tax charges of \$24,455 (\$16,912 after tax, or \$1.96 per share) related to these initiatives. Of the total charges, \$19,230 was shown as "Repositioning charges" in income before tax and the remaining \$5,225, was shown net of tax (\$3,445) under the caption "Asset impairment charge on equity investment."

The plan of action related to the repositioning charges included (i) the closure of one of two manufacturing plants in the U.S., (ii) the closure of a sales and distribution office and streamlining of research and other functional activities in Europe, and (iii) other workforce reductions. The closure of a manufacturing facility in the U.S. and a sales and distribution office in Europe were substantially completed in 1996. The completion of the plan resulted in workforce reductions of approximately 90 employees.

In addition, the charges also include an asset impairment on goodwill related to a Spanish subsidiary. The asset impairment charge against the equity investment represents the write-down of the Company's investment in its FRS joint venture.

Asset impairments represent charges arising from the adoption of Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." The charge related to a Spanish subsidiary resulted from the evaluation of the Company's ability to recover asset costs given changes in local market conditions, current and projected capacity utilization, and other strategic factors. The determination to write down the Company's investment in FRS was made after extensive analysis of FRS's past performance and future prospects compared to the Company's level of investment. In evaluating both of these operations, management did not believe that future cash flows would be adequate to recover the carrying value of these assets. The components of the pre-tax charges incurred in 1996 as well as balances remaining at December 31, 1997 were as follows:

	Amounts charged		
	Cash	Non-cash	Total
Severance, other employee benefits, and facility closure costs .....	\$ 7,705		\$ 7,705
Asset write-offs .....		\$10,332	10,332
Goodwill impairment .....		1,193	1,193
Subtotal .....	7,705	11,525	19,230
FRS investment impairment .....		5,225	5,225
Total repositioning charges .....	\$7,705	\$16,750	\$24,455
Amount utilized in 1996 .....	(2,355)	(16,750)	(19,105)
Amount utilized in 1997 .....	(4,105)		(4,105)
Remaining liability .....	\$ 1,245	\$ --	\$ 1,245

At December 31, 1997 and 1996, approximately \$945 and \$5,000 remained in accrued liabilities and approximately \$300 and \$350 remained in other noncurrent liabilities, respectively. The future cash outlays primarily represent termination benefits related to workforce reductions.

#### Comparison of 1996 with 1995

Consolidated net sales for 1996 increased \$13.2 million (6%) over 1995. The sales growth was a result of (i) a 3% increase in volume, (ii) a 4% improvement in price/mix resulting primarily from better pricing, mainly in Europe, and an overall positive shift in sales mix, (iii) a 1% increase associated with a 1995 acquisition in Brazil, offset by (iv) a 2% negative impact from currency translation (fluctuations in foreign currency exchange rates used to translate local currency statements to U.S. dollars). The volume improvement for the year was attributable primarily to continued sales growth in the Asia/Pacific markets and increased sales in certain U.S. markets. Sales in the major U.S. markets were steady throughout most of the year, but slowed somewhat in the fourth quarter. In Europe, sales were steady during the first three quarters and then picked up in the fourth quarter primarily as a result of strong demand from the European steel industry.

Operating income increased to \$15.2 million (excluding the repositioning charge in 1996) from \$11.4 million in 1995. The improvement was due in large part to the higher level of sales combined with an increased gross margin percentage. The Company's gross margin as a percentage of sales improved 2.2% points, when compared to 1995 mainly as a result of the benefits of pricing initiatives, particularly in Europe, a more favorable sales mix, and stable raw material costs. Selling, administrative, and general expenses as a percent of sales increased .8% points primarily as a result of increased spending on geographic and product growth areas, other strategic initiatives, and an additional provision of \$1.3 million in the fourth quarter of 1996 for estimated future remediation costs related to certain soil and groundwater contamination at a subsidiary's facility in California.

The increase in equity in net income from associated companies for both the fourth quarter and full year was due primarily to higher earnings from the Company's Mexican and Venezuelan affiliates and reduced business development costs in the Company's FRS joint venture. The negative influence of currency translation on net income in 1996 was approximately \$.08 per share compared to a positive impact of \$.07 per share in 1995.

#### General

The Company is involved in environmental clean-up activities and litigation in connection with existing plant locations and former waste disposal sites (see Note 12 to the consolidated financial statements). This involvement has not historically had, nor is it expected to have, a material effect on the Company's results of operations or financial condition.

The Company does not use financial instruments which expose it to significant risk involving foreign currency transactions; however, the size of non-U.S. activities has a significant impact on reported operating results and the attendant net assets. During the past three years, sales by non-U.S. subsidiaries accounted for approximately 54-57% of the consolidated sales. In the same period, these subsidiaries accounted for approximately 74-81% of consolidated operating profit (see Note 10 to the consolidated financial statements). The greater profitability of non-U.S. sales during this period is attributable to higher unit selling prices and lower fixed overhead and selling costs.

The Company is currently working to resolve the potential impact of the year 2000 on the processing of date sensitive information by the Company's computerized information systems. Historically, certain computer programs have been written using two digits rather than four digits to define the applicable year. Any of the Company's programs that have time sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000, which could result in miscalculations or system failures. The costs of addressing potential problems are not currently expected to have a material adverse impact on the Company's financial position, results of operations, or cash flows in future periods. The Company expects that all necessary modifications or replacements to key systems will occur on a timely basis.

During 1997, the Financial Accounting Standards Board issued SFAS No. 130 - - "Reporting Comprehensive Income" and SFAS No. 131 - - "Disclosures about Segments of an Enterprise and Related Information." These standards are effective in 1998. SFAS No. 130 requires that the components of comprehensive income be reported in the financial statements. SFAS No. 131 requires the disclosure of segment information utilizing the approach that the Company uses to manage its internal organization. Also, SFAS No. 131 requires the reporting of segment information on a condensed basis for interim periods beginning in 1999. The Company is currently assessing the impact these new standards will have on its financial statements.

CONSOLIDATED STATEMENT OF OPERATIONS

Year Ended December 31,

(Dollars in thousands except per share amounts)	1997	1996	1995
Net sales .....	\$241,534	\$240,251	\$227,038
Costs and expenses:			
Cost of goods sold .....	134,943	138,199	135,490
Selling, administrative, and general expenses .....	88,064	86,853	80,115
Repositioning charges .....		19,230	
Gain on sale of European pulp and paper business .....	(2,621)		
	220,386	244,282	215,605
Operating income (loss) .....	21,148	(4,031)	11,433
Other income, net (Note 1) .....	1,805	1,508	2,090
Litigation charge .....	(2,000)		
Interest expense .....	(1,547)	(1,906)	(1,712)
Interest income .....	329	432	286
Income (loss) before taxes .....	19,735	(3,997)	12,097
Taxes on income .....	7,893	466	4,887
	11,842	(4,463)	7,210
Equity in net income (loss) of associated companies .....	1,161	480	(78)
Asset impairment charge on equity investment		(3,445)	
Minority interest in net income of subsidiaries .....	(392)	(171)	(444)
Net income (loss) .....	\$ 12,611	\$ (7,599)	\$ 6,688
Per share data:			
Net income (loss) basic and diluted .....	\$1.45	\$(.88)	\$.76
Dividends .....	.71	.69	.68

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

CONSOLIDATED BALANCE SHEET

December 31,

(Dollars in thousands except per share amounts)

	1997	1996
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (Note 1) .....	\$ 18,416	\$ 8,525
Accounts receivable, less allowances for doubtful accounts of \$1,085 in 1997 and \$1,005 in 1996 .....	48,625	45,564
Inventories (Notes 1 and 4) .....	21,681	21,041
Deferred income taxes (Note 6) .....	5,729	4,840
Prepaid expenses and other current assets .....	3,675	6,582
<b>Total current assets</b> .....	<b>98,126</b>	<b>86,552</b>
Investments in and advances to associated companies (Notes 1 and 3) ..	4,925	3,941
Property, plant, and equipment, net (Notes 1 and 5) .....	40,654	43,960
Goodwill (Note 1) .....	14,500	16,222
Deferred income taxes (Note 6) .....	9,090	9,278
Other noncurrent assets (Note 1) .....	3,345	5,655
<b>Total noncurrent assets</b> .....	<b>26,935</b>	<b>31,155</b>
<b>Total assets</b> .....	<b>\$170,640</b>	<b>\$165,608</b>
	=====	=====
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities</b>		
Short-term borrowings and current portion of long-term debt (Note 8)	\$ --	\$ 17,404
Accounts payable .....	22,871	23,386
Dividends payable .....	1,570	1,508
<b>Accrued liabilities</b>		
Compensation .....	9,723	7,097
Other (Note 2) .....	11,101	12,746
Accrued taxes on income (Note 6) .....	2,494	1,893
<b>Total current liabilities</b> .....	<b>47,759</b>	<b>64,034</b>
Long-term debt (Note 8) .....	25,203	5,182
Deferred income taxes (Note 6) .....	3,752	3,222
Accrued postretirement benefits (Note 7) .....	8,934	8,898
Other noncurrent liabilities (Note 2) .....	5,825	6,255
<b>Total noncurrent liabilities</b> .....	<b>43,714</b>	<b>23,557</b>
<b>Total liabilities</b> .....	<b>91,473</b>	<b>87,591</b>
Minority interest in equity of subsidiaries (Note 1) .....	3,525	3,763
<b>Commitments and contingencies (Notes 1 and 12)</b>		
<b>Shareholders' equity (Note 9)</b>		
Common stock, \$1 par value; authorized 30,000,000 shares; issued (including treasury shares) 9,664,009 shares .....	9,664	9,664
Capital in excess of par value .....	928	634
Retained earnings .....	80,749	74,317
Unearned compensation .....	(528)	(459)
Foreign currency translation adjustments .....	(208)	6,475
Treasury stock, shares held at cost; 1997--943,552, 1996--1,044,452	90,605	90,631
	14,963	16,377
<b>Total shareholders' equity</b> .....	<b>75,642</b>	<b>74,254</b>
<b>Total liabilities and shareholders' equity</b> .....	<b>\$170,640</b>	<b>\$165,608</b>
	=====	=====

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended December 31,

(Dollars in thousands)

	1997	1996	1995
<b>Cash flows from operating activities</b>			
Net income (loss) .....	\$ 12,611	\$ (7,599)	\$ 6,688
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation .....	5,154	6,347	6,764
Amortization .....	2,110	2,361	1,883
Equity in net (income) loss of associated companies .....	(1,161)	(480)	78
Minority interest in earnings of subsidiaries .....	392	171	444
Gain on sale of European pulp and paper business .....	(2,621)		
Litigation charge .....	2,000		
Proceeds from insurance settlement .....			2,500
Deferred income taxes .....	661	(3,658)	(499)
Deferred compensation and other postretirement benefits .....	1,649	952	(585)
Repositioning and asset impairment charges .....		24,455	
Change in repositioning liabilities .....	(4,426)	(2,921)	(1,546)
Other, net .....	36	541	(464)
Increase (decrease) in cash from changes in current assets and current liabilities, net of acquisitions and divestitures:			
Accounts receivable .....	(6,379)	305	(1,513)
Inventories .....	(1,868)	132	(2,771)
Prepaid expenses and other current assets .....	1,744	(148)	(2,389)
Accounts payable and accrued liabilities .....	4,199	6,017	(1,357)
Estimated taxes on income .....	1,109	1,475	58
Net cash provided by operating activities .....	15,210	27,950	7,291
<b>Cash flows from investing activities</b>			
Dividends from associated companies .....	654	1,406	565
Investments in property, plant, equipment, and other assets .....	(5,580)	(6,923)	(9,833)
Companies/businesses acquired excluding cash .....			(7,728)
Investments in and advances to associated companies .....	(779)	(2,039)	(1,970)
Proceeds from sale of European pulp and paper business .....	3,548		
Proceeds from sale of patent, production technology, and other assets .....	1,005	830	2,000
Other, net .....	(280)	428	(576)
Net cash used in investing activities .....	(1,432)	(6,298)	(17,542)
<b>Cash flows from financing activities</b>			
Net (decrease) increase in short-term borrowings .....	(13,090)	(7,438)	15,923
Long-term debt incurred .....	20,000		2,155
Repayment of long-term debt .....	(4,289)	(4,796)	(3,857)
Dividends paid .....	(6,179)	(5,936)	(5,973)
Treasury stock issued .....	937	979	1,439
Treasury stock acquired .....		(1,587)	(3,594)
Net cash (used in) provided by financing activities .....	(2,621)	(18,778)	6,093
Effect of exchange rate changes on cash .....	(1,266)	(1,579)	43
Net increase (decrease) in cash and cash equivalents .....	9,891	1,295	(4,115)
Cash and cash equivalents at beginning of year .....	8,525	7,230	11,345
Cash and cash equivalents at end of year .....	\$ 18,416	\$ 8,525	\$ 7,230
<b>Supplemental cash flow disclosures</b>			
Cash paid during the year for:			
Income taxes .....	\$ 5,920	\$ 5,497	\$ 5,048
Interest .....	1,568	2,040	1,776

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

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(Dollars in thousands except per share amounts)	Common stock	Capital in excess of par value	Retained earnings	Unearned compensation	Foreign currency translation adjustments	Treasury stock	Total
Balance at December 31, 1994 .....	\$9,664	\$ 649	\$87,137		\$ 9,856	\$(13,629)	\$93,677
Net income .....			6,688				6,688
Dividends (\$.68 per share) .....			(5,973)				(5,973)
Shares acquired under repurchase program .....						(3,594)	(3,594)
Shares issued upon exercise of options .....		(141)				141	
Shares issued for employee stock purchase plan .....		68				370	438
Restricted stock bonus .....		175		\$(722)		700	153
Translation adjustment .....					2,477		2,477
Other .....		29				97	126
Balance at December 31, 1995 .....	9,664	780	87,852	(722)	12,333	(15,915)	93,992
Net loss .....			(7,599)				(7,599)
Dividends (\$.69 per share) .....			(5,936)				(5,936)
Shares acquired under repurchase program .....						(1,587)	(1,587)
Shares issued upon exercise of options .....		(146)				681	535
Shares issued for employee stock purchase plan .....						444	444
Amortization of restricted stock bonus .....				263			263
Translation adjustment .....					(5,858)		(5,858)
Balance at December 31, 1996 .....	9,664	634	74,317	(459)	6,475	(16,377)	74,254
Net income .....			12,611				12,611
Dividends (\$.71 per share) .....			(6,179)				(6,179)
Shares issued upon exercise of options .....		23				459	482
Shares issued for employee stock purchase plan .....		85				371	456
Shares issued for director stock ownership plan .....		12				73	85
Other, primarily employee stock awards .....		1				21	22
Restricted stock bonus .....		173		(332)		490	331
Amortization of restricted stock bonus .....				263			263
Translation adjustment .....					(6,683)		(6,683)
Balance at December 31, 1997 .....	\$9,664	\$ 928	\$80,749	\$(528)	\$ (208)	\$(14,963)	\$75,642

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



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollars in thousands except share and per share amounts)

Note 1 -- Significant Accounting Policies

Principles of consolidation: All majority-owned subsidiaries are included in the Company's consolidated financial statements, with appropriate elimination of intercompany balances and transactions. The consolidated balance sheet includes total assets of \$96,034 and \$102,665 and total liabilities of \$29,553 and \$31,801 in 1997 and 1996, respectively, of non-U.S. subsidiaries. The consolidated statement of operations includes net income of non-U.S. subsidiaries of \$13,286, \$4,415, and \$7,290 in 1997, 1996, and 1995, respectively. Investments in associated (less than majority owned) companies are stated at the Company's equity in the underlying net assets.

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

Derivative financial instruments: The Company's utilization of derivative financial instruments is substantially limited to the use of forward exchange contracts to hedge foreign currency transactions and foreign exchange options to reduce its exposure to changes in foreign exchange rates. The amount of any gain or loss on derivative financial instruments was immaterial in 1997 and no contracts or options were entered into in 1996 or 1995. There are no contracts or options outstanding at December 31, 1997.

Cash and cash equivalents: The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Inventories: Inventories of the parent Company are valued at the lower of cost or market value, with cost determined using the last-in, first-out ("LIFO") cost method. Inventories of subsidiaries are valued primarily using the first-in, first-out ("FIFO") cost method, but not in excess of market value.

Property, plant, and equipment: Property, plant, and equipment are recorded at cost, and capital leases are recorded at the present value of future minimum lease payments. Depreciation is computed using the straight-line method on an individual asset basis over the following estimated useful lives: buildings and improvements, 10 to 45 years; machinery and equipment, 3 to 15 years; and capital leases are depreciated over the remaining life of the lease. At December 31, 1997 and 1996, \$1,214 of leased equipment and accumulated depreciation thereon in the amount \$1,214 and \$1,156 in 1997 and 1996, respectively, are included in property, plant, and equipment.

Expenditures for renewals and betterments which increase the estimated useful life or capacity of the assets are capitalized; expenditures for repairs and maintenance are charged to income.

Goodwill: Goodwill consists primarily of intangible assets arising from acquisitions which are being amortized on a straight-line basis over periods of 5 to 40 years (5 to 20 years on acquisitions subsequent to 1991). Goodwill is reviewed by the Company whenever events or circumstances indicate that the carrying amount may not be recoverable. At December 31, 1997 and 1996, accumulated goodwill amortization amounted to \$4,398 and \$3,574, respectively.

Capitalization of software: The Company capitalizes certain computer software costs which are amortized utilizing the straight-line method over their estimated economic lives, not to exceed three years. At December 31, 1997 and 1996, the net amount capitalized was \$776 and \$1,670, respectively.

Pension and postretirement benefit plans: The Company's policy is to fund pension costs allowable for income tax purposes. See Note 7 for the accounting policies for pension and other postretirement benefits.

Revenue recognition: Sales are recorded primarily when products are shipped to customers. Other income, principally license fees and royalties offset by miscellaneous expenses, is recorded when earned. License fees from nonconsolidated non-U.S. associates and royalties from third parties amounted to \$1,656, \$1,505, and \$2,293 in 1997, 1996, and 1995, respectively.

Research and development costs: Research and development costs are expensed as incurred. Company sponsored research and development expenses during 1997, 1996, and 1995 were \$9,508, \$11,181, and \$11,307, respectively.

Earnings per share: Effective December 31, 1997, the Company adopted SFAS No. 128, "Earnings Per Share." This standard establishes new accounting and disclosure requirements for earnings per share ("EPS"). The EPS amounts for 1997, 1996, and 1995 have been restated to conform to SFAS No. 128 requirements. The following

table summarizes the restatement for the years ended December 31, 1997, 1996, and 1995:

	December 31,		
	1997	1996	1995
Numerator for basic EPS and diluted EPS --			
net income (loss) .....	\$12,611	\$(7,599)	\$6,688
Denominator for basic EPS --			
weighted average shares .....	8,673	8,587	8,811
Effect of dilutive securities:			
Employee stock options .....	34	52	48
Denominator for diluted EPS --			
weighted average shares and assumed conversions .....	8,707	8,639	8,859
Basic EPS .....	\$1.45	\$(.88)	\$.76
Diluted EPS .....	1.45	(.88)	.76

The following number of stock options are not included in dilutive earnings per share since in each case the exercise price is greater than the market price: 225,882, 587,036, 715,153 in 1997, 1996, and 1995, respectively.

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

The Company sells its principal products to the major steel, automotive, and related companies around the world. The Company maintains allowances for potential credit losses. Historically, the Company has experienced some losses related to bankruptcy proceedings of major steel companies in the U.S.; however, such losses have not been material.

Environmental liabilities and expenditures: Accruals for environmental matters are recorded when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated. Accrued liabilities are exclusive of claims against third parties and are not discounted. Environmental costs and remediation costs are capitalized if the costs increase the value of the property from the date acquired or constructed and/or mitigate or prevent contamination in the future.

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

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

Income taxes: Income taxes are provided in accordance with SFAS No. 109, "Accounting for Income Taxes."

#### Note 2 -- Repositioning of Operations

In 1996, the Company announced and implemented a series of measures designed to improve manufacturing capacity utilization, responsiveness to customers, operating efficiencies, and return on assets. The consolidated statement of operations for 1996 included total pre-tax charges of \$24,455 (\$16,912 after tax, or \$1.96 per share) related to these initiatives. Of the total charges, \$19,230 was shown as "Repositioning charges" in income before tax and the remaining \$5,225, was shown net of tax (\$3,445) under the caption "Asset impairment charge on equity investment."

The plan of action related to the repositioning charges included (i) the closure of one of two manufacturing plants in the U.S., (ii) the closure of a sales and distribution office and streamlining of research and other functional activities in Europe, and (iii) other workforce reductions. The closure of a manufacturing facility in the U.S. and a sales and distribution office in Europe were substantially completed in 1996. The completion of the plan resulted in workforce reductions of approximately 90 employees.

In addition, the charges also include an asset impairment on goodwill related to a Spanish subsidiary. The asset impairment charge against the equity investment represents the write-down of the Company's investment in its FRS joint venture.

Asset impairments represent charges arising from the adoption of SFAS No. 121. The charge related to a Spanish subsidiary resulted from the evaluation of the Company's ability to recover asset costs given changes in local market conditions, current and projected capacity utilization, and other strategic factors. The determination to write down the Company's investment in FRS was made after extensive analysis of FRS's past performance and future prospects compared to the Company's level of investment. In evaluating both of these

operations, management did not believe that future cash flows would be adequate to recover the carrying value of these assets.

The components of the pre-tax charges incurred in 1996 as well as balances remaining at December 31, 1997 were as follows:

	Amounts charged		
	Cash	Non-cash	Total
Severance, other employee benefits, and facility closure costs .....	\$ 7,705		\$ 7,705
Asset write-offs .....		\$10,332	10,332
Goodwill impairment .....		1,193	1,193
Subtotal .....	7,705	11,525	19,230
FRS investment impairment .....		5,225	5,225
Total repositioning charges .....	\$7,705	\$16,750	\$24,455
Amount utilized in 1996 .....	(2,355)	(16,750)	(19,105)
Amount utilized in 1997 .....	(4,105)		( 4,105)
Remaining liability .....	\$ 1,245	\$ --	\$ 1,245

At December 31, 1997 and 1996, approximately \$945 and \$5,000 remained in accrued liabilities and approximately \$300 and \$350 remained in other noncurrent liabilities, respectively. The future cash outlays primarily represent termination benefits related to workforce reductions.

Note 3 -- Associated Companies

Summarized financial information of the associated companies (less than majority owned), in the aggregate, for 1997, 1996, and 1995 is as follows:

	1997	1996	1995
Current assets .....	\$21,922	\$20,848	\$22,319
Noncurrent assets .....	4,484	5,263	8,273
Current liabilities .....	11,994	12,647	14,136
Noncurrent liabilities .....	3,395	2,763	1,806
Net sales .....	\$54,262	\$53,481	\$54,710
Operating income .....	6,089	3,412	2,689
Income before taxes .....	4,537	2,289	929
Net income .....	2,662	1,252	9

Note 4 -- Inventories

Total inventories are comprised of:

	1997	1996
Raw materials and supplies .....	\$10,316	\$ 9,094
Work in process and finished goods .....	11,365	11,947
	\$21,681	\$21,041

Inventories valued under the LIFO method amounted to \$6,988 and \$6,792 at December 31, 1997 and 1996, respectively. The estimated replacement costs for these inventories using the FIFO method were approximately \$7,148 and \$7,268, respectively.

Note 5 -- Property, Plant, and Equipment

At December 31, 1997 and 1996, property, plant, and equipment at cost is comprised of:

	1997	1996
Land .....	\$ 5,751	\$ 6,586
Building and improvements .....	31,523	32,680
Machinery and equipment .....	58,532	58,220
Construction in progress .....	1,213	1,476
	97,019	98,962
Less accumulated depreciation .....	56,365	55,002
	\$40,654	\$43,960

Note 6 -- Taxes on Income

Taxes on income included in the consolidated statement of operations consist of the following for the year ended December 31:

	1997	1996	1995
Current			
Federal .....	\$ 557	\$(3,838)	\$ 872
State .....	155	193	53

Foreign .....	6,640	4,359	4,399
	-----	-----	-----
	7,352	714	5,324
Deferred			
Federal .....	(1,294)	(488)	103
Foreign .....	1,835	240	(540)
	-----	-----	-----
Total .....	\$7,893	\$ 466	\$4,887
	=====	=====	=====

Exhibit 13  
Page 25

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

	1997		1996	
	Current	Non-current	Current	Non-current
Retirement benefits .....	\$ 251		\$ 311	
Allowance for doubtful accounts .....	369		342	
FRS impairment .....	1,780		1,780	
Insurance and litigation reserves .....	1,479		1,192	
Postretirement benefits .....		\$3,038		\$3,025
Supplemental retirement benefits .....		682		677
Performance incentives .....	797	663		204
Alternative minimum tax carryforward .....		968		683
Amortization .....		222		343
Repositioning charges .....	868	3,498	849	3,988
R&D expenses capitalized for tax .....				245
Other .....	185	19	366	113
Total deferred tax assets .....	\$5,729	\$9,090	\$4,840	\$9,278
Depreciation .....		\$2,732		\$2,698
Sale of European pulp and paper business .....		916		
Other .....		104		524
Total deferred tax liabilities .....		\$3,752		\$3,222

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

	1997	1996	1995
Income tax (benefit) provision at the Federal statutory tax rate .....	\$6,710	\$(1,359)	\$4,113
State income tax provisions, net .....	102	54	35
Non-deductible entertainment and business meal expense .....	214	200	177
Non-deductible divestiture charges .....			503
Foreign taxes on earnings at rates different than the Federal statutory rate .....	833	1,280	30
Miscellaneous items, net .....	34	291	29
Taxes on income .....	\$7,893	\$ 466	\$4,887

U.S. income taxes have not been provided on the undistributed earnings of non-U.S. subsidiaries since it is the Company's intention to continue to reinvest these earnings in those subsidiaries for working capital and expansion needs. The amount of such undistributed earnings at December 31, 1997 was approximately \$80,000. Any income tax liability which might result from ultimate remittance of these earnings is expected to be substantially offset by foreign tax credits.

The benefits of net operating loss carryforwards approximating \$600 expiring from 1998 to 2001 have been recorded.

#### Note 7 -- Employee Benefits

Pension plans: The Company maintains various noncontributory retirement plans covering substantially all of its employees in the U.S. and certain other countries. The benefits for the plans are based on a number of factors, the most significant of which are years of service and levels of compensation either during employment or near retirement. The plans of the Company's subsidiaries in the Netherlands and in the United Kingdom are subject to the provision of SFAS No. 87, "Employers' Accounting for Pensions" ("SFAS No. 87"). The plans of the remaining non-U.S. subsidiaries are, for the most part, either fully insured or integrated with the local governments' plans and are not subject to the provisions of SFAS No. 87.

The pension costs for all plans include the following components:

	1997	1996	1995
Service cost--benefits earned during the period .....	\$1,425	\$1,305	\$1,149
Interest cost on projected benefit obligation .....	3,376	3,347	3,314
Net investment (income) loss on plan assets:			

Actual .....	(5,148)	(5,755)	(7,837)
Deferral of difference between actual and expected income .....	1,024	1,897	4,373
Other amortization, net .....	(454)	(373)	(320)
	-----	-----	-----
Net pension costs of plans subject to SFAS NO. 87 .....	223	421	679
Pension costs of plans not subject to SFAS NO. 87 .....	179	274	98
	-----	-----	-----
Total pension costs .....	\$ 402	\$ 695	\$ 777
	=====	=====	=====

The following table summarizes the funded status of the Company's defined benefit pension plans, the largest of which

is in the U.S., and the related amounts recognized in the Company's consolidated balance sheets as of December 31:

	1997		1996	
	Assets exceed accumulated benefits	Accumulated benefits exceed assets(a)	Assets exceed accumulated benefits	Accumulated benefits exceed assets(a)
Actuarial present value of:				
Vested benefit obligation .....	\$41,831	\$ 2,485	\$40,720	\$ 2,583
Accumulated benefit obligation .....	41,998	2,637	40,895	2,630
Projected benefit obligation (PBO) .....	46,418	2,763	45,772	2,693
Plan assets at market value .....	53,041		51,336	
Plan assets greater (less) than PBO .....	6,623	(2,763)	5,564	(2,693)
Unrecognized cumulative net (gain) loss .....	(4,298)	791	(3,699)	756
Unrecognized prior service costs .....	1,274		1,318	
Unrecognized transition obligation .....	(2,621)	(5)	(3,275)	(6)
Prepaid (accrued) pension costs .....	\$ 978	\$(1,977)	\$ (92)	\$(1,943)

(a) Substantially all of this relates to nonqualified, unfunded supplemental pension plans.

The U.S. funded plan is the largest plan. The significant assumptions for the U.S. plan were as follows:

	1997	1996	1995
Discount rate for projected benefit obligation .....	7.25%	7.375%	7.375%
Assumed long-term rates of compensation increases .....	5.5%	5.5%	5.5%
Long-term rate of return on plan assets .....	9.25%	9.25%	9.25%

All other pension plans used assumptions in determining the actuarial present value of the projected benefit obligations that are consistent with (but not identical to) those of the U.S. plan.

Profit sharing plan: The parent Company also maintains a qualified profit sharing plan covering all employees other than those who are compensated on a commission basis. Contributions were \$295 and \$405 for 1997 and 1996, respectively. No contributions were made in 1995.

Other postretirement and postemployment benefits: The Company has postretirement benefit plans that provide medical and life insurance benefits for certain retired employees of the parent Company. These benefits vary based on age, years of service, and retirement date. Coverage of health benefits under the plan may require the retiree to make payments where the insured equivalent costs exceed the Company's fixed contribution. The cost of the life insurance benefit plan, which provides a flat \$2,000 per retiree, is noncontributory. Both the medical and life insurance plans are currently unfunded.

The components of periodic postretirement benefit costs are as follows:

	1997	1996	1995
Service cost--benefits attributed to service during the period .....	\$ 72	\$ 77	\$ 65
Interest cost on accumulated benefit obligation and amortization .....	576	571	594
Postretirement benefit costs .....	\$648	\$648	\$659

The status of the plan at December 31, 1997 and 1996 is as follows:

	1997	1996
Retirees .....	\$6,903	\$6,672
Fully eligible active participants .....	44	45
Other participants .....	1,266	1,379
Total accumulated postretirement benefit obligation .....	8,213	8,096

Unrecognized actuarial gain .....	721	802
	-----	-----
Net unfunded postretirement benefit liability .....	\$8,934	\$8,898
	=====	=====

The discount rate used in determining the accumulated postretirement benefit obligation was 7.25% and 7.375% in 1997 and 1996, respectively.

In valuing costs and liabilities, different health care cost trend rates were used for retirees under and over age 65. The average assumed rate for medical benefits for all retirees was 8.0% in 1997, gradually decreasing to 5.5% over 10 years. A 1% increase in the health care cost trend rate would increase aggregate service cost for 1997 by \$38 and the accumulated postretirement benefit obligation as of December 31, 1997 by \$557.

The parent Company maintains a plan under which the Company will provide, in certain cases, supplemental retirement benefits to officers of the parent Company. Benefits payable under the plan are based on a combination of years of service and existing postretirement benefits. Included in total pension costs are charges of \$291, \$262, and \$276 in 1997, 1996, and 1995, respectively, representing the annual accrued benefits under this plan.



Note 8 -- Long-term Debt

Long-term debt consisted of the following at December 31:

	1997	1996
6.98% Senior unsecured notes due 2007 .....	\$20,000	
Industrial development authority monthly floating rate (4.0% at December 31, 1997) demand bonds maturing 2014 .....	5,000	\$5,000
6.64% Notes payable due July 8, 1997 .....		3,333
Notes payable due 1997 .....		728
Capital leases .....		54
Other debt obligations .....	203	356
	-----	-----
	25,203	9,471
Less current portion .....		4,289
	-----	-----
	\$25,203	\$5,182
	=====	=====

The long-term financing agreements require the maintenance of certain financial covenants with which the Company is in compliance.

During the next five years, payments on long-term debt are due as follows: \$0 in 1998, 1999, and 2000; \$2,857 in 2001 and 2002.

At December 31, 1996, the Company had outstanding short-term borrowings with banks under non-confirmed lines of credit in the aggregate of \$13,115. The weighted average interest rate on such borrowings was 5.7% during 1996. There were no outstanding short-term borrowings at December 31, 1997.

The parent Company has available a \$10,000 unsecured line of credit that is renewed annually. Any borrowings under this line of credit will be at the bank's most competitive rate of interest in effect at the time. There were no outstanding borrowings under this line of credit at December 31, 1997 or 1996.

At December 31, 1997 and 1996, the values at which the financial instruments are recorded are not materially different from their fair market value.

Note 9 -- Shareholders' Equity

Treasury stock is held for use by the various Company plans which require the issuance of the Company's common stock.

The Company is authorized to issue 10,000,000 shares of preferred stock, \$1.00 par value, subject to approval by the Board of Directors. The Board of Directors may designate one or more series of preferred stock and the number of shares, rights, preferences, and limitations of each series. No preferred stock has been issued.

Under provisions of a stock purchase plan which permits employees to purchase shares of stock at 85% of the market value, 26,490 shares, 31,193 shares, and 26,933 shares were issued from treasury in 1997, 1996, and 1995, respectively. The number of shares that may be purchased by an employee in any year is limited by factors dependent upon the market value of the stock and the employee's base salary. At December 31, 1997, 132,564 shares are available for purchase.

The Company has a long-term incentive plan 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 are exercisable one year after the date of the grant for a period of time determined by the Company not to exceed ten years from the date of grant. The Company has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-based Compensation." Accordingly, no compensation expense has been recognized for the stock option plans. Had compensation cost been determined based on the fair value at grant date for awards in 1997, 1996, and 1995 consistent with the provisions of SFAS No. 123, the Company's net earnings and earnings per share would have been reduced to the pro forma amounts indicated below:

	1997	1996	1995
Net income (loss)--			
as reported .....	\$12,611	\$(7,599)	\$6,688
Net income (loss)--			
pro forma .....	12,567	(8,139)	6,058
Net income (loss) per share--			
as reported .....	1.45	(.88)	.76
Net income (loss) per share--			
pro forma .....	1.45	(.95)	.69

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	1997	1996	1995
Dividend yield .....	3.9%	3.9%	3.6%
Expected volatility .....	24.5%	22.5%	22.5%
Risk-free interest rate .....	5.65%	6.35%	5.53%
Expected life (years).....	8	8	8

The table below summarizes transactions in the plan during 1997, 1996,

and 1995.

	1997		1996	1995
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Number of Shares
Options outstanding at January 1, .....	1,008,129	\$16.83	894,854	633,087
Options granted .....	62,530	\$18.24	290,070	459,056
Options exercised .....	(32,768)	\$14.71	(48,678)	(44,842)
Options expired .....	(115,892)	\$15.82	(128,117)	(152,447)
Options outstanding at December 31, .....	921,999	\$17.03	1,008,129	894,854
	=====	=====	=====	=====
Options exercisable at December 31, .....	712,154	\$17.30	689,934	486,548
	=====	=====	=====	=====

The following table summarizes information about stock options outstanding at December 31, 1997:

Options Outstanding			Options Exercisable		
Range of Exercise Prices	Number Outstanding at 12/31/97	Weighted Average Con-tractual Life	Weighted Average Exercise Price	Number Exercisable at 12/31/97	Weighted Average Exercise Prices
\$12.10--\$14.52	215,380	5	\$13.18	182,505	\$13.13
14.53-- 16.94	157,083	9	15.04	32,178	15.15
16.95-- 19.36	373,654	6	18.20	345,875	18.19
19.37-- 21.78	75,882	4	20.79	75,882	20.79
21.79-- 24.20	100,000	5	22.69	75,714	22.75
	921,999	6	\$17.03	712,154	\$17.30
	=====	==	=====	=====	=====

Options were exercised for cash, resulting in the issuance of 32,768 shares in 1997 and 48,678 shares in 1996. Options to purchase 155,847 shares were available at December 31, 1997 for future grants.

The plan also provides for the issuance of performance incentive units, the value of which is determined based on operating results over a four-year period. The effect on operations of the change in the estimated value of incentive units during the year was \$1,350, \$600, and \$0 in 1997, 1996, and 1995, respectively.

On February 7, 1990, the Company declared a dividend distribution to shareholders of record on February 20, 1990 which, after giving effect for the three-for-two stock split effective July 30, 1990, was in the form of two stock purchase rights (the "Rights") for each three shares of common stock outstanding. The Rights become exercisable if a person or group acquires or announces a tender offer which would result in such person's acquisition of 20% or more of the Company's common stock. The Rights also become exercisable if the Board of Directors declares a person to be an "adverse person" and that person has obtained not less than 10% of the outstanding shares of the Company's common stock.

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

In the event that the Company merges with or transfers 50% or more of its assets or earnings to any entity after the Rights become exercisable, holders of Rights may purchase, at the Right's then current exercise price, common stock of the acquiring entity having a value equal to twice the Right's exercise price.

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

The Board of Directors can redeem the Rights for \$.01 per Right at any time prior to the acquisition by a person or group of beneficial ownership of 20% or more of the Company's common stock or a person being declared an adverse person. Until a Right is exercised, the holder thereof will have no rights as a shareholder of the Company, including without limitation, the right to vote or to receive dividends. Unless earlier redeemed or exchanged, the Rights will expire on February 20, 2000.

Restricted stock bonus: In 1995, the Company granted an initial stock bonus of 50,000 shares of the Company's common stock to its chief executive officer ("CEO") of which 5,000 shares were paid to him immediately, and the balance of the shares were registered in his name, 15,000 of which were delivered to him on both October 2, 1996 and October 2, 1997. The balance is being held by the Company for delivery to him on October 2, 1998, if he is employed by the Company on that date.

The remaining shares are subject to forfeiture provisions, have been recorded as unearned compensation, and are presented as a separate component of shareholders' equity. The unearned compensation is being charged to selling, administrative, and general expenses ("SG&A") over the three-year vesting period and was \$263 in 1997 and 1996 and \$153 in 1995.

In 1997, the Company granted an additional stock bonus of 35,000 shares of the Company's common stock to its CEO. The shares were registered in his name and will be delivered over a two-year period based on the attainment of certain profit before tax financial performance criteria. In 1997, 17,500 shares were earned and \$331 was charged to SG&A. The remaining shares have been recorded as unearned compensation and will be charged to SG&A when earned.

Additionally, the CEO earned an additional bonus of 50,000 shares of the

Company's common stock during 1997 based on the increase in the Company's EPS. Approximately \$900 was charged to SG&A during 1997 and the shares will be delivered to the CEO in early 1998.

Exhibit 13  
Page 29

Note 10 -- Business Segments

The Company operates primarily in one business segment -- the manufacture and sale of industrial chemical specialty products. The Company has both U.S. and non-U.S. operations which are summarized for 1997, 1996, and 1995 as follows:

	1997	1996	1995
-----			
Net sales			
United States .....	\$110,942	\$104,135	\$102,651
Europe .....	94,898	101,676	99,222
Asia/Pacific .....	22,416	24,188	18,715
South America .....	13,278	10,252	6,450
	-----	-----	-----
Consolidated .....	\$241,534	\$240,251	\$227,038
	=====	=====	=====
Income (loss) before taxes			
United States .....	\$ 7,667	\$ 5,558	\$ 3,357
Europe .....	18,534	17,336	13,344
Asia/Pacific .....	2,919	2,575	2,214
South America .....	35	(1,113)	(1,188)
	-----	-----	-----
Operating profit .....	29,155	24,356	17,727
Repositioning charges .....		(19,230)	
Nonoperating expenses .....	(10,041)	(9,123)	(5,630)
Asset impairment charge on equity investment .....		(3,445)	
Gain on sale of European pulp and paper business .....	2,621		
Litigation charge .....	(2,000)		
Equity in net income (loss) of associated companies .....	1,161	480	(78)
Minority interest in net income of subsidiaries .....	(392)	(171)	(444)
	-----	-----	-----
Consolidated .....	\$ 20,504	\$ (7,133)	\$ 11,575
	=====	=====	=====
Identifiable assets			
United States .....	\$ 42,845	\$ 39,697	\$ 51,420
Europe .....	52,607	57,836	63,073
Asia/Pacific .....	11,572	10,783	8,578
South America .....	4,509	4,116	3,694
Investments in associated companies .....	4,924	3,941	10,058
Nonoperating assets .....	54,183	49,235	48,585
	-----	-----	-----
Consolidated .....	\$170,640	\$165,608	\$185,408
	=====	=====	=====

Transfers between geographic areas are not material. Operating profit comprises revenue less related costs and expenses. Nonoperating expenses primarily consist of general corporate expenses identified as not being a cost of operations, interest expense, interest income, and license fees from nonconsolidated associates. Nonoperating assets, consisting primarily of cash equivalents and short-term investments, have not been included with identifiable assets. No single customer accounted for 10% of net sales in 1997, 1996, or 1995. A substantial portion of consolidated sales on a global basis are made to the steel industry (see Classification of Products by Markets Served), and as a result, accounts receivable generally reflect a similar distribution of receivables from customers in this market.

Note 11 -- Business Acquisitions and Divestitures

In 1997 and 1995, the Company completed the acquisitions or divestitures set forth below. Each acquisition was accounted for as a purchase, and, accordingly, the purchase price has been allocated where appropriate between the fair value of identifiable net assets acquired and the excess of cost over net assets of acquired companies. The consolidated financial statements include the operating results of each business acquired from the date of acquisition. Pro forma results of operations have not been presented for any of the acquisitions or divestitures because the effects of these transactions were not material.

On August 7, 1997, the Company entered into an agreement with Asianol Lubricants Ltd. for the creation of a joint venture in India. The Company owns 55% of the joint venture and made a cash investment of \$153 during 1997.

On July 1, 1997, the Company completed the sale of its European pulp and paper business for approximately \$3,500 in cash.

Effective May 31, 1995, the Company acquired 90% of the common stock of Celumi S.A., a metalworking chemical specialty business in Brazil, for approximately \$7,700 in cash and notes. The excess of cost over the estimated fair value of net assets acquired amounted to approximately \$6,500 which has been accounted for as goodwill and is being amortized over 20 years.

On March 29, 1995, the Company entered into an agreement with Wuxi Oil Refinery for the creation of a joint venture in the People's Republic of China. The Company made cash contributions to the venture of approximately \$600 and \$500 in 1996 and 1995, respectively.

Note 12 -- Commitments and Contingencies

In the fourth quarter of 1996, Petrolite Corporation ("Petrolite"), filed

a demand of arbitration and a statement in support thereof with the American Arbitration Association in St. Louis, Missouri. Petrolite asserts claims for negligent misrepresentation and breach of contract arising out of a Technology Purchase Agreement (the "Agreement") between Petrolite and the Company pursuant to which the Company sold various assets, including certain patent rights, to Petrolite for a purchase price of approximately \$8,500 plus an obligation to pay royalties. In its actions against the Company, Petrolite seeks damages in an unspecified amount, rescission of the Agreement, costs and other relief. The Company believes that it has complete and meritorious defenses to the Petrolite actions and intends to vigorously defend the actions and deny liability and to pursue a claim against Petrolite for royalties. Notwithstanding the foregoing, upon the advice of counsel and on information developed to date and settlement discussions which have been held, the Company has established a reserve of \$2,000 against its

potential liability in these actions which it believes to be adequate. However, the Company's potential liability could be in excess of the amount of the reserve.

A wholly owned non-operating subsidiary of the Company is a co-defendant in claims filed by multiple claimants alleging injury due to exposure to asbestos. Although there can be no assurance regarding the outcome of existing claims proceedings, the subsidiary believes that it has made adequate accruals for all potential uninsured liabilities related to claims of which it is aware. Effective October 31, 1997, the subsidiary's insurance carriers have agreed to be responsible for all damages and costs (including attorneys' fees) arising out of all existing and future asbestos claims. At December 31, 1997, the subsidiary has accrued approximately \$50 to provide for anticipated damages and costs incurred prior to October 31, 1997. In addition, in 1995 the subsidiary received a cash payment of \$2,500 from one of its insurance carriers in settlement over certain disputed coverage.

The Company has accrued for certain environmental investigatory and noncapital remediation costs consistent with the policy set forth in Note 1. In 1994, the Company identified certain soil and groundwater contamination at AC Products, Inc. ("ACP"), a wholly owned subsidiary. In coordination with the Santa Ana California Regional Water Quality Board, ACP is remediating the contamination. The Company believes that the potential uninsured liability associated with the completion of the remediation effort ranges from \$1,100 to \$3,200, for which the Company has accrued approximately \$1,800.

Additionally, although there can be no assurance regarding the outcome of other environmental matters, the Company believes that it has made adequate accruals for costs associated with other environmental problems of which it is aware. Approximately \$475 and \$400 was accrued at December 31, 1997 and 1996, respectively, to provide for such anticipated future environmental assessments and remediation costs.

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

#### REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and Board of Directors  
of Quaker Chemical Corporation

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, cash flows and shareholders' equity present fairly, in all material respects, the financial position of Quaker Chemical Corporation and its subsidiaries at December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PRICE WATERHOUSE LLP

Thirty South Seventeenth Street  
Philadelphia, Pennsylvania 19103  
February 10, 1998

ELEVEN-YEAR FINANCIAL SUMMARY  
(Dollars in thousands except per share data and number of employees)

	1997(1)	1996(2)	1995	1994(3)	1993(4)	1992	1991	1990	1989	1988	1987
<b>Summary of Operations</b>											
Net sales	\$241,534	\$240,251	\$227,038	\$194,676	\$195,004	\$212,491	\$191,051	\$201,474	\$181,660	\$166,662	\$147,455
Income (loss) before taxes and cumulative effect of change in accounting principle	20,504	(7,133)	11,575	15,318	(1,524)	19,045	16,888	22,580	19,647	18,939	17,511
Cumulative effect of change in accounting for postretirement benefits							(5,675)				
Net income (loss) Per share(5)	12,611	(7,599)	6,688	9,402	(1,758)	12,098	5,115	14,106	12,840	11,731	10,423
Income (loss) before cumulative effect of change in accounting principle	1.45	(.88)	.76	1.03	(.19)	1.33	1.20	1.51	1.35	1.21	1.05
Cumulative effect of change in accounting for postretirement benefits							(.63)				
Net income (loss)	1.45	(.88)	.76	1.03	(.19)	1.33	.57	1.51	1.35	1.21	1.05
Dividends	.71	.69	.68	.63 1/2	.60 1/2	.57	.53	.47	.41	.37	.34
<b>Financial Position</b>											
Current assets	98,126	86,552	87,375	83,400	84,387	85,567	82,725	84,833	75,427	69,326	66,633
Current liabilities	47,759	64,034	60,868	42,754	42,642	28,126	36,592	40,342	27,848	26,924	29,447
Working capital	50,367	22,518	26,507	40,646	41,745	57,441	46,133	44,491	47,579	42,402	37,186
Property, plant, and equipment, net	40,654	43,960	56,309	51,694	55,541	52,179	48,661	46,315	36,539	32,821	32,622
Total assets	170,640	165,608	185,408	170,172	170,985	166,613	159,121	152,408	131,430	121,125	118,367
Long-term debt	25,203	5,182	9,300	12,207	16,095	18,604	5,219	5,453	5,665	5,000	5,000
Shareholders' equity	75,642	74,254	93,992	93,677	91,383	101,642	98,898	99,113	90,440	82,884	78,079
<b>Other Data</b>											
Current ratio	2.1/1	1.4/1	1.4/1	2.0/1	2.0/1	3.0/1	2.3/1	2.1/1	2.7/1	2.6/1	2.3/1
Capital expenditures	5,580	6,923	9,833	9,255	8,960	7,226	8,420	12,663	7,553	5,295	3,705
Net income (loss) as a percentage of net sales(6)	5.2%	(3.2)%	2.9%	4.8%	(0.9)%	5.7%	5.6%	7.0%	7.1%	7.0%	7.1%
Return on average shareholders' equity(6)	16.8%	(9.0)%	7.1%	10.2%	(1.8)%	12.1%	10.9%	14.9%	14.8%	14.6%	14.4%
Shareholders' equity per share at end of year(5)	8.67	8.61	10.85	10.62	9.89	11.06	10.95	11.11	9.55	8.57	8.08
Common stock per share price range(5):											
High	19 5/8	17 1/4	19	19 1/2	24 5/8	26	22 1/4	19 1/4	15 5/8	16 1/8	18
Low	15 1/8	11 3/4	11	14 3/4	14 1/4	18 3/4	15	12	12 1/2	11 3/8	9
Number of shares outstanding at end of year(5)	8,720	8,620	8,664	8,819	9,242	9,188	9,028	8,921	9,473	9,669	9,644
Number of employees at end of year:											
Consolidated subsidiaries	871	835	870	743	865	842	840	819	829	832	824
Associated companies	250	232	235	212	141	130	187	261	154	150	140

- (1) The results of operations for 1997 include a gain on the sale of the European pulp and paper business -- \$1,703 after tax, or \$.20 per share and a litigation charge of \$2,000 -- \$1,320 after tax or \$.16 per share. Excluding these items, net income was \$12,228, or \$1.41 per share.
- (2) The results of operations for 1996 include special charges -- \$16,912 after tax, or \$1.96 per share. Excluding these charges, net income for 1996 was \$9,313, or \$1.08 per share.
- (3) The results of operations for 1994 include net repositioning credits of \$347, or \$0.04 per share. Excluding these credits, net income for 1994 was \$9,055, or \$0.99 per share.
- (4) The results of operations for 1993 include net repositioning charges of \$7,854, or \$0.85 per share. Excluding these charges, net income for 1993 was \$6,096, or \$0.66 per share.
- (5) Restated to give retroactive effect to a three-for-two split in 1990.
- (6) Calculated for 1991 using \$10,790, which is the net income before the cumulative effect of change in accounting principle.



SUPPLEMENTAL FINANCIAL INFORMATION

Classification of Products by Markets Served (unaudited)

Consolidated net sales comprise chemical specialty and other products classified by markets served as follows:

(Dollars in thousands)	1997		1996		1995		1994		1993	
Steel .....	\$116,091	48%	\$118,988	50%	\$103,765	46%	\$ 90,549	47%	\$ 89,255	46%
Metalworking .....	82,578	34	84,657	35	85,949	38	68,576	35	57,826	30
Other .....	42,865	18	36,606	15	37,324	16	35,551	18	47,923	24
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
	\$241,534	100%	\$240,251	100%	\$227,038	100%	\$194,676	100%	\$195,004	100%
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

Information on the Company's markets appears on page 5 of this report.  
Quarterly Results (unaudited)

(Dollars in thousands, except per share amounts)

	First	Second	Third	Fourth
1997				
Net sales .....	\$58,543	\$60,312	\$58,687	\$63,992
Operating income(1) .....	3,872	6,799	5,065	5,412
Net income(2) .....	2,567	4,657	3,319	2,068
Net income per share (basic and diluted) .....	\$.30	\$.54	\$.38	\$.23
1996				
Net sales .....	\$58,203	\$59,786	\$61,813	\$60,449
Operating income (loss)(3) ..	3,163	4,132	(8,719)	(2,607)
Net income (loss)(4) .....	1,676	2,648	(5,881)	(6,042)
Net income (loss) per share (basic and diluted) .....	\$.19	\$.31	\$(.68)	\$(.70)
1995				
Net sales .....	\$54,527	\$59,035	\$57,872	\$55,604
Operating income .....	3,282	3,770	3,408	973
Net income .....	1,915	2,471	2,099	203
Net income per share (basic and diluted) .....	\$.22	\$.28	\$.24	\$.02

- (1) The second quarter includes a gain of \$2,621 related to the sale of the European pulp and paper business.
- (2) The fourth quarter includes a \$2,000 litigation charge.
- (3) The third and fourth quarters include repositioning charges of \$13,100 and \$6,130, respectively.
- (4) The fourth quarter includes an asset impairment charge on equity investment of \$3,445.

Stock Market and Related Security Holder Matters

The Company's common stock is listed on the New York Stock Exchange ("NYSE"). Prior to August 23, 1996, the common stock was traded on the NASDAQ National Market. The following table sets forth, for the calendar quarters during the past two years, the range of high and low sales prices for the common stock as quoted on the NASDAQ National Market or as reported by the NYSE, and the quarterly dividends declared as indicated.

	Range of Quotations				Dividends Declared	
	1997		1996		1997	1996
	High	Low	High	Low		
First quarter	\$17 1/8	\$15 1/8	\$15	\$12 3/4	\$.17 1/2	\$.17
Second quarter	17 3/8	15 5/8	14 1/2	11 3/4	.17 1/2	
Third quarter	18 3/4	15 15/16	15 1/4	11 3/4	.18	.34 1/2
Fourth quarter	19 5/8	17 5/8	17 1/4	14 5/8	.18	.17 1/2

As of January 15, 1998 there were 1,007 shareholders of record of the Company's common stock, \$1.00 par value, its only outstanding class of equity securities.

Copies of the Company's Form 10-K for the year ended December 31, 1997 as filed with the Securities and Exchange Commission will be provided without charge on request to Quaker Chemical Corporation, Attention: Irene M. Kisleiko, Assistant Corporate Secretary, Conshohocken, PA 19428.



## SUBSIDIARIES AND AFFILIATES OF THE REGISTRANT

Name -----	Jurisdiction of Incorporation -----	Percentage of voting securities owned directly or indirectly by Quaker -----
* Quaker Chemical Europe B.V.	Holland	100%
* Quaker Chemical B.V.	Holland	100%
+* Quaker Chemical Holdings UK Limited	United Kingdom	100%
* Quaker Chemical Limited	United Kingdom	100%
* Quaker Chemical S.A.	France	100%
** Quaker Chemical South Africa (Pty.) Limited	Republic of South Africa	50%
* Quaker Chemical, S.A.	Spain	100%
* Quaker Chemical S.A.	Argentina	100%
+ Quaker Chemical Participacoes, Ltda.	Brazil	100%
* Quaker Chemical Industria e Comercio Ltda.	Brazil	90%
* Quaker Chemical India Limited	India	55%
** Kelko Quaker Chemical, S.A.	Venezuela	50%
* Quaker Chemical Limited	Hong Kong	100%
* Wuxi Quaker Chemical Co., Ltd.	China	60%
+* Quaker Chemical South East Asia Pte. Ltd.	Singapore	100%
** Nippon Quaker Chemical, Ltd.	Japan	50%
* Quaker Chemical (Australasia) Pty. Limited	State of New South Wales, Australia	51%
** TecniQuimica Mexicana S.A. de C.V.	Mexico	40%
+* SB Decking, Inc. (formerly Selby, Battersby & Co.)	Delaware, U.S.A.	100%
* Quaker Chemical Corporation	Delaware, U.S.A.	100%
+ Quaker Chemical Management, Inc.	Delaware, U.S.A.	100%
* AC Products, Inc.	California, U.S.A.	100%
** Fluid Recycling Services Company, LLC	Michigan, U.S.A.	50%

+ A non-operating company.

\* Included in the consolidated financial statements.

\*\* Accounted for in the consolidated financial statements under the equity method.

Consent of Independent Accountants

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 2-57924, No. 33-54158, and No. 33-51655) of Quaker Chemical Corporation of our report dated February 10, 1998 appearing on page 31 of the 1997 Annual Report to Shareholders which is incorporated in this Annual Report on Form 10-K.

PRICE WATERHOUSE LLP

Philadelphia, PA  
March 27, 1998

5  
1,000  
12-MOS  
DEC-31-1997  
DEC-31-1997  
18,416  
0  
49,710  
1,085  
21,681  
98,126  
97,019  
56,365  
170,640  
47,759  
5,000  
9,664  
0  
0  
65,978  
170,640  
241,534  
241,534  
134,943  
220,386  
0  
0  
1,547  
19,735  
7,893  
11,842  
0  
0  
0  
12,611  
1.45  
1.45