

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 1997

OR

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

Commission file number 0-7154

QUAKER CHEMICAL CORPORATION

(Exact name of Registrant as specified in its charter)

Pennsylvania

23-0993790

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

Elm and Lee Streets, Conshohocken, Pennsylvania 19428 - 0809

(Address of principal executive offices) (Zip Code)

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

Not Applicable

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS: Indicate the number of shares
outstanding of each of the issuer's classes of common stock, as of the latest
practicable date.

Number of Shares of Common Stock
Outstanding on August 5, 1997

8,705,793

PART I. FINANCIAL INFORMATION

QUAKER CHEMICAL CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONDENSED FINANCIAL INFORMATION

The following condensed financial statements are filed as part of this
quarterly report on Form 10-Q:

Consolidated Balance Sheet at June 30, 1997 and
December 31, 1996

Consolidated Statement of Income for the six months
ended June 30, 1997 and 1996

Consolidated Statement of Income for the three months
ended June 30, 1997 and 1996

Consolidated Statement of Cash Flows for the six months
ended June 30, 1997 and 1996.

NOTE TO CONDENSED FINANCIAL INFORMATION

The attached condensed financial information has been prepared in accordance with instructions for Form 10-Q and, therefore, does not include all financial note information which might be necessary for a fair presentation in accordance with generally accepted accounting principles. Such condensed financial information is unaudited, but in the opinion of management, includes all adjustments, consisting only of normal recurring adjustments and accruals, necessary for a fair presentation of results for the periods indicated. The net income reported for the periods should not necessarily be regarded as indicative of net income on an annualized basis (see accompanying Management's Discussion and Analysis-Other Significant Items); however, significant variations from the results for the same period of the previous year, if any, have been disclosed in the accompanying Management's Discussion and Analysis. Certain reclassifications of prior years' data have been made to improve comparability.

Quaker Chemical Corporation

Consolidated Balance Sheet

(dollars in thousands)

	June 30, 1997 (Unaudited)	December 31, 1996 *
Assets		
Current assets		
Cash and cash equivalents	\$ 7,402	\$ 8,525
Accounts receivable	46,369	45,564
Inventories		
Raw materials and supplies	8,506	9,094
Work in process and finished goods	11,407	11,947
Deferred income taxes	4,457	4,840
Prepaid expenses and other current assets	12,671	6,582
	-----	-----
Total current assets	90,812	86,552
	-----	-----
Investments in and advances to associated companies	4,897	3,941
	-----	-----
Property, plant and equipment, at cost		
Land	6,203	6,586
Buildings and improvements	31,500	32,680
Machinery and equipment	56,164	58,220
Construction in progress	2,190	1,476
	-----	-----
	96,057	98,962
Less accumulated depreciation	54,513	55,002
	-----	-----
Total property, plant and equipment	41,544	43,960
Goodwill, net		
Goodwill, net	14,781	16,222
Deferred income taxes	9,550	9,278
Other noncurrent assets	5,236	5,655
	-----	-----
Total noncurrent assets	29,567	31,155
	-----	-----
	\$166,820	\$165,608

* Condensed from audited financial statements.

Quaker Chemical Corporation

Consolidated Balance Sheet

(dollars in thousands)

	June 30, 1997 (Unaudited)	December 31, 1996 *
Liabilities		
Current liabilities		
Short-term borrowings, current portion of long-term debt, notes payable and capital leases	\$ 20,584	\$ 17,404
Accounts payable	21,614	23,386
Dividends payable	1,520	1,508
Accrued liabilities	21,478	19,843
Estimated taxes on income	3,087	1,893
Total current liabilities	68,283	64,034
Long-term debt, notes payable and capital leases	5,052	5,182
Deferred income taxes	3,250	3,222
Accrued postretirement benefits	8,961	8,898
Other noncurrent liabilities	5,558	6,255
Total noncurrent liabilities	22,821	23,557
Total liabilities	91,104	87,591
Minority interest in equity of subsidiaries	3,671	3,763
Shareholders' equity		
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	696	634
Retained earnings	78,502	74,317
Unearned compensation	(329)	(459)
Foreign currency translation adjustments	(546)	6,475
Treasury stock, shares held at cost; 1997 - 973,054 1996 - 1,044,452	87,987	90,631
	(15,942)	(16,377)
Total shareholders' equity	72,045	74,254
	\$166,820	\$165,608

* Condensed from audited financial statements

Quaker Chemical Corporation

Consolidated Statement of Income
Six Months Ended June 30,

	Unaudited (dollars in thousands except per share data)	
	1997	1996
Net sales	\$118,855	\$117,989
	-----	-----
Costs and expenses		
Cost of goods sold	67,157	68,190
Selling, administrative and general expenses	43,648	42,504
	-----	-----
	110,805	110,694
	-----	-----
Gain on sale of European pulp and paper business	2,621	-
	-----	-----
Income from operations	10,671	7,295
Other income, net	982	820
Interest expense	(794)	(1,008)
Interest income	105	196
	-----	-----
Income before taxes	10,964	7,303
Taxes on income	4,261	2,921
	-----	-----
	6,703	4,382
Equity in net income of associated companies	620	102
Minority interest in net income of subsidiaries	(99)	(160)
	-----	-----
Net income	\$ 7,224	\$ 4,324
	=====	=====
Per share data:		
Net income	\$0.84	\$0.50
Dividends declared	\$0.35	\$0.17
Based on weighted average number of shares outstanding	8,636,599	8,666,161

Quaker Chemical Corporation

Consolidated Statement of Income
Three Months Ended June 30,

	Unaudited (dollars in thousands except per share data)	
	1997	1996
Net sales	\$60,312	\$59,786
Costs and expenses		
Cost of goods sold	33,981	34,235
Selling, administrative and general expenses	22,153	21,419
	56,134	55,654
Gain on sale of European pulp and paper business	2,621	-
Income from operations	6,799	4,132
Other income, net	630	536
Interest expense	(369)	(508)
Interest income	45	104
Income before taxes	7,105	4,264
Taxes on income	2,717	1,705
	4,388	2,559
Equity in net income of associated companies	333	145
Minority interest in net income of subsidiaries	(64)	(56)
Net income	\$ 4,657	\$ 2,648
Per share data:		
Net income	\$0.54	\$0.31
Dividends declared	\$0.175	*
Based on weighted average number of shares outstanding	8,650,975	8,665,575

* Dividends for the second quarter of 1996 were declared and paid in July 1996 at a rate of \$0.17 per share.

Quaker Chemical Corporation

Consolidated Statement of Cash Flows
For the Six Months Ended June 30,

Unaudited
(dollars in thousands)
1997 1996

Cash flows from operating activities		
Net income	\$ 7,224	\$ 4,324
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,230	3,151
Amortization	1,000	1,080
Equity in net income of associated companies	(620)	(102)
Minority interest in earnings of subsidiaries	85	160
Deferred income taxes	(318)	103
Deferred compensation and other postretirement benefits	401	668
Net change in repositioning liability	(3,195)	(618)
Gain on sale of European pulp and paper business	(2,621)	
Other, net	(638)	393
Increase (decrease) in cash from changes in current assets and liabilities net of acquisitions and divestitures:		
Accounts receivable	(3,396)	(4,170)
Inventories	217	2,060
Prepaid expenses and other current assets	(2,492)	1,317
Accounts payable and accrued liabilities	3,694	725
Estimated taxes on income	1,361	3,065
	-----	-----
Net cash provided by operating activities	2,932	12,156
	-----	-----
Cash flows from investing activities		
Dividends from associated companies	30	1,078
Investments in property, plant, equipment and other assets	(2,274)	(2,937)
Investments in and advances to associated companies	(228)	(720)
Proceeds from the sale of assets	-	683
Other, net	(146)	-
	-----	-----
Net cash used in investing activities	(2,618)	(1,896)
	-----	-----
Cash flows from financing activities		
Net increase in short-term borrowings and notes payable	5,538	(1,034)
Repayment of long-term debt, notes payable and capital leases	(2,451)	(2,408)
Dividends paid	(3,039)	(1,474)
Treasury stock issued	497	209
Treasury stock acquired	-	(1,587)
	-----	-----
Net cash provided by financing activities	545	(6,294)
	-----	-----
Effect of exchange rate changes on cash	(1,982)	(758)
	-----	-----
Net increase in cash and cash equivalents	(1,123)	3,208
Cash and cash equivalents at beginning of period	8,525	7,230
	-----	-----
Cash and cash equivalents at end of period	\$ 7,402	\$10,438
	=====	=====
Supplemental cash flow information		
Cash paid for income taxes and interest was as follows:		
Income taxes	\$ 291	\$ 2,050
Interest	862	1,087

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

Liquidity and Capital Resources

Net cash flow provided by operating activities amounted to \$2.9 million in the first half of 1997 compared to \$12.2 million in the same period of 1996. The decrease was principally due to the timing of a tax refund in 1996, the timing of payments related to the 1996 repositioning program and other operating working capital changes.

The Company's net cash position (cash and cash equivalents plus short-term investments less short-term borrowings and current portion of long-term debt and capital leases) decreased \$4.3 million from December 31, 1996 primarily as a result of increased short-term borrowings associated with the replacement of maturing long-term debt and seasonal cash needs. The current ratio at June 30, 1997 was 1.3 to 1 as compared to 1.4 to 1 at December 31, 1996, down slightly due to increased short-term borrowings.

Operations

Comparison of Six Months 1997 with Six Months 1996

Consolidated net sales for the first half of 1997 increased by 1% over the first half of 1996. The increase in sales was the net result of a 2% increase due to pricing initiatives and product sales mix, a 5% increase in volume, and a 6% decrease due to foreign currency translation rates.

Operating income improved 46% to \$10.7 million as compared to \$7.3 million in the same period of 1996. The 46% improvement was mainly attributable to a one-time gain of \$2.6 million from the sale of the European pulp and paper business, better European results, which benefited from strong demand from European steel customers and improved pricing, improved results of the Company's South American operations, increased demand by aircraft producers for chemical specialty products supplied by the Company's AC Products subsidiary and benefits associated with the 1996 repositioning of operations. The Company's gross profit margin as a percentage of sales increased 1% mainly due to the benefits associated with the consolidation of manufacturing operations in the United States, a generally improved sales mix in the United States and Europe, stable raw material costs and pricing initiatives implemented over the past year, primarily in Europe. Selling, administrative and general expenses as a percentage of sales increased 1% over 1996 due mainly to investment spending to support strategic initiatives.

Net interest costs decreased slightly due to reduced financing costs associated with lower overall debt levels. Other income increased due to higher license fee income and gains from foreign exchange transactions. The increase in equity in net income from associated companies was primarily due to reduced losses incurred by the Company's Fluid Recycling Services joint venture. Earnings per share of \$.84 were 68% higher than the prior year despite a negative foreign currency translation impact of approximately \$.05 per share due to the strengthening of the dollar, primarily against the Dutch guilder.

Comparison of Second Quarter 1997 with Second Quarter 1996

Consolidated net sales and operating income for the second quarter of 1997 increased 1% and 65%, respectively, versus the second quarter of 1996. The increase in sales was the net result of a 1% increase in price and sales mix, a 5% increase due to volume offset by a 5% decrease due to currency translation. The increase in operating income was due mainly to a one-time gain on the sale of the European pulp and paper business of \$2.6 million.

The reasons for changes in operating margin percentages, net interest costs, and equity in net income of associated companies in the second quarter 1997 versus the second quarter 1996 are basically the same as those previously mentioned for the comparative six-month periods. Other income increased in the quarter mainly as a result of gains from foreign exchange transactions.

Other Significant Items:

During 1997 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 128 - Earnings Per Share, SFAS No. 130 - Reporting Comprehensive Income and SFAS No. 131 - Disclosures about Segments of an Enterprise and Related Information. SFAS No. 128 is effective in the fourth quarter of 1997 and SFAS No. 130 and SFAS No. 131 are effective in 1998. The Company is currently assessing the impact these new standards will have on its financial statements. SFAS No. 128 requires the presentation of two earnings per share - "basic" and "diluted". 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.

PART II. OTHER INFORMATION

Item 1. 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, State of Missouri, against the Registrant and certain of its subsidiaries (collectively, the "Company"). The actions arise out of a Technology Purchase Agreement (the "Agreement") between Petrolite and the Company dated April 13, 1993, as amended, pursuant to which the Company sold various assets, including a patent (the "Patent"), to Petrolite for a purchase price of approximately \$8.5 million plus an obligation to pay royalties. In a suit brought by Petrolite against Baker Hughes, Inc., et al. for infringement of the Patent, the United States District Court for the Western District of Oklahoma (No. CIV-94-311-M) affirmed by the United States Court of Appeals for the Federal Circuit (No. 95-1447) declared all of the claims of the Patent invalid as a result of sales allegedly made by the Company more than one year prior to the filing of the Patent application. 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. The bases for the Company's position include, but are not limited to, the Company specifically made no representations or warranties with respect to the validity of the Patent, all sales made by the Company prior to filing the Patent application were disclosed to Petrolite prior to closing under the Agreement and the findings made by the Court in Petrolite's suit with Baker Hughes, Inc. were the result of the failure of Petrolite's counsel to take certain required actions in the handling of the case.

Items 2 and 3 are inapplicable and have been omitted.

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

The 1997 Annual Meeting of the Company's shareholders was held on May 7, 1997. At the Meeting, management's nominees, Lennox K. Black, Donald R. Caldwell, Robert E. Chappell and Robert P. Hauptfuhrer were elected to fill the four available positions as Class II Directors. Voting (expressed in number of votes) was as follows:
Lennox K. Black, 32,331,205 votes for,

43,952 votes against or withheld and no abstentions or broker non-votes; Donald R. Caldwell, 32,236,322 votes for, 138,825 votes against or withheld and no abstentions or broker non-votes; Robert E. Chappell, 32,233,332 votes for, 141,825 votes against or withheld and no abstentions or broker non-votes; and Robert P. Hautpfuhrer, 32,330,735 votes for, 44,422 votes against or withheld and no abstentions or broker non-votes.

At the Meeting, shareholders ratified the appointment of Price Waterhouse LLP as the Company's independent auditors to examine and report on its financial statements for the year ending December 31, 1997 by a vote of 31,936,784 votes for, 125,736 votes against, and 312,637 abstentions or broker non-votes.

Item 5 is inapplicable and has been omitted

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits.

Exhibit 3(b) The Registrant's By-Laws, as amended
Exhibit 27-Financial Data Schedule

(b) Reports on Form 8-K.

No report on Form 8-K was filed during the quarter for which this report is filed.

* * * * *

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

QUAKER CHEMICAL CORPORATION

(Registrant)

/s/ Richard J. Fagan

Richard J. Fagan, officer duly authorized to sign this report, Controller, Treasurer and Chief Accounting Officer.

Date: August 14, 1997

QUAKER CHEMICAL CORPORATION
(a Pennsylvania Corporation)

By-Laws
(as amended through May 7, 1997)

Section 1.1. Registered Office:

The Registered Office of the Corporation shall be at Elm and Lee Streets, Conshohocken, Pennsylvania until otherwise changed by the Board of Directors.

Section 2.1. Place of Shareholders' Meetings:

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

Section 2.2. Annual Meeting of Shareholders:

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

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

Section 2.3. Special Meetings of Shareholders:

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

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shall neglect or refuse to fix the date of the meeting and give notice thereof, the person or persons making the request may do so.

Section 2.4. Notice of Shareholders' Meetings:

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

Section 2.5. Waiver of Notice of Shareholders' Meetings:

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

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

Section 2.6. Quorum for Shareholders' Meetings:

The presence, in person or by proxy, of the shareholders entitled to cast a majority of the votes which all shareholders are entitled to cast on a matter to be voted upon at a meeting of shareholders shall constitute a

quorum, and the acts of such quorum, at a duly organized meeting of shareholders, shall constitute the acts of all the shareholders. The shareholders present at a duly organized meeting can continue to do business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum.

Section 2.7. Conduct of Shareholders' Meetings:

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

Section 2.8. Shareholder Participation by Telephone:

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

Section 2.9. Voting by Shareholders:

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

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

Section 2.10. Judges of Election:

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

Section 2.11. Adjournment of Meetings:

Adjournment of any meeting may be taken, but any meetings at which Directors are to be elected shall be adjourned only from day to day, or for such longer periods not exceeding fifteen days each, as may be directed by the shareholders who are entitled to cast at least a majority of the votes which all such shareholders would be entitled to cast at an election of directors, until such directors have been elected. When a meeting is adjourned, it shall not be necessary to give any notice of the adjourned

meeting or of the business to be transacted thereat, other than by announcement of the meeting at which such adjournment is taken. In case of any meeting called for the election of Directors, those who attend the second of such adjourned meeting, although less than a quorum, shall nevertheless constitute a quorum for the purpose of electing Directors.

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

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

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

Section 3.2. Quorum for Directors' Meetings:

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

Section 3.3. Directors' Consent in Lieu of Meeting:

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

Section 3.4. Vacancies in Board of Directors:

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

Section 3.5. Place of Meeting of Board of Directors:

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

Section 3.6. Organization Meeting of the Board of Directors:

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

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

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

Section 3.7. Regular Meetings of the Board of Directors:

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

Section 3.8. Special Meeting of the Board of Directors:

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

Section 3.9. Adjournments of Meetings of Board of Directors:

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

Section 3.10. Powers of Board of Directors:

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

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

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

Section 3.11. Removal of Directors by Shareholders:

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

Section 3.12. Limitation on Personal Liability of Directors:

A Director of the Corporation shall not be personally liable for monetary damages for any action taken, or any failure to take any action, unless he or she has both (i) breached the standards set forth in Title 42,

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

Section 3.13. Directors Emeriti:

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

Section 3.14. Chairman Emeritus

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

Section 4.1. Officers:

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

more Assistant Secretaries. Any two or more offices may be held by the same person.

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

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

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

The Chairman of the Board shall, when present, preside at all meetings of the Board and at all meetings of shareholders. He shall have responsibility for shareholder relations and for making recommendations to the Board of Directors as to matters of corporate governance. He shall also do and perform such other duties as from time to time may be assigned to him by the Board of Directors.

Section 4.3. The President--Powers and Duties:

The President shall be the chief executive and operating officer of the Corporation. He shall have the ordinary duties of an executive officer with responsibility for general supervision and direction of the operations of the Corporation including strategic planning. He shall, when the Chairman of the Board is not present, preside at all meetings of the Board of Directors and at all meetings of the shareholders and, unless otherwise ordered by the Board of Directors, is authorized to execute in the name of the Corporation contracts and other documents requiring the signature of the Corporation. He shall also do and perform such other duties as from time to time may be assigned to him by the Board of Directors.

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

Section 4.4. The Vice President--Powers and Duties:

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

Section 4.5. Treasurer--Powers and Duties:

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

Section 4.6. Assistant Treasurer--Powers and Duties:

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

Section 4.7. Secretary--Powers and Duties:

Unless otherwise ordered by the Board of Directors, the Secretary shall keep the minutes of all meetings of the shareholders and of the Board of Directors in proper books to be kept for such purpose, and shall attend to the giving of all notices by the Corporation, including notices of meetings

of shareholders and of the Board of Directors. He shall have charge of the share certificate books, transfer books, capital stock ledger and such other books and papers as the Board of Directors may direct. He shall in general perform all the duties incident to the office of Secretary and shall have such other powers and perform such other duties as may be assigned to him by the Board of Directors.

Section 4.8. Assistant Secretary--Powers and Duties:

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

Section 4.9. Removal and Vacancies:

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

Section 5.1. Share Certificates:

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

Section 5.2. Transfer of Share Certificates:

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

The Corporation shall be entitled to treat the holder of record of any share certificate or certificates and the shares represented thereby as the holder in fact thereof, and accordingly shall not be bound to recognize any equitable or other claim to or interest in such share certificate or certificates and shares on the part of any other person, whether or not it

shall have express or other notice thereof, except as otherwise expressly provided by law or by the Articles.

Section 5.3. Lost Share Certificate:

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

Section 6.1. Fiscal Year:

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

Section 7.1. Indemnification and Insurance:

A. Right to Indemnification: Each person who was or is made a party or is threatened to be made a party to or is involved in any action, suit or proceeding (hereinafter a "proceeding"), whether civil, criminal, administrative or investigative, including, without limitation, an action or suit by or in the right of the Corporation, by reason of the fact that he or she, or a person of whom he or she is the legal representative, is or was a director or officer of the Corporation or is or was serving at the request of the Corporation as a director or officer of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether the basis of such proceeding is alleged action in an official capacity as director or officer, or in any other capacity, shall be indemnified and held harmless by the Corporation to

the fullest extent and manner authorized or permitted by the laws of the Commonwealth of Pennsylvania, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said law permitted the Corporation to provide prior to such amendment), against all expense, liability and loss (including attorneys' fees, judgments, penalties, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by such person in connection therewith and such indemnification shall continue as to a person who as ceased to be a director or officer and shall inure to the benefit of his or her heirs, executors and administrators; provided, however, that, except as provided in subsection D hereof, the Corporation shall indemnify any such person seeking indemnification in connection with a proceeding (or part thereof) initiated by such person only if such proceeding (or part thereof) was authorized by the Board of Directors of the Corporation. The right to indemnification conferred in this Section shall be a contract right and each person to whom this right to indemnification applies shall be a third party beneficiary of such right and shall be entitled to enforce against the Corporation all indemnification and other rights granted to such person by this Section. Such right shall include the right to be paid by the Corporation the expenses incurred in any such proceeding in advance of its final disposition; provided, however, that, if the laws of the Commonwealth of Pennsylvania require, the payment of such expenses incurred by a director or officer in advance of the final disposition of a proceeding shall be made only upon delivery to the Corporation of an undertaking, by or on behalf of such director or officer, to repay all amounts so advanced if it shall ultimately be determined that

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

B. Denial of Right to Indemnification: Indemnification under subsection A above shall be made by the Corporation unless a determination is reasonably and promptly made that indemnification of a director or officer is not proper in the circumstances because of grounds for denying indemnification under this Section or under applicable law. Such

determination may be made only (i) by the Board of Directors by a majority vote of a quorum consisting of directors who were not parties to such proceeding ("disinterested directors"), or (ii) if such quorum is not obtainable, or even if obtainable, if a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or (iii) by the shareholders.

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

D. Right of Claimant to Bring Suit: If a claim under subsection A of this Section is not paid in full by the Corporation within thirty (30) days after a written claim has been received by the Corporation, the claimant may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall be entitled to be paid also the expense of prosecuting such claim. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition where the required undertaking, if any is required, has been tendered to the Corporation) that the claimant has not met the standards of conduct which make it permissible under the laws of the Commonwealth of Pennsylvania for the Corporation to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the Corporation. Neither the failure of the Corporation (including its Board of Directors, independent legal counsel, or its shareholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he or she has met the applicable standard of conduct set forth in the laws of the Commonwealth of Pennsylvania, nor an actual determination by the Corporation (including its Board of Directors, independent legal counsel, or its shareholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct.

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

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

G. Interpretations: For purposes of this Section:

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

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

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

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

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

Section 8.2. Amendments to By-Laws:

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

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

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