CATHAY GENERAL BANCORP
Form PRE 14A
March 23, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a)

of the Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

x Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

¨ Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to § 240.14a-12

CATHAY GENERAL BANCORP

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.
¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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777 NORTH BROADWAY

LOS ANGELES, CALIFORNIA 90012

To Our Stockholders:

We are pleased to invite you to attend the annual meeting of stockholders of Cathay General Bancorp. The meeting will be held on Monday, May 11, 2009, at 5:00 p.m., local time, at 9650 Flair Drive, El Monte, California 91731.

At the meeting, you will be asked to elect four Class I directors to serve until 2012, to ratify the appointment of KPMG LLP as our independent registered public accounting firm for the 2009 fiscal year, to vote on an advisory (non-binding) proposal to approve our executive compensation, and to consider and vote on a stockholder proposal, if properly presented.

We look forward to seeing you at the meeting.

Sincerely yours,

Michael M.Y. Chang

Secretary

April , 2009

Los Angeles, California

777 NORTH BROADWAY

LOS ANGELES, CALIFORNIA 90012

Notice of Annual Meeting of Stockholders

to be Held on May 11, 2009

Notice is hereby given that the annual meeting of stockholders of Cathay General Bancorp will be held on Monday, May 11, 2009, at 5:00 p.m., local time, at our offices located at 9650 Flair Drive, El Monte, California 91731, for the following purposes:

1. To elect four Class I directors to serve until the 2012 annual meeting of stockholders and their successors have been elected and qualified;

2. To ratify the appointment of KPMG LLP as our independent registered public accounting firm for the 2009 fiscal year;

3. To vote on an advisory (non-binding) proposal to approve our executive compensation;

4. To vote on a stockholder proposal, if properly presented, requesting that the Board of Directors take action to eliminate classification of terms of the Board of Directors; and

5. To transact such other business as may properly be brought before the meeting or any adjournments or postponements of the meeting.

The Board of Directors has fixed March 27, 2009, as the record date for the meeting. Only holders of record of common stock at the close of business on the record date are entitled to receive notice of and to vote at the meeting.

Please vote, sign, and date the enclosed proxy card and return it in the accompanying envelope. If you mail the envelope in the United States, it does not require postage. **It is important that you return the proxy card promptly even if you plan to attend the meeting.**

We invite you to attend the meeting in person. If you attend, you may choose to revoke your proxy and vote in person at the meeting. If you do so, your proxy card will be disregarded.

By Order of the Board of Directors

Michael M.Y. Chang

Secretary

April , 2009

Los Angeles, California

777 NORTH BROADWAY

LOS ANGELES, CALIFORNIA 90012

Proxy Statement

Annual Meeting of Stockholders

May 11, 2009

The Board of Directors of Cathay General Bancorp (the Board) is furnishing this proxy statement to the holders of record of Bancorp s common stock to solicit proxies, including the proxy granted by the enclosed proxy card, for use at the 2009 annual meeting of stockholders of Bancorp and any adjournments or postponements of the meeting. In this proxy statement, Bancorp, we, us, and our refer to Cathay General Bancorp, a Delaware Corporation.

At the meeting, our stockholders will be asked to:

1. Elect four Class I directors to serve until the 2012 annual meeting of stockholders and their successors have been elected and qualified;

2. Ratify the appointment of KPMG LLP as our independent registered public accounting firm for the 2009 fiscal year;

3. Vote on an advisory (non-binding) proposal to approve our executive compensation;

4. Vote on a stockholder proposal, if properly presented, requesting that the Board take action to eliminate classification of terms of the Board; and

5. Transact such other business as may properly be brought before the meeting or any adjournments or postponements of the meeting.

Please vote by completing the enclosed proxy card and returning it signed and dated in the enclosed postage-prepaid envelope. If you properly complete the proxy card and Bancorp receives it before the voting, the proxy holders named in the proxy card will vote your shares of common stock as you direct on the proxy card. If you return the proxy card without voting instructions, then the proxy holders will vote your shares according to the recommendation of the Board.

Under Delaware law, the inspector of elections for the meeting may consider evidence deemed to be reliable to reconcile proxies and ballots submitted by banks, brokers, their nominees, or similar persons that represent more votes than the holder of a proxy is authorized by the record holder to cast or more votes than the stockholder holds of record.

The Board knows of no other proposal to be presented for consideration at the meeting. The proxy holders named in the enclosed proxy card reserve the right to vote your shares in accordance with their best judgment on any proposal that does properly come before the meeting or to

vote your shares for other persons if any nominee for director becomes unavailable to serve.

You may revoke your proxy at any time before it is exercised by filing a written notice of revocation with Bancorp s Secretary or delivering to Bancorp s Secretary a later signed and dated proxy card. You may also revoke your proxy if you are present at the meeting and vote in person. This proxy statement and the enclosed proxy card were first mailed to stockholders on or about April 8, 2009.

QUORUM AND VOTING

Record Date

The Board has fixed March 27, 2009, as the record date for the meeting. Only holders of record of Bancorp s common stock at the close of business on the record date are entitled to receive notice of and to vote at the meeting. On the record date, shares of Bancorp s common stock were outstanding. Each stockholder of record is entitled to one vote for each share of common stock registered in the stockholder s name. Cumulative voting is **not** available for the election of directors or otherwise.

Quorum

It is important that stockholders be represented in person or by proxy at the meeting. The presence in person or by proxy of the holders of a majority of the outstanding shares of our common stock is necessary to constitute a quorum for the transaction of business. Abstentions and broker non-votes are counted as present for the purpose of establishing a quorum. If the shares represented at the meeting are not sufficient to constitute a quorum, we may adjourn or postpone the meeting to permit further solicitation of proxies.

The term broker non-votes generally refers to shares held by a broker in its name for the benefit of its customers but that cannot be voted because of rules that prohibit brokers from voting on non-routine proposals without instructions from the beneficial owners of the shares.

Voting on Election of Directors

Nominees receiving a plurality of the votes cast at the meeting will be elected directors. Plurality means that the persons who receive the largest number of votes cast are elected as directors up to the maximum number of directors to be chosen at the meeting. If you return the proxy card without voting instructions on the election of directors, the proxy holders will vote your shares according to the recommendation of the Board.

Voting on Other Proposals

Approval of proposals other than the election of directors requires the affirmative vote of the holders of a majority of the shares of Bancorp s common stock present in person or represented by proxy and entitled to vote at the meeting. If you return a proxy solicited by the Board, the shares represented by the proxy will be voted on these proposals in the manner specified by you. If you do not specify the manner in which your shares are to be voted, the shares will be voted according to the recommendation of the Board. Abstentions will be considered as present and entitled to vote and therefore will have the same effect as a vote against these proposals. Broker non-votes will not be considered as entitled to vote on these proposals and therefore will have no effect on the outcome of the voting.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Based on the contents of reports filed with the Securities and Exchange Commission (SEC) pursuant to Sections 13(d) and 13(g) of the Securities Exchange Act of 1934, as amended (the Exchange Act), the entities listed below are the only beneficial owners of more than five percent of our common stock as of December 31, 2008.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership of Common Stock	Percentage of Common Stock Beneficially Owned [1/]
Barclays Global Investors, NA and other reporting entities (Barclays) 400 Howard Street, San Francisco, CA 94105	2,929,099 [2/]	5.91%
FMR LLC 82 Devonshire Street, Boston, MA 02109	2,842,768 [3/]	5.74%
State Street Bank and Trust Company State Street Financial Center, One Lincoln Street, Boston, MA 02111	2,615,864 [4/]	5.28%

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1/ The ownership percentage is determined by dividing the number of shares shown in this table by 49,535,343 shares of Bancorp common stock outstanding as of March 2, 2009.

2/ The number of shares in this table and the information in this footnote are derived from the Schedule 13G filed with the SEC on February 5, 2009, by Barclays. According to this filing, Barclays calculated its beneficial ownership interest to be 5.92% of the outstanding common stock of Bancorp at December 31, 2008. Barclays and its affiliated entities collectively have sole voting power with respect to 2,423,733 of the above shares and sole power of disposition with respect to all of the above shares.

3/ The number of shares in this table and the information in this footnote are derived from the Amendment to Schedule 13G filed with the SEC on February 17, 2009, by FMR LLC. According to this filing, FMR LLC calculated its beneficial ownership interest to be 5.742% of the outstanding common stock of Bancorp at December 31, 2008. FMR LLC has sole power of disposition with respect to all of the above shares and sole voting power with respect to 61,870 of the above shares.

4/ The number of shares in this table and the information in this footnote are derived from the Schedule 13G filed with the SEC on February 18, 2009, by State Street. According to this filing, State Street calculated its beneficial ownership interest to be 5.3% of the outstanding common stock of Bancorp at December 31, 2008. State Street has shared power of disposition and sole voting power with respect to all of the above shares.

As of March 2, 2009, our directors and executive officers as a group beneficially owned approximately 7,325,042 shares of our common stock. The individual security ownership of our directors and named executive officers can be found in the section of this proxy statement titled Security Ownership of Nominees, Continuing Directors, and Named Executive Officers. Our directors and executive officers have informed us that they intend to vote according to the recommendations of the Board.

As of March 2, 2009, the Cathay Bank Employee Stock Ownership Trust (the ESOPT) held approximately 1,625,664 shares of Bancorp common stock. Shares of our common stock beneficially owned by the ESOPT have been allocated among the participants of the Cathay Bank Employee Stock Ownership Plan. Each participant has the power to direct the vote of his or her allocated shares. The ESOPT Committee has the sole power to vote allocated shares of any participant who does not specify any voting directions. The ESOPT Committee also has the sole power to vote and dispose of all unallocated shares of our common stock beneficially owned by the ESOPT. As of March 2, 2009, there were approximately 9,770 unallocated shares. Dunson K. Cheng, Peter Wu, Kelly L. Chan, Joseph C.H. Poon, and Anthony M. Tang are the members of the ESOPT Committee.

PROPOSAL ONE

ELECTION OF DIRECTORS

Under our certificate of incorporation, the Board may consist of between 3 and 25 directors. The Board currently consists of eleven directors, each of whom is also a director of Cathay Bank, a California-chartered bank and wholly-owned subsidiary of Bancorp. The Board has three classes of directors and our bylaws provide that the number of directors in each class should be as nearly equal in number as possible. The term of office of each class of directors is three years. The current term of the Class I directors will expire at the 2009 annual meeting of stockholders and, if elected at the 2009 annual meeting, the new term will expire at the 2012 annual meeting. The current term of the Class II directors will expire at the 2010 annual meeting of stockholders. The current term of the Class III directors will expire at the 2011 annual meeting of stockholders.

Stockholders are being asked to elect four Class I directors. The Class I directors will hold office until the 2012 annual meeting of stockholders and their successors have been elected and qualified. The Board, based on the recommendation of the Nomination Committee, has nominated Michael M.Y. Chang, Anthony M. Tang, Thomas G. Tartaglia, and Peter Wu to serve as Class I directors. All of the nominees are currently directors of

Bancorp and Cathay Bank, and have served continuously in these capacities since the dates indicated in the table below. If any nominee named in this proxy statement becomes unavailable for any reason, or if any vacancy on the Board occurs before the election, the shares represented by any proxy voting for that nominee will be voted for the person who may be designated by the Board to replace that nominee or to fill that vacancy on the Board. However, as of the date of this proxy statement, the Board does not believe that any nominee will be unavailable or that any vacancy will occur.

YOUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THE ELECTION OF MICHAEL M.Y. CHANG, ANTHONY M. TANG, THOMAS G. TARTAGLIA, AND PETER WU AS CLASS I DIRECTORS.

Security Ownership of Nominees, Continuing Directors, and Named Executive Officers

The following table sets forth:

The periods each nominee and director has served as a director of Bancorp.

Information on the beneficial ownership, as that term is defined under SEC rules and regulations, of shares of our common stock as of March 2, 2009, by each nominee and director, by each executive officer named in the Summary Compensation Table in the section titled Remuneration of Executive Officers below (Named Executive Officers), and all nominees, directors, and executive officers as a group.

Each nominee, director, and executive officer has furnished the information on his or her own beneficial ownership set forth in the following table. Except as otherwise noted in the footnotes below, each of these persons had sole voting and investment power with respect to the common stock owned by him.

Name	Age	Director of Bancorp Since	Common Stock Beneficially Owned as of March 2, 2009	Percentage Ownership as of March 2, 2009 [1/]
Nominees for Election at the Meeting for the Term Ending in 2012 (Class I):				
Michael M.Y. Chang	71	1990	608,755 2/	1.23%
Anthony M. Tang	55	1990	1,057,521 3/	2.13%
Thomas G. Tartaglia	85	1990	101,470 4/	*/
Peter Wu [**/]	60	2003	1,456,227 5/	2.94%
Directors Currently Serving for the Term Ending in 2010 (Class II):				
Kelly L. Chan	62	1990	435,218 6/	*/
Dunson K. Cheng	64	1990	2,178,731 7/	4.40%
Thomas C.T. Chiu [**/]	61	2003	300,773 8/	*/
Joseph C.H. Poon	62	1990	84,610 9/	*/
Directors Currently Serving for the Term Ending in 2011 (Class III):				
Patrick S.D. Lee	74	1990	259,130 10/	*/
Ting Y. Liu	72	2003	408,388 11/	*/
Nelson Chung	56	2005	12,800 12/	*/
Other Named Executive Officers:				
Heng W. Chen	56		117,620 13/	*/
Irwin Wong	60		269,641 14/	*/
All nominees, directors, and executive officers as a group (15 persons)			7,325,042 15/	13.97% [16/]

*/ Percentage of shares beneficially owned does not exceed one percent of the outstanding shares of Bancorp s common stock.

**/ Thomas C.T. Chiu is a brother-in-law of Peter Wu.

1/ For each person and group included in this table, percentage ownership is calculated by dividing the number of shares beneficially owned by such person or group by the sum of 49,535,343 shares of common stock outstanding as of March 2, 2009, plus the number of shares of common stock that such person or group had the right to acquire within 60 days of March 2, 2009.

2/ Includes approximately 102,141 shares held jointly by Mr. Chang and his spouse, 132,944 shares held by Mr. Chang as custodian for his children, 136,000 shares held by Mr. Chang s spouse as custodian for their children, 208,812 shares held by the Michael and Judy Chang Family Trust, and 20,400 shares issuable under options exercisable within 60 days of March 2, 2009.

3/ Includes 80,322 shares held by Mr. Tang as custodian for his children, approximately 258,795 shares held by Mr. Tang s spouse, approximately 86,780 shares held by the ESOPT which have been allocated to Mr. Tang s account, approximately 271,270 shares issuable under options exercisable within 60 days of March 2, 2009, and 9,770 unallocated shares held by the ESOPT.

4/ Consists of approximately 67,994 shares held by the Thomas G. Tartaglia Trust, approximately 11,436 shares held by the ESOPT which have been allocated to Mr. Tartaglia s account, and 22,040 shares issuable under options exercisable within 60 days of March 2, 2009.

5/ Includes 770,167 shares held by the Wu Trust, 622,158 shares issuable under options exercisable within 60 days of March 2, 2009, and 9,770 unallocated shares held by the ESOPT.

6/ Includes 58,288 shares held by the Kelly and Barbara Chan Living Trust, 9,800 shares held by Mr. Chan s spouse, 13,184 shares held by Mr. Chan as custodian for his children, 27,096 shares held by Chansons Properties, 200,000 shares held as Trustee of the WHFC Chan Grandchildren s Sprinkling Trust, 26,400 shares issuable under options exercisable within 60 days of March 2, 2009, and 9,770 unallocated shares held by the ESOPT.

7/ Includes 239,308 shares held by the Dunson Cheng and Cynthia Cheng Trust, approximately 99,931 shares held by the ESOPT which have been allocated to Mr. Cheng s account, 1,434,464 shares issuable under options exercisable within 60 days of March 2, 2009, and 9,770 unallocated shares held by the ESOPT.

8/ Consists of 204,961 shares held by Chiu Family Trust, 69,732 shares held by Dr. Chiu s Pension Plan, and 26,080 shares issuable under options exercisable within 60 days of March 2, 2009.

9/ Includes 46,440 shares held by the Poon Family Trust, 26,400 shares issuable under options exercisable within 60 days of March 2, 2009, and 9,770 unallocated shares held by the ESOPT.

10/ Consists of 232,730 shares held by Mr. Lee as trustee of the Lee Trust and 26,400 shares issuable under options exercisable within 60 days of March 2, 2009.

11/ Includes 376,664 shares held by the Liu Family Inter Vivos Trust and 26,080 shares issuable under options exercisable within 60 days of March 2, 2009. Of the shares beneficially owned by Mr. Liu, 130,000 shares are subject to pledge in a margin account at a securities brokerage firm.

12/ Consists of 10,000 shares by Nelson Chung Defined Benefit Plan and 2,800 shares issuable under options exercisable within 60 days of March 2, 2009.

13/ Includes 87,776 shares issuable under options exercisable within 60 days of March 2, 2009. All of the shares owned by Mr. Chen are subject to pledge in a margin account at a securities brokerage firm.

14/ Includes approximately 4,801 shares held jointly by Mr. Wong and his spouse, approximately 16,350 shares held by the ESOPT which have been allocated to Mr. Wong s account, and 242,880 shares issuable under options exercisable within 60 days of March 2, 2009.

15/ In addition to the ownership disclosed for the persons identified in the table above, the beneficial ownership of two additional executive officers is included in the total of the table. Executive officers are those individuals designated as such for purposes of Section 16 of the Exchange Act. The total number of shares beneficially owned by all of our directors and executive officers as a group includes 2,908,386 shares issuable under options exercisable within 60 days of March 2, 2009, 214,497 shares held by the ESOPT that have been allocated to the directors and Named Executive Officers, and 9,770 shares held as unallocated shares by the ESOPT.

16/ The ownership percentage is determined by dividing the number of shares by 52,443,729, which consists of 49,535,343 shares of Bancorp common stock outstanding as of March 2, 2009, and 2,908,386 shares of Bancorp common stock issuable under options exercisable within 60 days of March 2, 2009.

Security Ownership in Subsidiary

In December 2003, January 2004, and April 2004, Cathay Real Estate Investment Trust (the REIT), a subsidiary of Cathay Bank, sold in a private placement a total of 436,760 shares of its 7.0% Series A Non-Cumulative Preferred Shares (the Series A Shares) for $100 per share, of which Cathay Bank purchased 349,408 shares. As of March 2, 2009, there were 435,460 Series A Shares issued and outstanding. The Series A Shares vote on a share for share basis with the common shares of the REIT and are not convertible into common stock of the REIT or common stock of Cathay Bank or Bancorp. The REIT intends to continue to operate as a real estate investment trust under the Internal Revenue Code of 1986, as amended, by investing primarily in participation interests in a portion of Cathay Bank s portfolio of loans secured, in whole or in part, by real estate and leasehold improvements which generate net income.

The information below sets forth the number of Series A Shares beneficially owned as of March 2, 2009, by each of the current directors, the nominees recommended by the Board for election as directors, each of the Named Executive Officers, and all current directors, nominees, and Named Executive Officers as a group. Except as otherwise noted in the footnotes below, each of these persons had sole voting and investment power with respect to the Series A Shares owned by him.

Name	Series A Shares Beneficially Owned	Series A Percent of Class [1/]
Michael M.Y. Chang	2,500 [2/]	0.57%
Heng W. Chen	250	0.06%
Dunson K. Cheng	5,000 [3/]	1.15%
Thomas G. Tartaglia	1,000 [4/]	0.23%
All directors, nominees, and Named Executive Officers as a group (4 persons)	8,750	2.01%

[1/] The ownership percentage is determined by dividing the number of shares shown in this table by 435,460, which is the number of Series A Shares issued and outstanding as of March 2, 2009.

[2/] The shares are jointly owned by Mr. Chang and his spouse.

[3/] Includes 2,500 shares held by Mr. Cheng s spouse.

[4/] The shares are held by the Thomas G. Tartaglia Trust.

The REIT has also issued Series B Non-Cumulative Preferred Shares (the Series B Shares) to Cathay Bank and its employees. Series B Shares pay a non-cumulative annual cash dividend of $25 per share and have a liquidation preference of $250 per share. Holders of Series B Shares do not have voting rights except on proposals that could materially and adversely affect the preferences, voting powers, dividend rights, or other rights and privileges of the Series B Shares. As of March 2, 2009, the directors, nominees, and Named Executive Officers beneficially owning Series B Shares were Dunson K. Cheng, Anthony M. Tang, Heng W. Chen, and Irwin Wong. They each hold one share, which individually and as a group is less than one percent of the entire class of Series B Shares.

GB Capital Trust II, a subsidiary of Cathay Bank as a result of Bancorp s merger with GBC Bancorp, issued Series A Preferred Trust Units (the Class A Preferred Units) to General Bank and its employees. Class A Preferred Units pay a non-cumulative annual cash dividend of $50 per share and have a liquidation preference of $500 per share. As of March 2, 2009, the only director, nominee, or Named Executive Officer beneficially owning Class A Preferred Units is Peter Wu, who holds one share, which individually is less than one percent of the entire class of Class A Preferred Units.

Nominees, Continuing Directors, and Named Executive Officers

The principal occupations for at least the past five years of each nominee, continuing director, and Named Executive Officer are as follows:

Nominees (Class I)

Michael M.Y. Chang, Director of Bancorp since 1990. Secretary of Bancorp and Cathay Bank since November 2001. Director of Cathay Bank since 1983. Retired attorney at law.

Anthony M. Tang, Director of Bancorp since 1990. Executive Vice President of Bancorp since 1994. Chief Lending Officer of Cathay Bank since 1985. Director of Cathay Bank since 1986. Senior Executive Vice President of Cathay Bank since December 1998. Trustee and Vice President of Cathay Real Estate Investment Trust since February 2003.

Thomas G. Tartaglia, Director of Bancorp since 1990. Director of Cathay Bank since 1986. Formerly Executive Vice President of Cathay Bank from 1984 until 1990. Retired banker.

Peter Wu, Director, Executive Vice Chairman, and Chief Operating Officer of Bancorp and Cathay Bank since October 2003. Director of GBC Bancorp and General Bank from 1981 to October 2003. Chairman of the Board of GBC Bancorp and General Bank from January 2003 to October 2003. President and Chief Executive Officer of GBC Bancorp and General Bank from January 2001 to October 2003. Chairman of the Board of GBC Venture Capital, Inc. since 1997. President and Chief Executive Officer of GBC Venture Capital, Inc. since October 2003. Director, Chairman of the Board, President, and Chief Executive Officer of Cathay Bank Foundation since March 2005.

Continuing Directors (Class II)

Kelly L. Chan, Director of Bancorp since 1990. Director of Cathay Bank since 1981. Owner of an interest in and Vice President of Phoenix Bakery, Inc. (a retail bakery in Los Angeles, California) since 1984. Certified Public Accountant.

Dunson K. Cheng, Director of Bancorp since 1990. Chairman of the Board of Directors of Bancorp and Cathay Bank since 1994. President (chief executive officer) of Bancorp since 1990. President of Cathay Bank since 1985 and Director of Cathay Bank since 1982. President of Cathay Investment Company from 1999 to 2007, Chief Executive Officer from 1995 to 2007, Director from 1984 to 2007, and Chairman of the Board from 1994 to 2007. Trustee and President of Cathay Real Estate Investment Trust since February 2003. Director, Chairman of the Board, President, and Chief Executive Officer of Cathay Bank Foundation from 2002 to March 2005. Director of DiCon Fiberoptics, Inc. since 2002.

Thomas C.T. Chiu, Director of Bancorp and Cathay Bank since October 2003. Director of GBC Bancorp and General Bank from 1983 to October 2003. Medical Doctor.

Joseph C.H. Poon, Director of Bancorp since 1990. Director of Cathay Bank since 1981. Director of Cathay Investment Company from 1984 to 2007. President of Edward Properties (real estate development) since 1981.

Continuing Directors (Class III)

Patrick S.D. Lee, Director of Bancorp since 1990. Director of Cathay Bank since 1983. Director of Cathay Investment Company from 1984 to 2007. Trustee of Cathay Real Estate Investment Trust since February 2003. Director of Cathay Bank Foundation since May 2004. Retired real estate developer and property manager.

Ting Y. Liu, Director of Bancorp and Cathay Bank since October 2003. Chairman of HITO Corporation from 1987 to January 2005. Director of GBC Bancorp and General Bank from 1981 to 2003. Retired investor.

Nelson Chung, Director of Bancorp and Cathay Bank since 2005. President of Pacific Communities Builder, Inc. (real estate development) since 1991.

Other Named Executive Officers

Heng W. Chen, Executive Vice President of Bancorp and Cathay Bank since June 2003. Chief Financial Officer and Treasurer of Bancorp since June 2003. Vice President and Chief Financial Officer of Cathay Real Estate Investment Trust since December 2003. Chief Financial Officer of Cathay Bank since January 2004. Director, Vice President, and Chief Financial Officer of GBC Venture Capital, Inc. since October 2003.

Irwin Wong, Executive Vice President of Branch Administration for Cathay Bank since 1999. Director and Vice President of Cathay Bank Foundation since 2002. Chief Financial Officer/Treasurer of Cathay Bank Foundation since May 2004.

THE BOARD OF DIRECTORS

The Board generally holds regular monthly meetings. Special meetings are called when necessary. During 2008, the Board held 13 meetings and each director attended more than 92% of these meetings. The Board has seven standing committees: the Executive Committee, the Executive Compensation Committee, the ESOPT Committee, the Equity Incentive Plan Committee, the Audit Committee, the Nomination Committee, and the Investment Committee. It is our policy to invite and encourage all members of the Board to attend Bancorp s annual meeting of stockholders. All of our directors attended the 2008 annual meeting, except for Mr. Chung.

Director Independence

We have adopted standards for director independence pursuant to Nasdaq listing standards. The Board considered relationships, transactions and/or arrangements with each of its directors, including those disclosed below under the section Transactions with Related Persons, Promoters and Certain Control Persons, and determined that the following six of its current eleven members are independent as defined in Rule 4200(a)(15) of the Nasdaq Marketplace Rules: Kelly L. Chan, Nelson Chung, Patrick S.D. Lee, Ting Y. Liu, Joseph C.H. Poon, and Thomas G. Tartaglia.

In addition, the Board has also determined that:

- all directors who serve on the Executive Compensation, Audit, and Nomination Committees are independent under applicable Nasdaq listing standards and SEC rules, and
- all members of the Audit Committee meet the additional independence requirement that they not directly or indirectly receive any compensation from Bancorp other than their compensation as directors.

The independent directors meet in executive session without the presence of any non-independent directors or members of Bancorp s management at least twice per year during regularly scheduled Board meeting days and from time to time as they deem necessary or appropriate. In 2008, the independent directors met two times in executive session.

Executive Committee

During 2008, the Executive Committee consisted of Dunson K. Cheng (Chairman), Peter Wu, Anthony M. Tang, and Thomas G. Tartaglia. This committee exercises all powers of the Board in the intervals between Board

meetings, except for those powers that the Board has delegated to other committees or that are reserved for the full Board by statute, regulations, Nasdaq listing standards, charter, or bylaws. The Executive Committee met 12 times during 2008, and each committee member attended all meetings of this committee, except for Mr. Tartaglia, who was absent from one meeting.

Executive Compensation Committee

During 2008, the Executive Compensation Committee consisted of Ting Y. Liu (Chairman), Kelly L. Chan, and Joseph C.H. Poon, each of whom is an independent director under Nasdaq listing standards. The Executive Compensation Committee establishes general policies on executive compensation as well as base salary, bonus, equity compensation, and discretionary benefits for the Chief Executive Officer, Chief Financial Officer, and all of our other executive officers. The Board has adopted a written charter for the Executive Compensation Committee, which is available on our website at www.cathaygeneralbancorp.com. The Executive Compensation Committee met six times during 2008, and each committee member attended all meetings of this committee.

ESOPT Committee

During 2008, the ESOPT Committee consisted of Dunson K. Cheng (Chairman), Peter Wu, Kelly L. Chan, Joseph C.H. Poon, and Anthony M. Tang. This committee administers the ESOPT according to plan provisions and applicable governmental regulations. It is responsible for, among other things, the investment and management of the ESOPT s assets. The ESOPT Committee did not meet in 2008.

Equity Incentive Plan Committee

During 2008, the Equity Incentive Plan Committee consisted of Joseph C.H. Poon (Chairman), Thomas C.T. Chiu, Michael M.Y. Chang, and Nelson Chung. This committee selects participants receiving awards under Bancorp s 2005 Incentive Plan. It has broad discretion to determine the amount and types of awards, and the terms and conditions of individual awards, except for awards to our executive officers, which are made by the Executive Compensation Committee. The Equity Incentive Plan Committee met two times during 2008, and each committee member attended all meetings of this committee, except for Mr. Chung, who was absent from one meeting.

Audit Committee

During 2008, the Audit Committee consisted of Kelly L. Chan (Chairman), Ting Y. Liu, and Thomas G. Tartaglia. This committee oversees Bancorp s financial reporting on behalf of the Board. It appoints and evaluates Bancorp s independent auditors, and reviews with the independent auditors the proposed scope of, fees for, and results of the annual audit. It reviews the system of internal accounting controls and the scope and results of internal audits with the independent auditors, the internal auditors, and Bancorp management. It considers the audit and non-audit services provided by the independent auditors, the proposed fees to be charged for each type of service, and the effect of non-audit services on the independence of the independent auditors. The Audit Committee met 12 times during 2008. Each committee member attended all of the meetings of this committee, except for Mr. Tartaglia, who was absent from one meeting.

The Board has adopted a written charter for the Audit Committee, which was revised and restated in November 2008, and which is available on our website at www.cathaygeneralbancorp.com. As provided by the charter, the Audit Committee shall be composed of three or more directors, and its members must meet the requirements of the Nasdaq listing standards, the regulations of the SEC, and the Federal Deposit Insurance Corporation.

The Audit Committee does not have a policy for pre-approving services to be provided by Bancorp s independent auditors. All services to be provided to Bancorp by its independent auditors are subject to review

and approval by the Audit Committee in advance of the performance of the services, provided that the Audit Committee will not approve any non-audit services proscribed by Section 10A(g) of the Exchange Act in the absence of an applicable exemption. The Audit Committee may delegate to a designated member or members of the Audit Committee the authority to approve such services so long as any such approval is reported to the full Audit Committee at its next scheduled meeting. The Audit Committee has not delegated such authority.

The Board conducted a review regarding whether each member of the Audit Committee qualifies as independent and determined that, during 2008, Mr. Chan, Mr. Liu, and Mr. Tartaglia were each independent as defined in the Nasdaq listing standards. The Board also conducted a review regarding whether any members of the Audit Committee meet the criteria to be considered an audit committee financial expert and determined that Kelly L. Chan, its Chairman, qualifies as an audit committee financial expert, as defined in Item 407(d)(5) of Regulation S-K of the Exchange Act.

Nomination Committee

During 2008, the Nomination Committee consisted of Joseph C.H. Poon (Chairman), Kelly L. Chan, and Ting Y. Liu. All members of the committee are independent as defined in the Nasdaq listing standards. This committee identifies and evaluates candidates qualified to serve as members of the Board and makes recommendations to the Board regarding such candidates. Nominees for this 2009 annual meeting of stockholders were recommended by the Nomination Committee and unanimously approved by all of Bancorp s independent directors. The Nomination Committee met one time during 2008 and all committee members attended.

The policy of the Nomination Committee is to consider candidates properly recommended by our stockholders. In evaluating any such candidates, the Nomination Committee will consider the criteria described below. Any such recommendations should include the nominee s name and qualifications for membership on our Board and should be directed to Michael M.Y. Chang, Secretary, Cathay General Bancorp, 777 North Broadway, Los Angeles, California 90012. In addition, our bylaws permit stockholders to nominate directors for election at stockholder meetings. To nominate a director, stockholders must give timely notice to our Secretary in accordance with our bylaws, which require that the notice be received by our Secretary within the time periods described under the section titled Stockholder Proposals for 2010 Annual Meeting of Stockholders below.

The Board and Nomination Committee consider potential nominees based on such criteria as depth and breadth of relevant experience, intelligence, personal character, integrity, commitment to the community and to Bancorp, knowledge of the business of banking, compatibility with the current Board culture, and prominence all in the context of the perceived needs of the Board at the point in time of the consideration. Nominees must also be acceptable to banking regulators. Bancorp seeks to ensure that at least a majority of the directors are independent under the Nasdaq listing standards and that members of Bancorp s Audit Committee meet Nasdaq, SEC, and Federal Deposit Insurance Corporation requirements and that at least one of them qualifies as an audit committee financial expert under the rules of the SEC.

The process for identifying and evaluating candidates is commenced by the Board upon its determination of a need to fill a new position or vacancy. At the request of the Board, the Nomination Committee then seeks to identify potential candidates who meet the specific criteria given by the Board at the time of the request based on input from members of the Board and, if the Board deems appropriate, a third-party search firm. The process begins with the Nomination Committee conducting inquiries into the backgrounds and qualifications of such candidates. If the Nomination Committee determines that a candidate is qualified to serve as a director and that he or she should be recommended to the Board, the Board will then review the recommendation and the accompanying information. If the Board is interested in a proposed candidate, it will designate a member to contact the candidate to discuss the proposed nomination, and determine if the candidate is interested in the nomination and if there is any reason why the Board should not proceed with the nomination. Depending on the outcome, the next step in the process is for the candidate to meet with all members of the Board. Following these

meetings, and using the input from such interviews and the information obtained by the Nomination Committee, the Nomination Committee will evaluate whether the candidate meets the requisite qualifications and criteria and should be recommended to the Board. Candidates recommended by the Nomination Committee are then presented to the Board for selection as nominees for election by the stockholders or by the Board to fill a vacancy. The Nomination Committee expects that a similar process will be used to evaluate nominees recommended by stockholders. The Nomination Committee has a written charter which is available on our website at www.cathaygeneralbancorp.com.

Investment Committee

During 2008, the Investment Committee consisted of Dunson K. Cheng (Chairman), Peter Wu, Joseph C.H. Poon, Kelly L. Chan, and Thomas C.T. Chiu. This committee oversees Bancorp s investment and funds management policies at the holding company level. This committee exists alongside the Investment Committee at Bancorp s subsidiary, Cathay Bank. The Bancorp Investment Committee met three times during 2008. Each committee member attended all of the meetings of this committee, except for Mr. Chan, who was absent from one meeting and Mr. Wu, who was absent from two meetings.

Compensation of Directors

Director Compensation

The following table sets forth a summary of the compensation paid to all directors who are not also a Named Executive Officer for 2008.

me	Fees earned or paid in cash ($)	Stock awards ($)	Options awards [1/] ($)	Non-equity incentive plan compensation ($)	Change in pension value and nonqualified deferred compensation earnings ($)	All other compensation ($)	Tot ($
ly L. Chan	56,100		34,695				90,
chael M.Y. Chang	81,875 [2/]		34,695				116,
omas C.T. Chiu	36,600		23,007				59,
son Chung	29,350		13,385				42,

rfrom November 30 to December 31 in order to coincide with the mpany s fiscal year end. This change did not have a material impact to the mpany s consolidated financial statements.

previously disclosed on May 7, 2008, Ronald J. Naples, Chairman and ef Executive Officer of the Company, has announced his plan to retire as ef Executive Officer, effective October 3, 2008. The Company is ognizing certain accelerated and other costs in accordance with Naples Employment, Transition and Consulting Agreement. Over the rse of the next three years, the Company anticipates taking a charge to nings of approximately $5,800 of which $3,500 would be incurred in 8, $1,900 in 2009, and $400 in 2010. The $1,880 charge, or roximately $0.12 per diluted share, incurred in the second quarter of 8 includes incremental equity compensation expense of $975, a special us of $642, $65 related to his annual bonus, and incremental expense of 8 related to the Company s Supplemental Retirement Income Plan. Refer Note 5 Stock-Based Compensation and the Company s current report on m 8-K, filed on May 13, 2008 for further information.

ring the second quarter of 2008, the Company received a net arbitration ard of $956, or approximately $0.04 per diluted share, related to litigation h one of the former owners of the Company s Italian affiliate. This net ard was recorded in Other income.

part of the Company s chemical management services, certain third-party duct sales to customers are managed by the Company. Where the mpany acts as principal, revenues are recognized on a gross reporting is at the selling price negotiated with customers. Where the Company

s as an agent, such revenue is recorded using net reporting as service
enues at the amount of the administrative fee earned by the Company for
ering the goods. Third-party products transferred under arrangements
ulting in net reporting totaled $16,880 and $26,848 for the six months
ed June 30, 2008 and 2007, respectively.

te 2 Recently Issued Accounting Standards

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

March 2008, the FASB issued Statement of Financial Accounting
ndard No. 161 (SFAS 161), *Disclosures about Derivative Instruments
l Hedging Activities.* SFAS 161 requires expanded disclosure about the
mpany s hedging activities and use of derivative instruments in its
ging activities. SFAS 161 is effective for fiscal years beginning on or
r November 15, 2008 and for interim periods within those fiscal years.
e Company is currently assessing the impact of this standard on its
ancial statements.

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

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te 3 Uncertain Income Tax Positions

June 2006, the Financial Accounting Standards Board issued FASB erpretation No. 48, Accounting for Uncertainty in Income Taxes, an erpretation of FASB Statement No. 109 (FIN 48). FIN 48 prescribes the ognition threshold and measurement attributes for financial statement ognition and measurement of tax positions taken or expected to be taken a tax return. FIN 48 requires the determination of whether the benefits of positions will be more likely than not sustained upon audit based upon technical merits of the tax position. For tax positions that are determined be more likely than not sustained upon audit, a company recognizes the gest amount of benefit that is greater than 50% likely of being realized on ultimate settlement in the financial statements. For tax positions that not determined to be more likely than not sustained upon audit, a mpany does not recognize any portion of the benefit in the financial ements. FIN 48 also provides guidance on de-recognition, classification, alties and interest, accounting in interim periods, disclosure, and nsition. FIN 48 is effective for fiscal years beginning after December 15, 06. The Company adopted the provisions of FIN 48, effective January 1, 07.

December 31, 2007, the Company s cumulative liability for gross ecognized tax benefits was $10,861. As of June 30, 2008, the Company s mulative liability for gross unrecognized tax benefits was $12,226.

e Company continues to recognize interest and penalties associated with ertain tax positions as a component of taxes on income in its nsolidated Statement of Income. The Company had accrued $1,211 for mulative interest and $809 for cumulative penalties at December 31, 07. The Company has recognized $191 and $376 for interest and $10 and 5 for penalties on its Consolidated Statement of Income for the ee-month period and six-month period ended June 30, 2008, respectively, , as of June 30, 2008, the Company had accrued $1,675 for cumulative erest and $895 for cumulative penalties.

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

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

efit.

ddition, the Company was under audit by the French tax authorities for years 2001 through 2004. The French tax authorities made several ustments to the Company s transfer pricing transactions and er-company charges. During the three-month period ended March 31, 08, the Company resolved several of these issues through the French ninistrative appeals process and with Competent Authority as provided ler the U.S./French tax treaty. As a result of this partial resolution of the ues, the Company recognized a $381 decrease in its cumulative liability gross unrecognized tax benefits for the six-month period ended June 30, 08.

te 4 Fair Value Measurements

September 2006, the FASB issued Statement of Financial Accounting ndards No. 157 (SFAS 157), *Fair Value Measurement.* Subsequently, the SB issued FASB Staff Position (FSP) 157-1 and FSP 157-2, which vided exceptions to applying the guidance to leasing transactions and to n-recurring nonfinancial assets and liabilities. Effective January 1, 2008, Company adopted SFAS 157, with the exception of the application of statement to non-recurring nonfinancial assets and nonfinancial bilities. Non-recurring nonfinancial assets and nonfinancial liabilities for ch the Company has not applied the provisions of SFAS 157 include se measured at fair value in goodwill impairment testing, indefinite lived angible assets measured at fair value for impairment testing, asset rement obligations initially measured at fair value, and those initially asured at fair value in a business combination. SFAS 157 establishes a nmon definition for fair value to be applied to U.S. GAAP guidance uiring use of fair value, establishes a framework for measuring fair value, expands disclosure about such fair value measurements. This standard s not require any new fair value measurements, but rather applies to all er accounting pronouncements that require or permit fair value asurements.

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

Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3: Unobservable inputs that reflect the reporting entity s own assumptions.

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

	Fair Value as of June 30, 2008	Fair Value Measurements at June 30, 2008 Using Fair Value Hierarchy		
		Level 1	Level 2	Level 3
sets				
mpany-owned life insurance	$ 3,602	$	$ 3,602	$
mpany-owned life insurance Deferred mpensation assets	2,196		2,196	
her deferred compensation assets	2,028	2,028		
al	$ 7,826	$ 2,028	$ 5,798	$
bilities				
ferred compensation liabilities	$ 4,862	$ 4,862	$	$
erest rate derivatives	1,131		1,131	
al	$ 5,993	$ 4,862	$ 1,131	$

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

te 5 Stock-Based Compensation

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

May 7, 2008, Ronald J. Naples, Chairman and Chief Executive Officer
he Company, announced that he plans to retire as the Company s Chief
ecutive Officer, effective October 3, 2008. In accordance with Mr. Naples

ployment, Transition and Consulting Agreement, Mr. Naples
ity-based compensation awards (both nonvested stock and stock options)
to be re-measured and vesting accelerated to coincide with the
ober 3, 2008 retirement date. These actions resulted in incremental
ity compensation expense of approximately $975 ($396 nonvested stock
$579 stock options) during the six months ended June 30, 2008. These
remental expenses are included in the following reconciliation of total
ity-based compensation expense.

e Company recognized approximately $1,762 of share-based
npensation expense and $617 of related tax benefits in our unaudited
densed consolidated statement of income for the six months ended
e 30, 2008. The compensation expense was comprised of $869 related to
ck options, $806 related to nonvested stock awards, $23 related to the
mpany s Employee Stock Purchase Plan, and $64 related to the Company s
ector Stock Ownership Plan.

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

e Company has a long-term incentive program (LTIP) for key employees
ch provides for the granting of options to purchase stock at prices not
than market value on the date of the grant. Most options become
rcisable between one and three years after the date of the grant for a
iod of time determined by the Company not to exceed seven years from
date of grant for options issued in 1999 or later and ten years for options
ued in prior years. Beginning in 1999, the LTIP program provided for
nmon

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ck awards, the value of which was generally derived from Company formance over a three-year period. Common stock awards issued in 06, 2007 and 2008 under the LTIP program are subject only to time ting over a three to five-year period. In addition, as part of the Company s obal Annual Incentive Plan (GAIP), nonvested shares may be issued to employees, which generally vest over a two to five-year period.

ck option activity under all plans is as follows:

	Number of Shares		Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (years)
ance at December 31, 07	1,033,175	$	21.36	
tions granted	145,184		19.45	
tions exercised	(464,020)		21.39	
tions forfeited				
tions expired	(76,112)		17.80	
ance at June 30, 2008	638,227	$	21.33	4.5
rcisable at June 30, 08	355,347	$	21.73	3.3

e total intrinsic value of options exercised during the six months ended e 30, 2008 was approximately $3,682. Intrinsic value is calculated as the ference between the current market price of the underlying security and strike price of a related option. As of June 30, 2008, the total intrinsic ue of options outstanding was approximately $3,401, and the total insic value of exercisable options was approximately $1,751.

ummary of the Company s outstanding stock options at June 30, 2008 is ollows:

ge of rcise Prices	Number Outstanding at 6/30/2008	Weighted Average Contractual Life	Weighted Average Exercise Price	Number Exercisable at 6/30/2008	Weighted Average Exercise Price
5.97 - $18.62	1,200	0.2	$ 16.50	1,200	$ 16.50

.63 - $21.28	347,541	4.6	19.81	165,157	20.10
.29 - $23.94	242,586	4.7	22.61	142,090	22.25
.94 - $26.60	46,900	2.8	26.07	46,900	26.07
	638,227	4.5	21.33	355,347	21.73

of June 30, 2008, unrecognized compensation expense related to options
nted during 2006 was $174, for options granted during 2007 was $453
for options granted during 2008 was $716.

ring the first quarter of 2008, the Company granted 145,184 stock options
der the Company s LTIP plan that are subject only to time vesting over a
ee-year period. The options were valued using the Black-Scholes model
h the following assumptions: dividend yield of 4.1%, expected volatility
30.31%, risk free interest rate of 3.15%, an expected term of 6 years, and
rfeiture rate of 3% over the remaining life of the options. Approximately
04 of expense was recorded on these options during the six months ended
e 30, 2008. The fair value of these awards is amortized on a straight-line
is over the vesting period of the awards.

der the Company s LTIP plan, 72,110 shares of nonvested stock were
standing at December 31, 2007. In the first quarter of 2008, 48,431
res of nonvested stock were granted at a weighted average grant date fair
ue of $19.45. In the second quarter of 2008, 5,000 shares of nonvested
ck were granted at a weighted average grant date fair value of $30.51. In
ition, in the second quarter of 2008, 1,536 shares of nonvested stock
re granted to Directors at a weighted average grant date fair value of
.10. As of June 30, 2008, 1,200 of these awards were vested, 900 shares
re forfeited and 124,977 shares were outstanding. The fair value of the
nvested stock is based on the trading price of the Company s common
ck on the date of grant. The Company adjusts the grant date fair value for
pected forfeitures based on historical experience for similar awards. As of
e 30, 2008, unrecognized compensation expense related to these awards
s $1,651, to be recognized over a weighted average remaining period of
years.

der the Company s GAIP, 42,500 shares of nonvested stock were granted
ing the second quarter of 2005 at a weighted average grant date fair value
$20.12 per share. At December 31, 2007, 27,500 shares were outstanding.
ough June 30, 2008, 13,750 shares vested and were issued, no shares
re forfeited and 13,750 shares were outstanding. As of June 30, 2008,
ecognized compensation expense related to these awards was $75, to be
ognized over a weighted average remaining period of 1.3 years.

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ployee Stock Purchase Plan

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

03 Director Stock Ownership Plan

March 2003, the Company s Board of Directors approved a stock
nership plan for each member of the Board to encourage the Directors to
rease their investment in the Company. The Plan was effective on the
e it was approved and remains in effect for a term of ten years or until it
arlier terminated by the Board. The maximum number of shares of
mmon Stock which may be issued under the Plan is 75,000, subject to
tain conditions that the committee may elect to adjust the number of
res. As of June 30, 2008, the Committee has not made any elections to
ust the shares under this plan. Each Director is eligible to receive an
ual retainer for services rendered as a member of the Board of Directors.
rently, each Director who owns less than 7,500 shares of Company
mmon Stock is required to receive 75% of the annual retainer in Common
ck and 25% of the annual retainer in cash. Each Director who owns 7,500
more shares of Company Common Stock receives 20% of the annual
ainer in Common Stock and 80% of the annual retainer in cash with the
ion to receive Common Stock in lieu of the cash portion of the retainer.
e annual retainer is $28. The number of shares issued in payment of the
s is calculated based on an amount equal to the average of the closing
ces per share of Common Stock as reported on the composite tape of the
w York Stock Exchange for the two trading days immediately preceding
retainer payment date. The retainer payment date is June 1. For the three
six months ended June 30, 2008, the Company recorded approximately
and $64 of compensation expense, respectively. For the three and six
nths ended June 30, 2007, the Company recorded approximately $30 and
, respectively.

te 6 Earnings Per Share

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

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
merator for ic EPS and uted EPS net ome	$ 4,321	$ 4,151	$ 9,414	$ 7,688
nominator for ic S weighted rage shares	10,285,121	9,983,535	10,185,490	9,945,819
ect of utive urities, marily ployee stock ions and n-vested ck	274,328	135,118	181,079	128,241
nominator for uted S weighted rage shares assumed versions	10,559,449	10,118,653	10,366,569	10,074,060
sic EPS	$ 0.42	$ 0.42	$ 0.92	$ 0.77
uted EPS	$ 0.41	$ 0.41	$ 0.91	$ 0.76

e following number of stock options is not included in the earnings per re since in each case the exercise price is greater than the market price: 0 127,200 for the three months ended June 30, 2008 and 2007, and ,954 and 277,940 for the six months ended June 30, 2008 and 2007, pectively.

te 7 Business Segments

e Company s reportable segments are as follows:

Metalworking process chemicals industrial process fluids for various heavy industrial and manufacturing applications.

Coatings temporary and permanent coatings for metal and concrete products and chemical milling maskants.

Other chemical products other various chemical products.
gment data includes direct segment costs as well as general operating ts.

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(Unaudited)

e table below presents information about the reported segments:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
talworking Process emicals				
sales	$ 146,223	$ 126,798	$ 283,638	$ 243,146
erating income	17,069	19,735	35,480	37,248
atings				
sales	10,717	9,803	20,028	18,157
erating income	2,610	2,295	4,826	4,167
her Chemical Products				
sales	1,248	997	2,240	1,186
erating income	65	145	56	85
al				
sales	158,188	137,598	305,906	262,489
erating income	19,744	22,175	40,362	41,500
n-operating expenses	(11,805)	(14,700)	(22,992)	(27,059)
O transition costs	(1,880)		(1,880)	
ortization	(306)	(272)	(606)	(611)
erest expense	(1,337)	(1,660)	(2,756)	(3,215)
erest income	358	159	595	364
her income, net	1,687	909	1,848	1,236
nsolidated income ore taxes	$ 6,461	$ 6,611	$ 14,571	$ 12,215

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

te 8 Comprehensive Income

e following table summarizes comprehensive income:

Three Months Ended June 30,		Six Months Ended June 30,	
2008	2007	2008	2007

t income	$ 4,321	$ 4,151	$ 9,414	$ 7,688
ange in fair value of derivatives	727	346	(19)	229
realized gain on ilable-for-sale securities	(25)	91	(212)	132
AS 158 liability	176	266	345	519
eign currency translation ustments	3,155	2,861	8,392	4,140
mprehensive income	$ 8,354	$ 7,715	$ 17,920	$ 12,708

te 9 Debt and Restricted Cash

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

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

te 10 Business Acquisitions and Divestitures

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

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Quaker Chemical Corporation

Notes to Condensed Consolidated Financial Statements

(Dollars in thousands, except per share amounts)

(Unaudited)

te 11 Goodwill and Other Intangible Assets

e changes in carrying amount of goodwill for the six months ended e 30, 2008 are as follows:

	Metalworking Process Chemicals	Coatings	Total
ance as of December 31, 2007	$ 35,708	$ 8,081	$ 43,789
odwill additions	1,000		1,000
rrency translation adjustments	2,340		2,340
ance as of June 30, 2008	$ 39,048	$ 8,081	$ 47,129

ss carrying amounts and accumulated amortization for definite-lived ngible assets as of June 30, 2008 and December 31, 2007 are as follows:

	Gross Carrying Amount		Accumulated Amortization	
	2008	2007	2008	2007
ortized intangible assets				
stomer lists and rights to sell	$ 8,614	$ 8,391	$ 3,693	$ 3,340
demarks and patents	1,788	1,788	1,788	1,788
mulations and product nnology	3,278	3,278	2,063	1,931
er	3,547	3,384	2,803	2,509
al	$ 17,227	$ 16,841	$ 10,347	$ 9,568

e Company recorded $606 and $611 of amortization expense in the first months of 2008 and 2007, respectively. Estimated annual aggregate ortization expense for the current year and subsequent five years is as ows:

For the year ended December 31, 2008	$ 1,203
For the year ended December 31, 2009	$ 1,139
For the year ended December 31, 2010	$ 909
For the year ended December 31, 2011	$ 838
For the year ended December 31, 2012	$ 739

For the year ended December 31, 2013	$ 553

e Company has one indefinite-lived intangible asset of $600 for demarks recorded in connection with the Company s 2002 acquisition of mar.

te 12 Pension and Other Postretirement Benefits

e components of net periodic benefit cost, for the three and six months ed June 30, are as follows:

	Three Months Ended June 30,				Six Months Ended June 30,			
	Pension Benefits		Other Postretirement Benefits		Pension Benefits		Other Postretirement Benefits	
	2008	2007	2008	2007	2008	2007	2008	2007
cost	$ 748	$ 621	$ 6	$ 5	$ 1,402	$ 1,230	$ 12	$ 10
cost er	1,666	1,460	125	135	3,259	2,907	250	270
ed on plan	(1,566)	(1,261)			(3,113)	(2,512)		
ation,	283	324			495	646		
iodic cost	$ 1,131	$ 1,144	$ 131	$ 140	$ 2,043	$ 2,271	$ 262	$ 280

ployer Contributions:

e Company previously disclosed in its financial statements for the year ed December 31, 2007, that it expected to make minimum cash tributions of $6,669 to its pension plans and $1,000 to its other tretirement benefit plan in 2008. As of June 30, 2008, $5,087 and $610 contributions have been made, respectively.

ring the first quarter of 2008 and as required by SFAS No. 158, mployers Accounting for Defined Benefit Pension and Other tretirement Plans, the Company changed the measurement date of its . pension plan from November 30 to December 31 in order to coincide h the Company s fiscal year end. This change did not have a material pact to the Company s consolidated financial statements.

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(Dollars in thousands, except per share amounts)

(Unaudited)

te 13 Commitments and Contingencies

April of 1992, the Company identified certain soil and groundwater tamination at AC Products, Inc. (ACP), a wholly owned subsidiary. In untary coordination with the Santa Ana California Regional Water ality Board, ACP has been remediating the contamination, the principal taminant of which is perchloroethylene (PERC). On or about cember 18, 2004, the Orange County Water District (OCWD) filed a civil nplaint in Superior Court, in Orange County, California against ACP and er parties potentially responsible for groundwater contamination. OCWD s seeking to recover compensatory and other damages related to the estigation and remediation of the contamination in the groundwater. ective October 17, 2007, ACP and OCWD settled all claims related to litigation. Pursuant to the settlement agreement with OCWD, ACP eed to pay $2,000 in two equal installments of $1,000 (the first tallment paid October 31, 2007 and the second installment paid on bruary 15, 2008). In addition to the $2,000 payment, ACP agreed to erate the two existing groundwater treatment systems associated with its raction wells P-2 and P-3 so as to hydraulically contain groundwater tamination emanating from ACP s site until such time as the centrations of PERC are below the Federal maximum contaminant level four consecutive quarterly sampling events. During the third quarter of 07, the Company recognized a $3,300 charge made up of $2,000 for the lement of the litigation, plus an increase in its reserve for its soil and er remediation program of $1,300. As of June 30, 2008, the Company eves that the range of potential-known liabilities associated with ACP tamination, including the water and soil remediation program, is roximately $2,200 to $4,200, for which the Company has sufficient erves.

e low and high ends of the range are based on the length of operation of two extraction wells as determined by groundwater modeling with nned higher maintenance costs in later years if a longer treatment period equired. Costs of operation include the operation and maintenance of the raction wells, groundwater monitoring, one-time expenses to insure P-3 is draulically containing the PERC plume and program management. The ation of the well operation was estimated based on historical trends in centrations in the monitoring wells within the proximity of the applicable raction wells. Also factored into the model was the impact of water ected into the underground aquifer from a planned recharge basin acent to the ACP site, as well as from an injection well to be installed and erated by OCWD as part of the groundwater treatment system for taminants which are the subject of the aforementioned litigation. Based the modeling, it is estimated that P-2 will operate for three and half years up to five years and P-3 will operate for six years to up to nine years. eration and maintenance costs were based on historical expenditures and mated inflation. As mentioned above, a significantly higher maintenance

ense was factored into the range if the system operates for the longer
iod. Also included in the reserve are anticipated expenditures to operate
on-site soil vapor extraction system.

e Company believes, although there can be no assurance regarding the
come of other unrelated environmental matters, that it has made adequate
ruals for costs associated with other environmental problems of which it
ware. Approximately $99 and $159 was accrued at June 30, 2008 and
cember 31, 2007, respectively, to provide for such anticipated future
ironmental assessments and remediation costs.

inactive subsidiary of the Company that was acquired in 1978 sold
tain products containing asbestos, primarily on an installed basis, and is
ong the defendants in numerous lawsuits alleging injury due to exposure
sbestos. The subsidiary discontinued operations in 1991 and has no
naining assets other than the proceeds from insurance settlements
eived. To date, the overwhelming majority of these claims have been
posed of without payment and there have been no adverse judgments
inst the subsidiary. Based on a continued analysis of the existing and
cipated future claims against this subsidiary, it is currently projected that
subsidiary s total liability over the next 50 years for these claims is
proximately $13,800 (excluding costs of defense). Although the Company
also been named as a defendant in certain of these cases, no claims have
n actively pursued against the Company, and the Company has not
tributed to the defense or settlement of any of these cases pursued
inst the subsidiary. These cases were handled by the subsidiary s primary
excess insurers who had agreed in 1997 to pay all defense costs and be
ponsible for all damages assessed against the subsidiary arising out of
sting and future asbestos claims up to the aggregate limits of the policies.
ignificant portion of this primary insurance coverage was provided by an
urer that is now insolvent, and the other primary insurers have asserted
the aggregate limits of their policies have been exhausted. The
sidiary has challenged the applicability of these limits to the claims being
ught against the subsidiary. In response to this challenge, two of the three
riers entered into separate settlement and release agreements with the
sidiary in late 2005 and in the first quarter of 2007 for $15,000 and
),000, respectively. The payments under the latest settlement and release
eement are structured to be received over a four-year period with annual
allments of $5,000, the first of which was received early in the second
rter of 2007 and the second of which was received in the first quarter of
)8. The subsequent installments are contingent upon whether or not
leral asbestos legislation is adopted by the due date of each annual
allment. If Federal asbestos legislation is so enacted and such legislation
minates the carrier s obligation to make the installment payment and
uires the carrier to contribute into a trust or similar vehicle as a result of
policies issued to the subsidiary, the insurance carrier s obligation to
ke the subsequent installments will be cancelled. The proceeds of both
lements are restricted and can only be used to pay claims and costs of
ense associated with the

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Quaker Chemical Corporation

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(Dollars in thousands, except per share amounts)

(Unaudited)

sidiary s asbestos litigation. During the third quarter of 2007, the sidiary and the remaining primary insurance carrier entered into a Claim ndling and Funding Agreement, under which the carrier will pay 27% of ense and indemnity costs incurred by or on behalf of the subsidiary in nection with asbestos bodily injury claims for a minimum of five years inning July 1, 2007. At the end of the term of the agreement, the sidiary may choose to again pursue its claim against this insurer arding the application of the policy limits. The Company also believes, t if the coverage issues under the primary policies with the remaining rier are resolved adversely to the subsidiary and all settlement proceeds re used, the subsidiary may have limited additional coverage from a state rantee fund established following the insolvency of one of the sidiary s primary insurers. Nevertheless, liabilities in respect of claims y exceed the assets and coverage available to the subsidiary.

he subsidiary s assets and insurance coverage were to be exhausted, mants of the subsidiary may actively pursue claims against the Company ause of the parent-subsidiary relationship. Although asbestos litigation is ticularly difficult to predict, especially with respect to claims that are rently not being actively pursued against the Company, the Company s not believe that such claims would have merit or that the Company uld be held to have liability for any unsatisfied obligations of the sidiary as a result of such claims. After evaluating the nature of the ims filed against the subsidiary and the small number of such claims that e resulted in any payment, the potential availability of additional urance coverage at the subsidiary level, the additional availability of the mpany s own insurance and the Company s strong defenses to claims that hould be held responsible for the subsidiary s obligations because of the ent-subsidiary relationship, the Company believes it is not probable that Company will incur any material losses. All of the asbestos cases sued against the Company challenging the parent-subsidiary relationship in the early stages of litigation. The Company has been successful in the t having claims naming it dismissed during initial proceedings. Since the mpany may be in this early stage of litigation for some time, it is not sible to estimate additional losses or range of loss, if any.

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

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

ecutive Summary

aker Chemical Corporation is a worldwide developer, producer, and
rketer of chemical specialty products and a provider of chemical
nagement services (CMS) for various heavy industrial and manufacturing
lications around the globe with significant sales to the steel and
omotive industries.

e revenue growth in the second quarter of 2008 was primarily due to
reased selling prices, as volume growth in Asia/Pacific and South
erica, as well as higher revenue from Chemical Management Services
CMS), was largely offset by volume declines in the Company s other
ions. Higher selling prices helped to partially offset higher raw material
ts resulting in a 5.1% increase in gross margin dollars but with a decrease
he gross margin percentage as compared to the second quarter of 2007.
w material costs are significantly higher than the prior year with rapid
reases occurring later in the second quarter and continuing into the third
rter of 2008. The Company s selling, general and administrative expenses
a percentage of sales declined to 23.5% for the second quarter of 2008,
npared to 25.7% for the second quarter of 2007. Investments in higher
wth areas, as well as inflationary increases, were more than offset by
ver legal and environmental costs and lower incentive compensation
pense.

e second quarter results include approximately $1.9 million of
remental pre-tax charges, or approximately $0.12 per diluted share,
ated to the previously announced retirement of the Company s Chief
ecutive Officer as discussed in the Company s 8-K filed on May 13, 2008.

e net result was earnings per diluted share of $0.41 for the second quarter
2008, consistent with $0.41 for the second quarter of 2007. The continued
ngth of the business environment is subject to limited visibility due to
tinued raw material price volatility and an uncertain global economic
ironment. With crude oil at or near all time highs and animal fats and
etable oils impacted by increased biodiesel consumption, raw material
ces continue to be a challenge. Any improvement in gross margin as a
centage of sales will depend in part upon a sustained period of stable or
lining raw material costs. While demand is generally expected to remain
ble, there are some signs of lower economic activity and inflation in all
ions. Volume in certain markets is limited by customer end-market
ues, including reduced vehicle sales experienced by some automotive
tomers, particularly in North America. The Company will remain
used on pursuing revenue opportunities, managing its raw material and
er costs, and pursuing pricing initiatives.

IS Discussion

2003, the Company began entering into new contracts under which it
eives a set management fee and the costs that relate to those management
s were and are largely dependent on how well the Company controls
duct costs and achieves product conversions from other third-party
pliers to its own products. This approach came with new risks and
portunities, as the profit earned from the management fee is subject to
vements in product costs as well as the Company s own performance. The
mpany believes this expanded approach is a way for Quaker to become

ntegral part of our customers operational efforts to improve nufacturing costs and to demonstrate value that the Company would not able to demonstrate as purely a product provider.

nsistent with the foregoing approach, the Company was awarded a series multi-year CMS contracts, primarily at General Motors Powertrain, rysler and Ford manufacturing sites over the last several years. This iness was an important step in building the Company s share and dership position in the automotive process fluids market and has itioned the Company well for penetration of CMS opportunities in other talworking manufacturing sites. This alternative approach had a dramatic pact on the Company s revenue and margins. Under the traditional CMS roach, where the Company effectively acts as an agent, revenues and ts from these sales are reported on a net sales or pass-through basis. The rnative structure is different in that the Company s revenue received from customer is a fee for products and services provided to the customer, ch are indirectly related to the actual costs incurred. As a result, the mpany recognizes in the alternative structure in reported revenues the ss revenue received from the CMS site customer, and in cost of goods d the third-party product purchases, which substantially offset each other il the Company achieves significant product conversions. As some tracts have been renewed or renegotiated, some of the contracts have erted to a pass-through basis, while others have remained on a gross is. Currently, the Company has a mix of contracts with both the ditional product pass-through structure and fixed priced contracts ering all services and products. The Company s offerings will continue to ude both approaches to CMS depending on customer requirements and iness circumstances.

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uidity and Capital Resources

aker s cash and cash equivalents increased to $22.2 million at June 30, 08 from $20.2 million at December 31, 2007. The increase resulted marily from $8.1 million of cash provided operating activities, $16.6 lion of cash used in investing activities, offset by $9.5 million of cash vided by financing activities.

cash flows provided by operating activities were $8.1 million for the t half of 2008, compared to $2.9 million of cash used in operating vities for the first half of 2007. The increase in cash flows was largely to higher net income and a decreased investment in working capital npared to the prior year period. The Company remains focused on iting the pace of its investment in working capital despite significant tors impacting the working capital accounts for the first half of 2008, h as the first quarter payment of the Company s annual incentive npensation, as well as the final $1.0 million payment pursuant to the lement agreement between AC Products, Inc., a wholly owned sidiary, and the Orange County Water District. See also Note 13 of Notes Condensed Consolidated Financial Statements. In addition, the Company higher pension contributions compared to the prior year, as a result of a und of pension premiums attributable to one of its foreign pension plans eived in 2007. Further, the Company incurred significantly more ck-based compensation in the 2008 period versus the prior year period gely due to the previously announced retirement of the Company s Chief ecutive Officer.

cash flows used in investing activities were $16.6 million for the first f of 2008, compared to $4.7 million used in investing activities for the t half of 2007. The increased use of cash was primarily related to the tricted proceeds received from the Company s second quarter 2008 bond ering, discussed below. Capital expenditures were higher than the prior r primarily due to the Company s expansion of its Middletown, OH nufacturing facility. In the first quarter of 2008, the Company made the d of four annual payments of $1.0 million related to the 2005 acquisition he remaining 40% interest in its Brazilian joint venture. In addition, the ond of four annual $5.0 million payments was received in the first quarter 2008 pursuant to the settlement agreement and release entered into during first quarter of 2007 by an inactive subsidiary of the Company and one ts insurance carriers. These proceeds are restricted and can only be used pay claims and costs of defense associated with the subsidiary s asbestos gation. The subsequent installments are contingent upon whether or not leral asbestos legislation is adopted by the due date of each annual tallment. If Federal asbestos legislation is so enacted, and such legislation minates the carrier s obligation to make the installment payment and uires the carrier to contribute into a trust or similar vehicle as a result of policies issued to the subsidiary, then the insurance carrier s obligation to ke the subsequent installments will be cancelled.

cash flows provided by financing activities were $9.5 million for the t half of 2008, as compared to $5.7 million of cash provided by financing vities in the first half of 2007. During the second quarter of 2008, the mpany completed a $10.0 million industrial revenue bond offering related he expansion of its Middletown, OH manufacturing facility. The ceeds of this bond are restricted and can only be used for capital penditures related to the expansion. With strong cash flow from erations, the Company was able to make other debt repayments versus rowings in the prior year period. A high level of cash received from stock

ion exercises as compared to the prior year also impacted the change in
h flows from financing activities.

e Company had a net debt-to-total-capital ratio of 28% at June 30, 2008, npared to 42% at June 30, 2007 and 32% at December 31, 2007. At e 30, 2008, the Company had approximately $71.6 million outstanding its credit lines, compared to $73.8 million at December 31, 2007. At e 30, 2008, the Company s gross FIN 48 liability, including penalties and erest, was $14.8 million. The Company cannot determine a reliable mate of the timing of the cash flows by period related to its FIN 48 bility. However, should the FIN 48 liability be paid, the amount of the ment may be reduced by offsetting benefits in other tax jurisdictions by 5 million. The Company believes it is capable of supporting its operating uirements, including pension plan contributions, payment of dividends to reholders, possible acquisitions and business opportunities, capital enditures and possible resolution of contingencies, through internally erated funds supplemented with debt as needed.

erations

mparison of Second Quarter 2008 with Second Quarter 2007

sales for the second quarter were $158.2 million, up 15% compared to 7.6 million for the second quarter of 2007. The increase in net sales was marily due to higher sales prices and foreign exchange rate translation. ume growth in Asia/Pacific and South America, as well as higher enue from Chemical Management Services (CMS), was largely offset by ume declines in the Company s other regions. Foreign exchange rate nslation increased revenues by approximately 8%. Selling price increases re realized, in part, as a result of an ongoing effort to offset higher raw terial costs. CMS revenue was higher due to the impact of additional IS accounts gained in 2007, as well as the renewal and restructuring of eral of the Company s CMS contracts.

oss margin dollars were up by approximately $2.2 million, or 5%, over second quarter of 2007. However, the gross margin percentage was 3%, compared to 31.0% in the second quarter of 2007. The Company s ger mix of CMS contracts reported on a gross versus pass-through basis reased the gross margin percentage by approximately 0.5 percentage nts. The remaining decline in the gross margin percentage is due to reased raw material costs in excess of price increases, as well as product regional sales mix. The Company has announced and implemented a nber of further price increases to aid in offsetting an unprecedented rise he Company s key raw material costs.

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ling, general and administrative expenses (SG&A) increased $1.7 lion, compared to the second quarter of 2007. Foreign exchange rate nslation increased SG&A by $2.5 million. Investments in higher growth as, as well as inflationary increases, were more than offset by lower legal environmental costs and lower incentive compensation expense.

previously disclosed on May 7, 2008, Ronald J. Naples, Chairman and ef Executive Officer of Quaker Chemical Corporation, has announced plan to retire as Quaker s Chief Executive Officer, effective October 3, 08. As further discussed in the Company s 8-K filed on May 13, 2008, the mpany is recognizing certain accelerated and other costs, in accordance h Mr. Naples Employment, Transition and Consulting Agreement, which expected to total $5.8 million over the 2008-2010 period. Of the $3.5 lion in incremental costs estimated to be incurred in 2008, approximately 9 million, or approximately $0.12 per diluted share, was recognized in second quarter of 2008.

er income includes a net arbitration award of approximately $1.0 lion, or approximately $0.04 per diluted share, related to litigation with of the former owners of the Company s Italian affiliate. The decrease in erest expense is due to lower average debt balances and interest rates, as l as higher interest income.

e second quarter 2008 effective tax rate was 32.8% versus 34.8% during second quarter of 2007. Many external and internal factors can impact rate and the Company will continue to refine this rate, if necessary, as year progresses. Included in the effective tax rate for the first quarter of 08 is a tax refund of $0.5 million relating to the Company s increased estment in China.

income for the second quarter of 2008 was $4.3 million, up 4.1% npared to $4.2 million for the second quarter of 2007, primarily as a ult of increased net sales and gross margin offset in part by higher selling, eral and administrative expenses. As discussed above, the results for the ond quarter of 2008 include approximately $1.9 million of incremental -tax charges, or approximately $0.12 per diluted share, related to the ounced retirement of the Company s Chief Executive Officer, as well as 0 million of pre-tax income, or approximately $0.04 per diluted share, ated to a net arbitration award.

gment Reviews Comparison of the Second Quarter 2008 with Second arter 2007

talworking Process Chemicals

talworking Process Chemicals consists of industrial process fluids for ious heavy industrial and manufacturing applications and represented proximately 92% of the Company s net sales for the second quarter of 08. Net sales were up $19.4 million, or 15%, compared with the second rter of 2007. Foreign currency translation positively impacted net sales approximately 9%, driven by the euro to U.S. dollar, Brazilian real to . dollar and Chinese renminbi to U.S. dollar exchange rates. The average o to U.S. dollar exchange rate was 1.56 in the second quarter of 2008 npared to 1.35 in the second quarter of 2007, the average Brazilian real to . dollar exchange rate was 0.60 in the second quarter of 2008 compared .50 in the second quarter of 2007, and the average Chinese renminbi to . dollar exchange rate was 0.14 in the second quarter of 2008 compared

.13 in the second quarter of 2007. Net sales were positively impacted by wth of 22.1% in Asia/Pacific, 4.9% in North America, 2.4% in Europe 4.3% in South America, all on a constant currency basis. The growth in sales was attributable to higher sales prices as volume growth in a/Pacific and South America was largely offset by volume declines in the mpany s other regions. The increased selling prices were implemented, in t, to offset higher raw material costs. The $2.7 million decrease in this ment s operating income, compared to the second quarter of 2007 on a es increase of 15%, is reflective of the pace at which raw material costs e continued to increase versus the Company s price increases. This ment s operating income was also negatively impacted by higher selling ts, as well as CMS profitability being negatively impacted by reductions automobile production and by the American Axle strike against certain customers.

atings

e Company s coatings segment, which represented approximately 7% of Company s net sales for the second quarter of 2008, contains products provide temporary and permanent coatings for metal and concrete ducts and chemical milling maskants. Net sales for this segment were up 9 million, or 9%, for the second quarter of 2008 compared with the prior r period, primarily due to higher chemical milling maskant product sales he aerospace industry. This segment s operating income was up $0.3 lion, consistent with the volume increases noted above.

her Chemical Products

her Chemical Products, which represented approximately 1% of the mpany s net sales for the second quarter of 2008, consists of sulfur noval products for industrial gas streams sold by the Company s Q2 chnologies joint venture. Net sales were up $0.3 million, reflective of this ment s second quarter 2007 acquisition of Frontier Research and emicals Company. Operating income for the second quarter of 2008 reased $0.1 million compared to the second quarter of 2007.

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mparison of the First Six Months of 2008 with the First Six Months 2007

sales for the first half of 2008 were $305.9 million, up 16.5% from 62.5 million for the first half of 2007. The increase in net sales was ibutable to volume growth, higher sales prices and foreign exchange rate nslation. Volume growth was realized in virtually all the Company s ions, including higher revenue related to the Company s CMS channel. eign exchange rate translation increased revenues by approximately 8%. ling price increases were realized, in part, as a result of an ongoing effort ffset higher raw material costs. CMS revenues were higher due to the pact of additional CMS accounts gained in 2007, as well as the renewal restructuring of several of the Company s CMS contracts.

ss margin dollars were up $7.3 million, or 9%, for the first half of 2008, mpared to the first half of 2007. However, the gross margin percentage s 28.9% for the first half of 2008, compared to 30.9% in the first half of 7. The Company s larger mix of CMS contracts reported on a gross sus pass-through basis decreased the gross margin percentage by proximately 0.5 percentage points. The remaining decline in the gross rgin percentage is due to increased raw material costs in excess of price reases, as well as product and regional sales mix. The Company has ounced and implemented a number of further price increases to aid in setting an unprecedented rise in the Company s key raw material costs.

&A for the first half of 2008 increased $4.3 million, compared to the first f of 2007. Foreign exchange rate translation increased SG&A by $4.8 llion. Investments in higher growth areas, as well as inflationary reases, were more than offset by lower legal and environmental costs and ver incentive compensation expense.

er income includes the net arbitration award noted above. The decrease nterest expense is due to lower average debt balances and interest rates, well as higher interest income.

e effective tax rate was 33.5% for the first six months of 2008, compared 33.9% for the first six months of 2007. Many external and internal factors impact this rate and the Company will continue to refine this rate, if essary, as the year progresses. Included in the effective tax rate for the t six months of 2008 is a tax refund of $0.5 million relating to the mpany s increased investment in China. At the end of 2007, the Company net U.S. deferred tax assets totaling $16.8 million, excluding deferred assets relating to additional minimum pension liabilities. The Company ords valuation allowances when necessary to reduce its deferred tax ets to the amount that is more likely than not to be realized. The mpany considers future taxable income and ongoing prudent and feasible planning strategies in assessing the need for a valuation allowance. wever, in the event the Company were to determine that it would not be e to realize all or part of its net deferred tax assets in the future, an ustment to the deferred tax assets would be a non-cash charge to income he period such determination was made, which could have a material erse impact on the Company s financial statements. The continued price ssure in the Company s raw materials has been negatively impacting fitability in certain taxing jurisdictions. The Company continues to sely monitor this situation as it relates to its net deferred tax assets and assessment of valuation allowances. The Company is continuing to luate alternatives that could positively impact taxable income in these

sdictions.

income for the first six months of 2008 was $9.4 million, up 22.5% npared to $7.7 million for the first six months of 2007, primarily as a ult of increased net sales and gross margin offset in part by higher selling, eral and administrative expenses. As discussed above, the results for the t half of 2008 include approximately $1.9 million of incremental pre-tax rges, or approximately $0.12 per diluted share, related to the announced rement of the Company s Chief Executive Officer, as well as $1.0 million ore-tax income, or approximately $0.04 per diluted share, related to a net itration award.

gment Reviews Comparison of the First Six Months 2008 with the st Six Months 2007

talworking Process Chemicals

talworking Process Chemicals consists of industrial process fluids for ious heavy industrial and manufacturing applications and represented roximately 93% of the Company s net sales for the first half of 2008. Net es were up $40.5 million, or 17%, compared with the first half of 2007. eign currency translation positively impacted net sales by approximately , driven by the euro to U.S. dollar, Brazilian real to U.S. dollar and nese renminbi to U.S. dollar exchange rates. The average euro to U.S. lar exchange rate was 1.53 in the first half of 2008 compared to 1.33 in first half of 2007, the average Brazilian real to U.S. dollar exchange rate s 0.59 in the first half of 2008 compared to 0.49 in the first half of 2007, the average Chinese renminbi to U.S. dollar exchange rate was 0.14 in first half of 2008 compared to 0.13 in the first half of 2007. Net sales re positively impacted by growth of 20.3% in Asia/Pacific, 8.0% in North erica, 3.7% in Europe and 4.3% in South America, all on a constant rency basis. The growth in net sales was attributable to higher sales ces and mix, volume growth and higher CMS sales due to the egotiation of certain contracts in 2007. The increased selling prices were plemented, in part, to offset higher raw material costs. The $1.8 million rease in this segment s operating income compared to the first six months 2007 on a sales increase of 17% is reflective of the pace at which raw terial costs have continued to increase versus the Company s price reases. This segment s operating income was also negatively impacted by her selling costs, as well as CMS profitability being negatively impacted reductions in automobile production and by the American Axle strike inst certain key customers.

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atings

e Company s coatings segment, which represented approximately 6% of
Company s net sales for the first half of 2008, contains products that
vide temporary and permanent coatings for metal and concrete products
chemical milling maskants. Net sales for this segment were up $1.9
lion, or 10%, for the first half of 2008 compared with the prior year
iod, primarily due to higher chemical milling maskant product sales to
aerospace industry. This segment s operating income was up $0.7
lion, consistent with the volume increases noted above.

her Chemical Products

her Chemical Products, which represented approximately 1% of the
mpany s net sales for the first half of 2008, consists of sulfur removal
ducts for industrial gas streams sold by the Company s Q2 Technologies
nt venture. Net sales were up $1.1 million, reflective of this segment s
ond quarter 2007 acquisition of Frontier Research and Chemicals
mpany. Operating income for the first half of 2008 was flat with the first
f of 2007.

ctors that May Affect Our Future Results

utionary Statements Under the Private Securities Litigation Reform Act
1995)

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

statements relating to our business strategy;

our current and future results and plans; and

statements that include the words may, could, should, would, believe, expect, anticipate, estimate, intend, plan or similar expressions.

ch statements include information relating to current and future business
vities, operational matters, capital spending, and financing sources. From
e to time, forward-looking statements are also included in Quaker s
iodic reports on Forms 10-K and 8-K, press releases and other materials
eased to the public.

y or all of the forward-looking statements in this report and in any other
blic statements we make may turn out to be wrong. This can occur as a
ult of inaccurate assumptions or as a consequence of known or unknown
ks and uncertainties. Many factors discussed in this report will be
portant in determining our future performance. Consequently, actual
ults may differ materially from those that might be anticipated from our
ward-looking statements.

undertake no obligation to publicly update any forward-looking
ements, whether as a result of new information, future events or
erwise. However, any further disclosures made on related subjects in
aker s subsequent reports on Forms 10-K, 10-Q and 8-K should be
sulted. These forward-looking statements are subject to risks,
ertainties and assumptions about us and our operations that are subject to
nge based on various important factors, some of which are beyond our
trol. A major risk is that the Company s demand is largely derived from
demand for its customers products, which subjects the Company to
ertainties related to downturns in a customer s business and unanticipated
tomer production shutdowns. Other major risks and uncertainties include,
are not limited to, significant increases in raw material costs, worldwide
nomic and political conditions, foreign currency fluctuations, and
orist attacks such as those that occurred on September 11, 2001.
thermore, the Company is subject to the same business cycles as those
erienced by steel, automobile, aircraft, appliance, and durable goods
nufacturers. These risks, uncertainties, and possible inaccurate
umptions relevant to our business could cause our actual results to differ
terially from expected and historical results. Other factors beyond those
cussed could also adversely affect us. Therefore, we caution you not to
ce undue reliance on our forward-looking statements. This discussion is
vided as permitted by the Private Securities Litigation Reform Act of
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m 3. Quantitative and Qualitative Disclosures About Market Risk.
aker is exposed to the impact of changes of interest rates, foreign
rency fluctuations, changes in commodity prices, and credit risk.

erest Rate Risk. Quaker s exposure to market rate risk for changes in
erest rates relates primarily to its short and long-term debt. Most of
aker s debt is negotiated at market rates which can be either fixed or
iable. Accordingly, if interest rates rise significantly, the cost of debt to
aker will increase. This can have an adverse effect on Quaker, depending
the extent of Quaker s borrowings. As of June 30, 2008, Quaker had $71.6
lion in borrowings under its credit facilities, compared to $73.8 million at
cember 31, 2007, at a weighted average borrowing rate of approximately
%. The Company uses derivative financial instruments primarily for
poses of hedging exposures to fluctuations in interest rates. The
mpany does not enter into derivative contracts for trading or speculative
poses. The Company has entered into seven interest rate swaps in order
ix a portion of its variable rate debt. The swaps had a combined notional
ue of $35.0 million and a fair value of $(1.1) million at June 30, 2008 and
cember 31, 2007, respectively. The counterparties to the swaps are major
ancial institutions. In February 2007, the Company completed a
nancing of its existing industrial development bonds to fix the interest
e of an additional $5.0 million of debt.

reign Exchange Risk. A significant portion of Quaker s revenues and
nings is generated by its foreign operations. These foreign operations also
d a significant portion of Quaker s assets and liabilities. All of these
erations use the local currency as their functional currency. Accordingly,
aker s financial results are affected by risks typical of a global business,
h as currency fluctuations, particularly between the U.S. dollar, the
zilian real, the Chinese renminbi and the E.U. euro. As exchange rates
y, Quaker s results can be materially affected.

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

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

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

dit Risk. Quaker establishes allowances for doubtful accounts for
mated losses resulting from the inability of its customers to make
uired payments. If the financial condition of Quaker s customers were to
eriorate, resulting in an impairment of their ability to make payments,

itional allowances may be required. Downturns in the overall economic
nate may also tend to exacerbate specific customer financial issues. A
nificant portion of Quaker s revenues is derived from sales to customers in
U.S. steel and automotive industries, where a number of bankruptcies
urred during recent years and companies have experienced financial
ficulties. When a bankruptcy occurs, Quaker must judge the amount of
ceeds, if any, that may ultimately be received through the bankruptcy or
uidation process. In addition, as part of its terms of trade, Quaker may
tom manufacture products for certain large customers and/or may ship
duct on a consignment basis. These practices may increase the Company s
osure should a bankruptcy occur, and may require write-down or
posal of certain inventory due to its estimated obsolescence or limited
rketability. Customer returns of products or disputes may also result in
ilar issues related to the realizability of recorded accounts receivable or
urned inventory.

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m 4. Controls and Procedures.

luation of disclosure controls and procedures. Disclosure controls and cedures include, without limitation, controls and procedures designed to ure that information required to be disclosed by an issuer in the reports it files or submits under the Securities Exchange Act of 1934 (the xchange Act) is accumulated and communicated to the issuer s nagement, including its principal executive officer and principal financial cer, or persons performing similar functions, as appropriate, to allow ely decisions regarding required disclosure. Based on their evaluation of h controls and procedures as of the end of the period covered by this arterly Report on Form 10-Q, the Company s principal executive officer principal financial officer have concluded that the Company s disclosure trols and procedures (as defined in Exchange Act Rule 13a-15(e)), are ective to reasonably assure that information required to be disclosed by Company in the reports it files under the Exchange Act, is recorded, cessed, summarized and reported within the time periods specified in the es and forms of the Securities and Exchange Commission.

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

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PART II.

OTHER INFORMATION

ns 1, 1A, 3, and 5 of Part II are inapplicable and have been omitted.

m 2. Unregistered Sales of Equity Securities and Use of Proceeds.
e following table sets forth information concerning shares of the
mpany s common stock acquired by the Company during the period
ered by this report, all of which were acquired from employees in
ment of the exercise price of employee stock options exercised during
period.

Issuer Purchases of Equity Securities

iod	(a) Total Number of Shares Purchased (1)	(b) Average Price Paid per Share (2)	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (3)	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (3)
ril ril	34,015	$30.88		252,600
y 1 May	17,106	$30.34		252,600
e 1 une	26,688	$31.64		252,600
al	77,809	$31.02		252,600

All of the 77,809 shares acquired by the Company during the period
covered by this report were acquired from employees upon their
surrender of previously owned shares in payment of the exercise price of
employee stock options.
The price per share, in each case, represented either a) the average of the
high and low price of the Company s common stock on date of exercise;
or b) the closing price of the Company s common stock on date of
exercise, as specified by the plan pursuant to which the applicable option
was granted.
On February 15, 1995, the Board of Directors of the Company authorized
a share repurchase program authorizing the repurchase of up to 500,000
shares of Quaker common stock, and, on January 26, 2005, the Board
authorized the repurchase of up to an additional 225,000 shares. Under
the 1995 action of the Board, 27,600 shares may yet be purchased. Under
the 2005 action of the Board, none of the shares authorized has been
purchased and, accordingly, all of those shares may yet be purchased.
Neither of the share repurchase authorizations has an expiration date.

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

e Annual Meeting of the Company s shareholders was held on May 7, 08. At the meeting, management s nominees, Robert E. Chappell, Ronald Naples and Robert H. Rock were elected Class I directors. Voting pressed in number of votes) was as follows: Robert E. Chappell, 262,891 votes for, 534,786 votes withheld; Ronald J. Naples, 18,310,818 es for, 486,859 votes withheld; Robert H. Rock, 18,408,324 votes for, ,353 votes withheld.

addition, at the meeting, the shareholders ratified the appointment of cewaterhouseCoopers, LLP as the Company s independent registered blic accounting firm to examine and report on its financial statements for year ending December 31, 2008 by a vote of 18,563,877 for, 205,874 inst, and 27,926 abstentions.

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n 6. Exhibits.

Exhibits

1 - Financing Agreement by and among Butler County Port Authority and Registrant and Brown Brothers Harriman & Co. dated May 15, 2008.

2 - Engineering, Procurement and Construction Contract by and between Registrant and FMC Technologies, Inc. effective May 14, 2008.

3 - Employment, Transition and Consulting Agreement by and between Registrant and Ronald J. Naples dated May 22, 2008, effective May 7, 2008. *

4 - 1995 Naples Supplemental Retirement Income Program and Agreement (as amended and restated effective May 7, 2008) dated May 22, 2008. *

5 - Employment Agreement by and between Registrant and Michael F. Barry dated July 1, 2008. *

6 - Change in Control Agreement by and between Registrant and Michael F. Barry dated July 1, 2008. *

7 - Butler County Port Authority Industrial Development Revenue Bond dated May 15, 2008.

1 - Certification of Chief Executive Officer of the Company pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934

2 - Certification of Chief Financial Officer of the Company pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934

1 - Certification of Ronald J. Naples Pursuant to 18 U.S. C. Section 1350

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

his exhibit is a management contract or compensation plan or rangement required to be filed as an exhibit.

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suant to the requirements of the Securities Exchange Act of 1934, the gistrant has duly caused this report to be signed on its behalf by the dersigned thereunto duly authorized.

QUAKER CHEMICAL CORPORATION
(Registrant)

/s/ Mark A. Featherstone
Mark A. Featherstone,
officer duly authorized to

sign this report, Vice President and Chief Financial Officer

e: August 1, 2008

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