

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

FORM 10-Q

(MARK ONE)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 1999

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

1-4462

Commission File Number

STEPAN COMPANY

(Exact name of registrant as specified in its charter)

Delaware

36 1823834

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification Number)

Edens and Winnetka Road, Northfield, Illinois 60093

(Address of principal executive offices)

Registrant's telephone number

(847) 446-7500

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Class

Outstanding at October 31, 1999

Common Stock, \$1 par value

9,513,954 Shares

Part I FINANCIAL INFORMATION

Item 1 - Financial Statements

STEPAN COMPANY
 CONDENSED CONSOLIDATED BALANCE SHEETS
 September 30, 1999 and December 31, 1998
 Unaudited

(Dollars in Thousands)	9/30/99	12/31/98
ASSETS		

CURRENT ASSETS:		
Cash and cash equivalents	\$ 4,635	\$ 983
Receivables, net	104,319	81,890
Inventories (Note 2)	50,678	52,496
Deferred income taxes	10,572	10,572
Other current assets	4,050	3,817
	-----	-----
Total current assets	174,254	149,758
	-----	-----
PROPERTY, PLANT AND EQUIPMENT:		
Cost	590,292	568,601
Less: Accumulated depreciation	379,827	353,505
	-----	-----
Property, plant and equipment, net	210,465	215,096
	-----	-----
OTHER ASSETS		
	38,410	39,507
	-----	-----
Total assets	\$423,129	\$ 404,361
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		

CURRENT LIABILITIES:		
Current maturities of long-term debt	\$ 7,368	\$ 6,807
Accounts payable	46,167	43,977
Accrued liabilities	52,382	37,160
	-----	-----
Total current liabilities	105,917	87,944
	-----	-----
DEFERRED INCOME TAXES		
	38,851	39,920
	-----	-----
LONG-TERM DEBT, less current maturities		
	111,904	107,708
	-----	-----
OTHER NON-CURRENT LIABILITIES		
	16,338	20,805
	-----	-----
STOCKHOLDERS' EQUITY:		
5-1/2% convertible preferred stock, cumulative, voting without par value; authorized 2,000,000 shares; issued 783,287 shares in 1999 and 784,417 shares in 1998	19,582	19,611
Common stock, \$1 par value; authorized 30,000,000 shares; issued 10,084,276 shares in 1999 and 9,997,736 shares in 1998 (Note 8)	10,084	9,998
Additional paid-in capital	11,998	10,962
Accumulated other comprehensive loss	(10,088)	(9,050)
Retained earnings (approximately \$45,165 unrestricted in 1999 and \$44,346 in 1998)	136,618	127,478
	-----	-----
Less: Treasury stock, at cost	168,194	158,999
	18,075	11,015
	-----	-----
Stockholders' equity	150,119	147,984
	-----	-----
Total liabilities and stockholders' equity	\$423,129	\$ 404,361
	=====	=====

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these condensed consolidated balance sheets.

STEPAN COMPANY
CONSOLIDATED STATEMENTS OF INCOME
For the Three and Nine Months Ended September 30, 1999 and 1998
Unaudited

(In Thousands, except per share amounts)	Three Months Ended September 30		Nine Months Ended September 30	
	1999	1998	1999	1998
NET SALES	\$166,932	\$154,134	\$497,652	\$460,031
Cost of Sales	138,683	128,307	408,093	376,721
Gross Profit	28,249	25,827	89,559	83,310
Operating Expenses:				
Marketing	5,810	5,593	17,636	17,137
Administrative (Note 4)	15,187	5,428	26,732	15,810
Research, Development and Technical Services	5,624	4,955	16,411	15,531
	26,621	15,976	60,779	48,478
Operating Income	1,628	9,851	28,780	34,832
Other Income (Expense):				
Interest, Net	(2,052)	(1,853)	(6,320)	(5,529)
Income from Equity Joint Ventures	447	133	674	225
	(1,605)	(1,720)	(5,646)	(5,304)
Income Before Income Taxes	23	8,131	23,134	29,528
Provision for Income Taxes	9	3,099	9,022	11,664
NET INCOME	\$ 14	\$ 5,032	\$ 14,112	\$ 17,864
Net Income Per Common Share (Note 5)				
Basic	\$ (0.02)	\$ 0.49	\$ 1.40	\$ 1.74
Diluted	\$ 0.00	\$ 0.45	\$ 1.32	\$ 1.62
Dividends per Common Share	\$ 0.1500	\$ 0.1375	\$ 0.4500	\$ 0.4125
Average Common Shares Outstanding	9,560	9,881	9,619	9,861

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

STEPAN COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 1999 and 1998
Unaudited

(Dollars In Thousands)	9/30/99 -----	9/30/98 -----
NET CASH FLOW FROM OPERATING ACTIVITIES		
Net income	\$ 14,112	\$ 17,864
Depreciation and amortization	30,142	28,189
Deferred revenue recognition	(4,411)	(3,244)
Customer prepayments	0	800
Deferred income taxes	(1,005)	2,261
Environmental and legal liabilities	(1,488)	(2,226)
Other non-cash items	288	(527)
Changes in Working Capital:		
Receivables, net	(22,429)	(7,066)
Inventories	1,818	399
Accounts payable and accrued liabilities	18,843	10,409
Other	(233)	1,404
	-----	-----
Net Cash Provided by Operating Activities	35,637	48,263
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for property, plant and equipment	(24,877)	(30,038)
Investment in acquisitions	0	(19,695)
Other non-current assets	(631)	1,597
	-----	-----
Net Cash Used for Investing Activities	(25,508)	(48,136)
	-----	-----
CASH FLOWS FROM FINANCING AND OTHER RELATED ACTIVITIES		
Revolving debt and notes payable to banks, net	15,400	12,390
Other debt borrowings	0	35
Other debt repayments	(10,643)	(5,714)
Purchase of treasury stock, net	(7,060)	(1,680)
Dividends paid	(4,972)	(4,749)
Stock option exercises	508	1,579
Other non-cash items	290	(525)
	-----	-----
Net Cash Provided by (Used for) Financing and Other Related Activities	(6,477)	1,336
	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,652	1,463
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	983	5,507
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 4,635	\$ 6,970
	=====	=====
CASH PAID DURING THE PERIOD FOR:		
Interest	\$ 5,300	\$ 4,995
Income taxes	\$ 10,249	\$ 8,047

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

STEPAN COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 1999 and December 31, 1998
Unaudited

1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements included herein have been prepared by the company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although management believes that the disclosures are adequate and make the information presented not misleading. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and the notes thereto included in the company's latest Annual Report to Stockholders and the Annual Report to the Securities and Exchange Commission on Form 10-K for the year ended December 31, 1998. In the opinion of management all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the consolidated financial position of Stepan Company as of September 30, 1999, and the consolidated results of operations for the three and nine months then ended and cash flows for the nine months then ended, have been included.

2. INVENTORIES

Inventories include the following amounts:
(Dollars in Thousands)

	9/30/99 -----	12/31/98 -----
Inventories valued primarily on LIFO basis -		
Finished products	\$31,112	\$33,444
Raw materials	19,566	19,052
	-----	-----
Total inventories	\$50,678	\$52,496
	=====	=====

If the first-in, first-out (FIFO) inventory valuation method had been used for all inventories, inventory balances would have been approximately \$10,120,000 and \$10,000,000 higher than reported at September 30, 1999, and December 31, 1998, respectively.

3. CONTINGENCIES

There are a variety of legal proceedings pending against the company. Some of these proceedings may result in fines, penalties, judgments or costs being assessed against the company at some future time. The company's operations are subject to extensive local, state and federal regulations, including the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("Superfund") and the Superfund amendments of 1986. The company, and others, have been named as potentially

responsible parties at affected geographic sites. As discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in this filing, the company believes that it has made adequate provisions for the costs it may incur with respect to these sites. The company has estimated a range of possible environmental and legal losses from \$18.7 million to \$39.6 million at September 30, 1999. At September 30, 1999, the company's reserve was \$27.3 million for legal and environmental matters compared to \$17.6 million at December 31, 1998.

For certain sites, estimates cannot be made of the total costs of compliance, or the company's share of such costs; accordingly, the company is unable to predict the effect thereof on future results of operations. In the event of one or more adverse determinations in any annual or interim period, the impact on results of operations for those periods could be material. However, based upon the company's present belief as to its relative involvement at these sites, other viable entities' responsibilities for cleanup and the extended period over which any costs would be incurred, the company believes that these matters will not have a material effect on the company's financial position. Certain of these matters are discussed in Item 3, Legal Proceedings, in the 1998 Form 10-K Annual Report and in other filings of the company with the Securities and Exchange Commission, which are available upon request from the company.

4. LEGAL SETTLEMENT

On October 21, 1999, the company reached an agreement in principal to settle a lawsuit in New Jersey, alleging possible personal injuries related to environmental claims. Final settlement is scheduled to occur on December 1, 1999. All terms of the settlement are confidential pursuant to a court order. As a result of this settlement, the company recorded a third quarter \$10.3 million pre-tax, or \$6.3 million after-tax charge, to earnings (\$0.59 per share diluted, quarter and year-to-date). The amount is an estimate and is subject to change based on the final settlement. The charge was net of insurance recoveries and previously recorded reserves and was included in administrative expenses.

5. EARNINGS PER SHARE

Below is the computation of basic and diluted earnings per share for the three and nine months ended September 30, 1999 and 1998.

(In Thousands, except per share amounts)	Three Months Ended September 30		Nine Months Ended September 30	
	1999	1998	1999	1998
<u>Computation of Basic Earnings per Share</u>				
Net income	\$ 14	\$ 5,032	\$14,112	\$17,864
Deduct dividends on preferred stock	211	224	648	673
Income applicable to common stock	<u>\$ (197)</u>	<u>\$ 4,808</u>	<u>\$13,464</u>	<u>\$17,191</u>
Weighted-average number of shares outstanding	9,560	9,881	9,619	9,861
Basic earnings per share	<u>\$ (0.02)</u>	<u>\$ 0.49</u>	<u>\$ 1.40</u>	<u>\$ 1.74</u>
<u>Computation of Diluted Earnings per Share</u>				
Net Income	\$ 14	\$ 5,032	\$14,112	\$17,864
Weighted-average number of shares outstanding	9,560	9,881	9,619	9,861
Add net shares issuable from assumed exercise of options (under treasury stock method)	321	491	330	456
Add weighted-average shares issuable from assumed conversion of convertible preferred stock	703	743	722	744
Shares applicable to diluted earnings	<u>10,584</u>	<u>11,115</u>	<u>10,671</u>	<u>11,061</u>
Diluted earnings per share	<u>\$ 0.00</u>	<u>\$ 0.45</u>	<u>\$ 1.32</u>	<u>\$ 1.62</u>

6. COMPREHENSIVE INCOME

Below is the company's comprehensive income for the three and nine months ended September 30, 1999 and 1998:

(Dollars in Thousands)	Three Months Ended September 30		Nine Months Ended September 30	
	1999	1998	1999	1998
Net income	\$ 14	\$5,032	\$14,112	\$17,864
Other comprehensive income:				
Foreign currency translation adjustments	177	199	(1,038)	(1,574)
Comprehensive income	<u>\$ 191</u>	<u>\$5,231</u>	<u>\$13,074</u>	<u>\$16,290</u>

7. SEGMENT REPORTING

In 1998, the company adopted Statement of Financial Accounting Standards No. 131 "Disclosures about Segments of an Enterprise and Related Information" (SFAS No. 131), effective for the periods beginning after December 15, 1997. Stepan Company has three reportable segments: surfactants, polymers and specialty products. Financial results of Stepan Company's operating segments for the quarters and nine months ended September 30, 1999 and 1998 are summarized below:

(Dollars in Thousands)	Surfactants	Polymers	Specialty Products	Segment Totals
For the quarter ended September 30, 1999				
Net sales	\$130,399	\$31,599	\$ 4,934	\$166,932
Operating income	10,569	6,182	615	17,366
For the quarter ended September 30, 1998				
Net sales	\$116,370	\$33,198	\$ 4,566	\$154,134
Operating income	7,925	6,459	260	14,644
For nine months ended September 30, 1999				
Net sales	\$393,005	\$10,980	\$13,667	\$497,652
Operating income	38,494	17,584	1,769	57,847
For nine months ended September 30, 1998				
Net sales	\$356,530	\$88,600	\$14,901	\$460,031
Operating income	33,269	15,303	2,695	51,267

Below are reconciliations of segment operating income to consolidated income before income taxes:

(Dollars in Thousands)	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	1999	1998	1999	1998
Operating income segment totals	\$ 17,366	\$14,644	\$ 57,847	\$ 51,267
Unallocated corporate expenses (a)	(15,738)	(4,793)	(29,067)	(16,435)
Interest expense	(2,052)	(1,853)	(6,320)	(5,529)
Income from equity in joint ventures	447	133	674	225
Consolidated income before income taxes	\$ 23	\$ 8,131	\$ 23,134	\$ 29,528

(a) Includes corporate administrative and corporate manufacturing expenses which are not included in segment operating income and not used to evaluate segment performance. Administrative expenses include \$10.3 million for a legal settlement. See note 4.

8. AUTHORIZED COMMON SHARES

On May 11, 1999, shareholders approved an amendment to the company's Certificate of Incorporation which increased the number of authorized shares of Common Stock, par value \$1 per share, from 15,000,000 shares to 30,000,000 shares.

9. SOFTWARE DEVELOPMENT COSTS

In March 1998, the American Institute of Certified Public Accountants issued Statement of Position (SOP) 98-1, "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use". SOP 98-1 provides guidance on accounting for costs related to obtaining or developing internal-use software. The company adopted SOP 98-1 in 1999. The adoption does not have a material impact on the company's operating results or financial position.

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

The following is management's discussion and analysis of certain significant factors which have affected the company's financial condition and results of operations during the interim period included in the accompanying condensed consolidated financial statements.

LIQUIDITY AND CAPITAL RESOURCES

For the first nine months of 1999, net cash from operations totaled \$35.6 million, down by \$12.6 million compared to the same period in 1998. Net income decreased by \$3.8 million while depreciation and amortization and other non-cash income add-backs were down by a total of \$1.7 million. Working capital amounted to a cash use of \$2.0 million for the current year period compared to a \$5.1 million source for the same period in 1998. Accounts receivable increased by \$22.4 million since December 31, 1998, due mainly to increased sales combined with higher non-trade receivables. Accounts payable and accrued liabilities were up by \$18.8 million for the year-to-date due to accrued legal expenses as well as higher trade payables.

Capital expenditures totaled \$24.9 million for the first three quarters of 1999, compared to \$30.0 million in 1998. Total current-year capital expenditures are expected to be lower than in 1998.

Since December 31, 1998, total company debt has increased by \$4.8 million, to \$119.3 million. As of September 30, 1999, the ratio of long-term debt to long-term debt plus shareholders' equity was 42.7 percent compared to 42.1 percent as of last year end.

The company maintains contractual relationships with its domestic banks that provide for revolving credit which may be drawn upon as needed for general corporate purposes. This credit facility was amended on March 12, 1999, to increase the total amount of the commitment from \$45 million to \$60 million. Other terms of the agreement remained unchanged.

The company also meets short-term liquidity requirements through uncommitted bank lines of credit. The company's foreign subsidiaries maintain committed and uncommitted bank lines of credit in their respective countries to meet working capital requirements as well as to fund capital expenditure programs and acquisitions.

The company anticipates that cash from operations and from committed credit facilities will be sufficient to fund anticipated capital expenditures, dividends and other planned financial commitments for the foreseeable future. Any substantial acquisitions would require additional funding.

There have been no material changes in the company's market risks since December 31, 1998.

RESULTS OF OPERATIONS

 Three Months Ended September 30, 1999 and 1998

Net income for the third quarter declined to \$14.0 thousand (\$0.00 per share diluted) from \$5.0 million (\$0.45 per share diluted) for the same period in 1998. The third quarter results included a \$6.3 million after-tax (\$10.3 million pre-tax) legal charge relating to an agreement in principal to settle a lawsuit. See further discussion of this matter in the legal proceedings section of this filing. Net sales rose eight percent to \$166.9 million from \$154.1 million reported a year ago. Net sales by segment were:

(Dollars in Thousands)	Three Months Ended September 30		
	1999	1998	% Change
Net Sales:			
Surfactants	\$130,399	\$116,370	+12%
Polymers	31,599	33,198	-5%
Specialty Products	4,934	4,566	+8%
Total	\$166,932	\$154,134	+8%

Surfactants net sales increased \$14.0 million, or 12 percent, from \$116.4 million in the third quarter of 1998 to \$130.4 million in the third quarter of 1999. The increase was primarily due to a nine percent growth in sales volume. Domestic operations, which accounted for 75 percent of total surfactant revenues, reported net sales that were \$6.0 million, or seven percent, higher than a year ago. The rise was mainly due to a five percent growth in sales volume. The volume increase was due to higher demand for the company's personal care products. Foreign operations posted an \$8.0 million, or 33 percent, increase in net sales between quarters. Stepan Mexico posted an 85 percent rise in net sales on higher sales volume and average selling prices. The fourth quarter 1998 acquisition of the anionic and cationic surfactant business from Boehme Filatex Canada, Inc. contributed to a 20 percent climb in net sales for Stepan Canada. Stepan Europe's net sales increased 25 percent on a 36 percent increase in sales volume, which more than offset a drop in average selling prices. There was no material exchange rate fluctuation impact on net sales.

Surfactants gross profit increased 14 percent from \$17.3 million for the third quarter in 1998 to \$19.7 million for the same period in 1999. Gross profit for domestic operations rose 13 percent due to a five percent increase in sales volume and to income of \$1.3 million related to a contract settlement. The 25 percent rise in sales volume for foreign surfactants resulted in a \$0.6 million, or 20 percent, increase in foreign surfactants earnings. The growth in sales volume was somewhat tempered by weaker margins.

Polymers net sales decreased five percent between quarters from \$33.2 million in 1998 to \$31.6 million in 1999. Sales volume fell four percent. Domestic polyurethane polyols, which accounted for 47 percent of net sales, reported a 14 percent decrease in revenue between quarters due to a 14 percent decline in sales volume. Net sales of polyurethane systems dropped five percent based on a six percent decrease in sales volume. Despite flat sales volume, net sales of phthalic anhydride (PA) increased six percent due to a rise in average selling prices. The increase of average selling prices was due to higher raw material cost and change in customer mix. Foreign polymers reported a \$0.8 million, or 72 percent, increase in net sales based on higher sales volume.

Polymers gross profit declined three percent from \$7.9 million in 1998 to \$7.7 million in 1999. The four percent drop in sales volume accounted for most of the decline. Globally, polyurethane polyols reported a four percent drop in gross profit. A decline in sales volume led to the decrease. PA gross profit declined from quarter to quarter due to weaker margins and flat sales volume. Polyurethane systems reported a 20 percent increase in gross profit based on increased margins. A favorable product mix contributed to the improvement.

Specialty products net sales for the quarter was \$4.9 million, up \$0.4 million, or eight percent, from a year ago. Gross profit was up 42 percent from \$0.6 million in 1998 to \$0.9 million in 1999. A shift to a more profitable product mix accounted for the increase.

Operating expenses increased \$10.6 million, or 67 percent, from quarter to quarter. Administrative expenses rose by \$9.8 million as a result of the \$10.3 million legal charge noted earlier. Reimbursement of \$0.8 million of certain expenses from the company's Philippine joint venture partially offset the increase in administrative expense. Marketing and research and development expenses increased four and 14 percent, respectively, due to higher payroll expense.

Interest expenses increased 11 percent due to higher levels of debt.

Nine Months Ended September 30, 1999 and 1998

Net income for the first nine months ended September 30, 1999, was \$14.1 million, or \$1.32 per share diluted, compared to \$17.9 million, or \$1.62 per share diluted for the same period in 1998. Annual results included a \$6.3 million after-tax (\$10.3 million pre-tax) charge relating to an agreement in principal to settle a lawsuit. Net sales increased eight percent to \$497.7 million from \$460.0 million reported last year. Net sales by segment were:

(Dollars in Thousands)	Nine Months Ended September 30		
	1999	1998	% Change
Net Sales:			
Surfactants	\$393,005	\$356,530	+10%
Polymers	90,980	88,600	+3%
Specialty Products	13,667	14,901	-8%
Total	\$497,652	\$460,031	+8%

Surfactants net sales increased \$36.5 million, or ten percent, for the first nine months of 1999 over those of a year ago. Domestic operations, which accounted for 77 percent of total surfactant revenue, posted a \$17.6 million, or six percent, increase due to a four percent growth of sales volume. The volume increased due to higher demand for personal care products. Foreign surfactants net sales climbed \$18.9 million, or 26 percent, from a year ago based on a 23 percent increase in sales volume. Stepan Europe and Stepan Canada reported 15 and 19 percent increases in net sales based on a 25 and a 20 percent growth in sales volumes, respectively. Canada benefited from the fourth quarter 1998 acquisition of the anionic and cationic surfactant business from Boehme Filatex Canada, Inc. Stepan Mexico's net sales increased 54 percent on a 39 percent rise in average selling prices and an 11 percent growth of sales volume. Mexico's increase was largely due to a major customer switching from consigning raw material and paying a processing fee to buying finished goods inclusive of raw material costs.

Surfactants gross profit was up \$4.7 million, or eight percent, between years reaching \$64.6 million in 1999. Domestic surfactants gross profit increased seven percent due to a four percent increase in sales volume and to the second quarter recognition of \$1.4 million of previously deferred revenue and third quarter recognition of \$1.3 million related to a contract settlement. Foreign operations gross profit grew 11 percent. Sales volume growth, partially offset by lower margins, led to the increase.

Polymers net sales for the first nine months were \$91.0 million, up \$2.4 million, or three percent, in comparison with \$88.6 million reported a year ago. Sales volume rose six percent between years. Globally, polyurethane polyols accounted for most of the growth with a gain in net sales of \$3.1 million due to a 10 percent rise in sales volume. Polyurethane systems reported an eight percent increase in net sales based on improved sales volume. PA reported a six percent decrease in net sales based on reduced average selling prices. Lower raw material cost, competitive pressure on prices and a change in customer mix caused the average price decline.

Polymers gross profit increased 14 percent to \$22.3 million in 1999 from \$19.6 million in 1998. Polyurethane polyols gross profit increased 25 percent due to improved sales volume and margins. Polyurethane systems gross profit grew 17 percent on higher margins and sales volume. Competitive environment and a change in customer mix led to lower PA margins which caused a 17 percent drop in profit.

Specialty products net sales for the first nine months were \$13.7 million, down eight percent from \$14.9 million a year ago. Gross profit was \$2.6 million, a drop of 32 percent from \$3.8 million in 1998. A decrease in sales volume led to the net sales and gross profit declines.

Operating expenses increased \$12.3 million, or 25 percent, between years. Administrative expenses climbed 69 percent due to the previously noted \$10.3 million charge related to an agreement in principal to settle a lawsuit. Research and development expenses rose six percent due to higher payroll cost.

Interest expenses rose 14 percent due to higher level of debt.

LEGAL AND ENVIRONMENTAL MATTERS
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In an action entitled *Gilberg v. Stepan et al.* now known as *Accurso v. Stepan et al.* (CA 98-139 Middlesex County, New Jersey), the company has reached a preliminary agreement with plaintiffs' counsels for the 550 plaintiffs in this mass tort action. Final settlement is scheduled to occur on December 1, 1999. All terms of the settlement are confidential pursuant to a court order. As a result of this settlement, the company recorded a \$6.3 million dollar after-tax charge to earnings.

The company is subject to extensive federal, state and local environmental laws and regulations. Although the company's environmental policies and practices are designed to ensure compliance with these laws and regulations, future developments and increasingly stringent environmental regulation could require the company to make additional unforeseen environmental expenditures. The company will continue to invest in the equipment and facilities necessary to comply with existing and future regulations. Company expenditures for capital projects related to the environment should approximate \$3.5 million to \$4.5 million for 1999. These projects are capitalized and typically depreciated over 10 years. Recurring costs associated with the operation and maintenance of facilities for waste treatment and disposal and managing environmental compliance in ongoing operations at our manufacturing locations were \$5.5 million for the first nine months of 1999.

The company has been named by the government as a potentially responsible party at 16 waste disposal sites where cleanup costs have been or may be incurred under the federal Comprehensive Environmental Response, Compensation and Liability Act and similar state statutes. In addition, damages are being claimed against the company in general liability actions for alleged personal injury or property damage in the case of some disposal and plant sites. The company believes that it has made adequate provisions for the costs it may incur with respect to these sites. The company has estimated a range of possible environmental and legal losses from \$18.7 million to \$39.6 million at September 30, 1999. At September 30, 1999, the company's reserve was \$27.3 million for legal and environmental matters compared to \$17.6 million at December 31, 1998. During the first nine months of 1999, expenditures related to legal and environmental matters approximated \$3.4 million. For certain sites, estimates cannot be made of the total costs of compliance or the company's share of such costs; accordingly, the company is unable to predict the effect thereof on future results of operations. In the event of one or more adverse determinations in any annual or interim period, the impact on results of operations for those periods could be material. However, based upon the company's present belief as to its relative involvement at these sites, other viable entities' responsibilities for cleanup and the extended period over which any costs would be incurred, the company believes that these matters will not have a material effect on the company's financial position. Certain of these matters are discussed in Item 3, Legal Proceedings, in the 1998 Form 10-K Annual Report, third quarter 1999 Form 10-Q, Part II Item 1, Legal Proceedings, and in other filings of the company with the Securities and Exchange Commission, which are available upon request from the company.

YEAR 2000 READINESS DISCLOSURE

The Year 2000 issue is a result of computer systems that utilize two digits, rather than four, to represent a given year. Computer systems used by the company and its business partners that have date-sensitive processing may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or inaccurate calculation that may interrupt normal business operations. The company has established a steering team to oversee all efforts and is addressing Year 2000 compliance for 3 major areas: Information Technology ("IT") systems, non-"IT" systems and third-party relationships. The project plan involves 3 phases: inventory and assessment, remediation and testing, and implementation.

Implementation of Year 2000 compliant upgrades of "IT" systems has been completed.

The non-"IT" systems are comprised of manufacturing process control, telephone, security, laboratory and other embedded chip systems. Implementation of approximately 99 percent of these systems are complete and implementation of the remaining non-"IT" systems are expected to be complete by the end of November, 1999.

The company has initiated formal communications with suppliers and service providers to determine the extent of their efforts in resolving Year 2000 issues. The assessment phase, which includes evaluation of responses and meetings with significant suppliers, is essentially complete and discussions with suppliers will continue through the end of the year. Contingency plans will be developed if responses indicate a probability of non-compliance with Year 2000 requirements.

Costs for the Year 2000 project are currently estimated to be \$2.6 million with \$2.3 million expended to date. Of the total estimated cost, \$1.6 million will be capitalized and the remaining will be expensed as incurred. These costs are not material to the overall IT budget and no projects have been deferred due to Year 2000 efforts. The company's actual cost to achieve Year 2000 compliance could differ significantly from amounts disclosed above due to new issues which have not yet been identified.

The company projects that the "most reasonable likely worst case scenario" is the temporary interruption of public utilities during the transition to the new year. Contingency planning for year end transition management has begun. Additional staff will be on site at each location and a central communication center will be established to coordinate Year 2000 rollover efforts.

Although the company is in the process of implementing its Year 2000 project plan, there can be no assurance that all phases of the plan will be completed prior to the Year 2000 or that if completed prior to the Year 2000 that disruption will not occur. In addition, there can be no assurance that the company's customers, suppliers and service providers will successfully resolve their own Year 2000 issues in a manner which would not cause material impact to the company's operations and financial results.

OTHER

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Except for the historical information contained herein, the matters discussed in this document are forward looking statements that involve risks and uncertainties. The results achieved this quarter are not necessarily an indication of future prospects for the company. Actual results in future quarters may differ materially. Potential risks and uncertainties include, among others, fluctuations in the volume and timing of product orders, changes in demand for the company's products, changes in technology, continued competitive pressures in the marketplace, outcome of environmental contingencies, availability of raw materials, foreign currency fluctuations and the general economic conditions.

Item 1 - Legal Proceedings

In an action entitled Gilberg v. Stepan et al. now known as Accurso v. Stepan et al. (CA 98-139 Middlesex County, New Jersey), the company has reached a preliminary agreement with plaintiffs' counsels for the 550 plaintiffs in this mass tort action. Final settlement is scheduled to occur on December 1, 1999. All terms of the settlement are confidential pursuant to a court order. Reference is made to the company's Form 8-K filing dated October 22, 1999, where it was stated that the company, as a result of this settlement, took a \$6.3 million dollar after-tax charge to earnings as a result of this settlement.

Reference is made to USEPA v. Jerome Lightman (92 CV4710) (JVS) which involves the Ewan and D'Imperio Superfund sites located in New Jersey and at which the company has been named as a PRP. Trial on the company's issue of liability at these sites is scheduled for December 13, 1999. Should the company lose, then there would be a trial as to the company's allocated share for clean-up costs at these sites. This latter trial would occur, if at all, in the first quarter of 2000. While the company believes it has adequate defenses to the issue of liability, the company cannot at this time, indicate what its liability, if any, will be at these sites but believes adequate recovery has been set in the event it should lose at either or both sites. On a related matter, the company has filed an Appeal to the United States Third Circuit Court of Appeals objecting to the lodging of a Partial Consent Decree in favor of the United States Government. Under the Partial Consent Decree, the Government recovered past costs at the site from all PRPs including the company. The company paid its assessed share but by objecting to the Partial Consent Decree, the company is seeking to recover back the sums it paid.

Item 6 - Exhibits and Reports on Form 8-K

(A) Exhibits

(27) Financial Data Schedule

(B) Reports on Form 8-K

A report on Form 8-K was filed on October 22, 1999, regarding the company's earnings for the third quarter of 1999.

SIGNATURES

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

STEPAN COMPANY

/s/ Walter J. Klein

Walter J. Klein
Vice President - Finance
Principal Financial and Accounting Officer

Date: November 13, 1999

This schedule contains summary financial information extracted from the Condensed Consolidated Balance Sheet as of September 30, 1999 and Consolidated Statement of Income for the nine months then ended and is qualified in its entirety by reference to such financial statements.

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9-MOS			
	DEC-31-1999		
	JAN-01-1999		
	SEP-30-1999		
		4,635	
		0	
	104,319		
		0	
		50,678	
	174,254		
		590,292	
	379,827		
	423,129		
105,917			
		0	
0			
		19,582	
		10,084	
		120,453	
423,129			
		497,652	
	497,652		
		408,093	
	468,872		
		0	
		0	
6,320			
23,134			
		9,022	
0			
		0	
		0	
		0	
		0	
	14,112		
	1.40		
	1.32		