

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

FORM 10-K

(MARK  
ONE)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1997

OR

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

COMMISSION FILE NO. 1-4462

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)

(Zip Code)

Registrant's telephone number including area code: 847-446-7500  
Securities registered pursuant to Section 12 (b) of the Act:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, \$1 par value	New York Stock Exchange Chicago Stock Exchange
5 1/2% Convertible Preferred Stock, no par value	New York Stock Exchange Chicago Stock Exchange

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

(TITLE OF CLASS)

INDICATE BY CHECK MARK IF DISCLOSURE OF DELINQUENT FILERS PURSUANT TO ITEM  
405 OF REGULATION S-K IS NOT CONTAINED HEREIN, AND WILL NOT BE CONTAINED, TO  
THE BEST OF REGISTRANT'S KNOWLEDGE, IN DEFINITIVE PROXY OR INFORMATION  
STATEMENTS INCORPORATED BY REFERENCE IN PART III OF THIS FORM 10-K OR ANY  
AMENDMENT TO THIS FORM 10-K.

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS  
REQUIRED TO BE FILED BY SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF  
1934 DURING THE PRECEDING 12 MONTHS, AND (2) HAS BEEN SUBJECT TO SUCH FILING  
REQUIREMENTS FOR THE PAST 90 DAYS. YES X NO

AGGREGATE MARKET VALUE AT FEBRUARY 28, 1998, OF VOTING STOCK HELD BY  
NONAFFILIATES OF THE REGISTRANT:  
\$196,834,000.\*

NUMBER OF SHARES OUTSTANDING OF EACH OF THE ISSUER'S CLASSES OF COMMON STOCK  
AS OF FEBRUARY 28, 1998:

CLASS	OUTSTANDING AT FEBRUARY 28, 1998
Common Stock, \$1 par value	9,881,000 shares

DOCUMENTS INCORPORATED BY REFERENCE

PART OF FORM 10-K	DOCUMENT INCORPORATED
Part I, Item 1	1997 Annual Report to Stockholders
Part II, Items 5-8	1997 Annual Report to Stockholders
Part III, Items 10-12	Proxy Statement dated March 27, 1998

\*Based on reported ownership by all directors, officers and beneficial owners  
of more than 5% of registrant's voting stock. However, this determination  
does not constitute an admission of affiliate status for any of these  
holders.



## PART I

### ITEM 1. BUSINESS

Stepan Company and its subsidiaries (the "company") produce specialty and intermediate chemicals which are sold to other manufacturers and then made into a variety of end products. The company sells three groups of products: surfactants, polymers and specialty products. Surfactants refer to chemical agents which affect the interaction between two surfaces; they can provide actions such as detergency (i.e., the ability of water to remove soil from another surface), wetting and foaming, dispersing, emulsification (aiding two dissimilar liquids to mix), demulsification and viscosity modifications. Surfactants are the basic cleaning agent in detergents for washing clothes, dishes, carpets, fine fabrics, floors and walls. Surfactants are also used for the same purpose in shampoos and conditioners, toothpastes, cosmetics and other personal care products. Commercial and industrial applications include emulsifiers for agricultural insecticides and herbicides, emulsion polymers such as floor polishes and latex foams and coatings, wetting and foaming agents for wallboard manufacturing and surfactants for enhanced oil recovery. Polymers refer to intermediate chemicals including phthalic anhydride, polyols and urethane foam systems used in plastics, building materials and refrigeration industries. Specialty products consist of flavor and pharmaceutical intermediates, fine chemicals, esters, synthetic lubricants and other specialty products.

In 1993, Stepan Company entered into a 50 percent joint venture with Coldequim, S.A. called Stepan Colombiana de Quimicos, Ltda in Colombia, South America. Under the agreement, Stepan Colombiana manufactures selected surfactants and markets the company's complete line of surfactants in the Andean Pact countries of Colombia, Venezuela, Peru, Bolivia and Ecuador.

In 1994, Stepan Company entered into a 50 percent joint venture with United Coconut Chemicals, Inc. and United Coconut Planters International in the Philippines. The venture, called Stepan Philippines, Inc., manufactures selected surfactants for sale in the Philippines and Asia/Pacific markets.

In 1996, the company acquired a sulfonation plant from Shell Group in Cologne, Germany. This plant, organized as a German subsidiary, allows the company to serve European customers with a wide range of sulfate and sulfonate products used in household, personal care, individual, institutional and agricultural markets.

In April 1997, the company acquired the West Coast anionic surfactant business from Lonza, Inc. The acquisition enables the company to significantly strengthen its market share in the personal care market in the West Coast region. Also in 1997, in conjunction with Reichhold Chemicals, Inc., the company expanded the production capacity of its Millsdale, Illinois, phthalic anhydride plant from 180 million pounds to 240 million pounds. The expansion was successfully started up in December of 1997.

#### MARKETING AND COMPETITION

Principal markets for all products are manufacturers of cleaning or washing compounds (including detergents, shampoos, toothpastes and household cleaners), paints, cosmetics, food and beverages, agricultural insecticides and herbicides, plastics, furniture, building materials and automotive and refrigeration equipment. Sales of the company tend not to be seasonal.

The company does not sell directly to the retail market, but sells to a wide range of manufacturers in many industries and has many competitors. The principal methods of competition are product performance, price and adaptability to the specific needs of individual customers. These factors allow the company to compete on a basis other than solely price, reducing the severity of competition as experienced in the sales of commodity chemicals having identical performance characteristics. The company is a leading merchant producer of surfactants in the United States. In the case of surfactants, much of the company's competition comes from the internal divisions of larger companies, as well as several large national and regional producers. In the manufacture of polymers, the company competes with the chemical divisions of several large companies, as well as with other small specialty chemical manufacturers. In recent years, the company has also faced periodic competition from foreign imports of phthalic anhydride. In specialty products, the company competes with several large firms plus

numerous small companies. The company does not expect any significant changes in the competitive environment in the foreseeable future.

#### MAJOR CUSTOMER AND BACKLOG

The company does not have any one single customer whose business represents more than 10% of the company's consolidated revenue. Most of the company's business is essentially on the "spot delivery basis" and does not involve a significant backlog. The company does have some contract arrangements with certain customers, but purchases are generally contingent on purchaser requirements.

#### ENERGY SOURCES

Substantially all of the company's manufacturing plants operate on electricity and interruptible gas purchased from local utilities. During peak heating demand periods, gas service to all plants may be temporarily interrupted for varying periods ranging from a few days to several months. The plants operate on fuel oil during these gas interruption periods. The company has not experienced any plant shutdowns or adverse effects upon its business in recent years that were caused by a lack of available energy sources.

#### RAW MATERIALS

The most important raw materials used by the company are of a petroleum or vegetable nature. For 1998, the company has commitments from suppliers to cover its forecasted requirements and is not substantially dependent upon any one supplier.

#### RESEARCH AND DEVELOPMENT

The company maintains an active research and development program to assist in the discovery and commercialization of new knowledge with the intent that such effort will be useful in developing a new product or in bringing about a significant improvement to an existing product or process. Total expenses for research and development during 1997, 1996 and 1995 were \$12,404,000, \$12,469,000, and \$12,425,000, respectively. During 1997 and 1996, the research and development staff consisted of 182 and 179 employees, respectively. The balance of expenses reflected on the Consolidated Statements of Income relates to technical services which include routine product testing, quality control and sales support service.

#### ENVIRONMENTAL COMPLIANCE

Compliance with applicable federal, state and local regulations regarding the discharge of materials into the environment, or otherwise relating to the protection of the environment, resulted in capital expenditures by the company of approximately \$4,133,000 during 1997. Such capital expenditures in 1998 should approximate \$4.0 to \$5.0 million. These expenditures represented approximately 12% of the company's capital expenditures in 1997 and are expected to be 11% of such expenditures in 1998. These expenditures, when incurred, are depreciated and charged on a straight-line basis to pre-tax earnings over their respective useful lives which are typically 10 years. Compliance with such regulations is not expected to have a material adverse effect on the company's earnings and competitive position in the foreseeable future.

#### EMPLOYMENT

At December 31, 1997 and 1996, the company employed worldwide 1,292 and 1,270 persons, respectively.

#### FOREIGN OPERATIONS

See Note 13, Geographic Data, on page 33 of the company's 1997 Annual Report to Stockholders.

## PRODUCT GROUPS

The manufacture of specialty and intermediate chemicals constitutes the company's only industry segment. The company's three groups of products and their contribution to sales for the three years ended December 31, 1997, were:

	SURFACTANTS	POLYMERS	SPECIALTY PRODUCTS
1997.....	77%	18%	5%
1996.....	75%	19%	6%
1995.....	72%	22%	6%

## ITEM 2. PROPERTIES

The company's corporate headquarters and central research laboratories are located in Northfield, Illinois. The Northfield facilities contain approximately 70,000 square feet on an eight acre site. In addition, the company leases 49,000 square feet of office space in a nearby office complex.

The Canadian sales office is located in Mississauga, Canada and is approximately 2,300 square feet of leased space. Stepan Mexico maintains a leased sales office in Mexico City, Mexico.

Surfactants are produced at four plants in the United States and four wholly owned subsidiaries: one in France, Canada, Mexico and Germany. The principal plant is located on a 626 acre site at Millsdale (Joliet), Illinois. A second plant is located on a 39 acre tract in Fieldsboro, New Jersey. West Coast operations are conducted on an eight acre site in Anaheim, California. A fourth plant is located on a 162 acre site in Winder, Georgia. The plant, laboratory and office of Stepan Europe are located on a 20 acre site near Grenoble, France. Stepan Canada, Inc. is located on a 70 acre leased, with an option to purchase, site in Longford Mills, Ontario, Canada. Stepan Mexico is located on a 13 acre site in Matamoros, Mexico. Stepan Germany is located on a five acre site in Cologne, Germany. The phthalic anhydride, polyurethane systems and polyurethane polyols plants are also located at Millsdale. Specialty products are mainly produced at a plant located on a 19 acre site in Maywood, New Jersey.

The company owns all of the foregoing facilities except the leased office space and Canadian plant site mentioned above. The company believes these properties are adequate for its operations.

## ITEM 3. LEGAL PROCEEDINGS

Reference is made to the company's Report Form 10-K for the year ended December 31, 1995, and December 31, 1996, and the company's Report Form 10-Q for the quarter ended September 30, 1993, September 30, 1994, September 30, 1995, and September 30, 1996, relating to the matter entitled United States v. Lightman et al. C.A. No. 92 CV4710 (JVS) which is an action filed in the United States District Court for the district of New Jersey in November 1992 by the United States to collect from the company and other potentially responsible parties past costs at the D'Imperio Superfund site. On December 12, 1997, the Court enforced a proposed settlement of the United States past cost claims and bound the company to payment of approximately \$639,000. The company has the right to appeal this decision at a later date. For now, the company will make the payment of approximately \$639,000. The allocation action between the company and other PRPs is continuing and discovery at the site is proceeding.

## ITEM 4. RESULTS OF VOTES OF SECURITY HOLDERS

No matters were submitted to stockholders during the fourth quarter of the fiscal year ended December 31, 1997.

EXECUTIVE OFFICERS OF THE REGISTRANT

Executive Officers are elected annually by the Board of Directors at the first meeting following the Annual Meeting of Stockholders to serve until the next annual meeting of the Board and until their respective successors are duly elected and qualified.

Effective January 1, 1997, F. Quinn Stepan, Jr., was appointed Vice President and General Manager--Surfactants. He was previously Vice President--Global Laundry and Cleaning Products as of May, 1996 and Director--Business Management as of May, 1992. Charles W. Given, formerly Vice President and General Manager--Surfactants since April, 1992, was appointed Vice President--Corporate Development.

Effective May 22, 1995, Jeffrey W. Bartlett, formerly Vice President, General Counsel and Corporate Secretary, was appointed Vice President, General Counsel, Regulatory Affairs and Corporate Secretary. Effective January 1, 1995, James A. Hartlage, who was formerly the Senior Vice President--Technology, was appointed Senior Vice President--Technology and Operations. In addition, during 1995 he assumed Administrative responsibilities. Effective January 1, 1995, Earl H. Wagener, formerly Vice President--Product Development, was appointed Vice President--Research and Development. All other executive officers have remained in their current capacity for over five years.

The Executive Officers of the company, their ages as of February 28, 1998, and certain other information are as follows:

NAME	AGE	TITLE	YEAR FIRST ELECTED OFFICER
----	---	-----	-----
F. Quinn Stepan	60	Chairman, President and Chief Executive Officer	1967
James A. Hartlage	60	Senior Vice President--Technology and Operations	1980
Charles W. Given	61	Vice President--Corporate Development	1992
Ronald L. Siemon	60	Vice President and General Manager--Polymers	1992
Jeffrey W. Bartlett	54	Vice President, General Counsel, Regulatory Affairs and Corporate Secretary	1983
Walter J. Klein	51	Vice President--Finance	1985
Mickey Mirghanbari	60	Vice President--Manufacturing and Engineering	1992
Earl H. Wagener	57	Vice President--Research and Development	1995
F. Quinn Stepan, Jr.	37	Vice President and General Manager--Surfactants	1997

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS

(a) The company's common stock is listed and traded on both the New York Stock Exchange and the Chicago Stock Exchange. See page 35 of the company's 1997 Annual Report to Stockholders for market price information which is incorporated by reference herein.

The company's 5 1/2 percent convertible preferred stock is listed and traded on the New York Stock Exchange and the Chicago Stock Exchange. See Note 7 on page 30 of the company's 1997 Annual Report to Stockholders for the description of the preferred stockholders' rights which is incorporated by reference herein.

From time to time the company purchases shares of its common stock in the open market and in block transactions from dealers for the purpose of funding option grants under its stock option plans and deferred compensation plans for directors and officers.

(b) On February 28, 1998, there were 1,574 holders of common stock of the company.

(c) See page 35 of the company's 1997 Annual Report to Stockholders for dividend information which is incorporated by reference herein. Also see Note 4 on page 28 of the company's 1997 Annual Report to Stockholders which sets forth the restrictive covenants covering dividends.

#### ITEM 6. SELECTED FINANCIAL DATA

See page 34 of the company's 1997 Annual Report to Stockholders for a five year summary of selected financial information which is incorporated by reference herein.

#### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

See pages 16 through 20 of the company's 1997 Annual Report to Stockholders which is incorporated by reference herein.

Some information contained in the Management's Discussion and Analysis is forward looking and involves risks and uncertainties. The results achieved this year are not necessarily an indication of future prospects for the company. Actual results in future years 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, availability of raw materials, foreign currency fluctuations and general economic conditions.

#### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See pages 21 through 33 of the company's 1997 Annual Report to Stockholders for the company's consolidated financial statements, notes to the consolidated financial statements and auditors' report which are incorporated by reference herein.

See page 35 of the company's 1997 Annual Report to Stockholders for selected quarterly financial data which is incorporated by reference herein.

#### ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

### PART III

#### ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

##### (a) Directors

Mr. Paul Stepan is a general partner of a partnership having an interest in certain real estate which is unrelated to the business of the company. The partnership of which Mr. Paul Stepan is a general partner, has filed in bankruptcy for Chapter 11 protection in February, 1998. Mr. Paul Stepan advises that a refinancing package and successful discharge from Chapter 11 has occurred.

For additional information about the company's Directors, see pages 3 through 5 of the company's Proxy Statement dated March 27, 1998, for the Annual Meeting of Stockholders which are incorporated by reference herein.

##### (b) Executive Officers

See Executive Officers of the Registrant in Part I above.

ITEM 11. EXECUTIVE COMPENSATION

See pages 6 and 7 of the company's Proxy Statement dated March 27, 1998, for the Annual Meeting of the Stockholders which are incorporated by reference herein.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

See pages 1 through 5 of the company's Proxy Statement dated March 27, 1998, for the Annual Meeting of Stockholders which are incorporated by reference herein.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) & (d) FINANCIAL STATEMENTS AND SCHEDULES

See the Index to the Consolidated Financial Statements and Supplemental Schedule filed herewith.

(b) REPORTS ON FORM 8-K

None

(c) EXHIBITS

See Exhibit Index filed herewith.



SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED.

Stepan Company

By: Jeffrey W. Bartlett  
Vice President,  
General Counsel,  
Regulatory  
Affairs and  
Corporate  
Secretary

March 27, 1998

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THIS REPORT HAS BEEN SIGNED BELOW BY THE FOLLOWING PERSONS ON BEHALF OF THE REGISTRANT AND IN THE CAPACITIES AND ON THE DATES INDICATED.

<u>F. Quinn Stepan</u> F. Quinn Stepan	Chairman, President, Chief Executive Officer and Director	March 27, 1998
<u>Thomas F. Grojean</u> Thomas F. Grojean	Director	March 27, 1998
<u>James A. Hartlage</u> James A. Hartlage	Senior Vice President--Technology and Operations and Director	March 27, 1998
<u>Walter J. Klein</u> Walter J. Klein	Vice President--Finance, Principal Financial and Accounting Officer	March 27, 1998
<u>Paul H. Stepan</u> Paul H. Stepan	Director	March 27, 1998
<u>Robert D. Cadieux</u> Robert D. Cadieux	Director	March 27, 1998
<u>Robert G. Potter</u> Robert G. Potter	Director	March 27, 1998

JEFFREY W. BARTLETT, PURSUANT TO POWERS OF ATTORNEY EXECUTED BY EACH OF THE DIRECTORS AND OFFICERS LISTED ABOVE, DOES HEREBY EXECUTE THIS REPORT ON BEHALF OF EACH OF SUCH DIRECTORS AND OFFICERS IN THE CAPACITY IN WHICH THE NAME OF EACH APPEARS ABOVE.

Jeffrey W. Bartlett

March 27, 1998

INDEX TO THE  
CONSOLIDATED FINANCIAL STATEMENTS  
AND  
SUPPLEMENTAL SCHEDULE

A copy of Stepan Company's Annual Report to Stockholders for the year ended December 31, 1997, has been filed as an exhibit to this Annual Report on Form 10-K. Pages 21 through 33 of such Annual Report to Stockholders contain the Consolidated Balance Sheets as of December 31, 1997 and 1996, the Consolidated Statements of Income, Stockholders' Equity and Cash Flows and Notes to Consolidated Financial Statements for the three years ended December 31, 1997, 1996 and 1995, and the Auditors' Report covering the aforementioned financial statements. These consolidated financial statements and the Auditors' Report thereon are incorporated herein by reference.

Supplemental Schedule II--Allowance for Doubtful Accounts--to Consolidated Financial Statements, which is required to comply with regulation S-X, and the Auditors' report on such Supplemental Schedule are included on pages 10 and 11 of this Form 10-K.

Certain supplemental schedules are not submitted because they are not applicable or not required, or because the required information is included in the financial statements or notes thereto.

STEPAN COMPANY

SUPPLEMENTAL SCHEDULE TO CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 1997  
 AS REQUIRED TO COMPLY WITH REGULATION S-X

SCHEDULE II--ALLOWANCE FOR DOUBTFUL ACCOUNTS:

Below is an analysis of the allowance for doubtful accounts for the three years ended December 31:

	1997	1996	1995
	-----	-----	-----
	(IN THOUSANDS)		
Balance, Beginning of Year.....	\$2,074	\$1,744	\$1,585
Provision charged to income.....	548	442	349
Accounts written off, net of recoveries.....	(501)	(112)	(190)
	-----	-----	-----
Balance, End of Year.....	\$2,121	\$2,074	\$1,744
	=====	=====	=====

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS  
ON SUPPLEMENTAL SCHEDULE

To Stepan Company:

We have audited in accordance with generally accepted auditing standards, the financial statements included in Stepan Company's Annual Report to Stockholders incorporated by reference in this Form 10-K, and have issued our report thereon dated February 11, 1998. Our audit was made for the purpose of forming an opinion on those statements taken as a whole. The supplemental schedule listed in the index of financial statements is the responsibility of the company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Arthur Andersen LLP

Chicago, Illinois  
February 11, 1998

EXHIBIT INDEX

EXHIBIT NO. -----	DESCRIPTION -----
(3)a	Copy of the Certificate of Incorporation, and the Certificates of Amendment of Certificate of Incorporation dated May 6, 1968, April 20, 1972, April 16, 1973, December 2, 1983. Filed with the company's Annual Report on Form 10-K for the year ended December 31, 1983, and incorporated herein by reference.
(3)b	Copy of the Bylaws of the company as amended through May 6, 1987. (Note 1)
(3)c	Copy of Certificate of Amendment, dated April 28, 1993, to Article IV of Certificate of Incorporation. (Note 7)
(3)d	Copy of Certificate of Amendment, dated May 5, 1987, to Article X of Certificate of Incorporation. (Note 1)
(4)h	Copy of Loan Agreement dated June 15, 1995, with Aid Association for Lutherans, the Northwestern Mutual Life Insurance Company and The Mutual Life Insurance Company of New York. (Note 10)
(4)i	Copy of Revolving Credit and Term Loan Agreement dated February 20, 1990, with The First National Bank of Chicago and the amendment dated March 21, 1990. (Note 3)
(4)m	Copy of Second Amendment dated September 20, 1991, amending Revolving Credit and Term Loan Agreement dated February 20, 1990 (see (4)i above). (Note 4)
(4)m(1)	Copy of Third Amendment dated December 29, 1992, amending Revolving Credit and Term Loan Agreement dated February 20, 1990 (see (4)i and (4)m above). (Note 8)
(4)m(2)	Copy of Fourth Amendment dated May 31, 1994, amending Revolving Credit and Term Loan Agreement dated February 20, 1990 (see (4)i, (4)m and (4)m(1) above). (Note 9)
(4)n(1)	Copy of Certificate of Designation, Preferences and Rights of the 5 1/2% Convertible Preferred Stock, without Par Value and the Amended Certificate dated August 12, 1992 and April 28, 1993. (Note 7)
(4)n(2)	Copy of Issuer Tender Offer Statement on Schedule 13E-4 dated August 13, 1992. (Note 6)
(4)n(3)	Copy of Amendment No. 1 to Schedule 13E-4 (see also (4)n(2) above) dated September 23, 1992. (Note 6)
(4)n(4)	Copy of the company's Form 8-A dated August 13, 1992. (Note 6)
(4)o	Copy of Revolving Credit and Term Loan Agreement dated January 9, 1998, with The First National Bank of Chicago. In accordance with 601(b)(4) (iii) of Regulation S-K, certain debt instruments are omitted, where the amount of securities authorized under such instruments does not exceed 10% of the total consolidated assets of the Registrant. Copies of such instruments will be furnished to the Commission upon request.
(10)a	Description of the 1965 Directors Deferred Compensation Plan. (Note 2)
(10)b	Copy of the 1969 Management Incentive Compensation Plan as amended and restated as of January 1, 1992. (Note 5)
(10)d	Copy of the 1982 Stock Option Plan. (Note 2)
(10)e	Copy of Leveraged Employee Stock Ownership Plan. (Note 3)

EXHIBIT NO. -----	DESCRIPTION -----
(10)f	Copy of the company's 1992 Stock Option Plan. (Note 5)
(13)	Copy of the company's 1997 Annual Report to Stockholders.
(18)	Letter re change in accounting principle for the year ended December 31, 1992. (Note 8)
(21)	Subsidiaries of Registrant at December 31, 1997.
(23)	Consent of Independent Public Accountants.
(24)	Power of Attorney.
(27)	Financial Data Schedule.

NOTES TO EXHIBIT INDEX

NOTE NO. -----	DESCRIPTION
1.	Filed with the company's Annual Report on Form 10-K for the year ended December 31, 1987, and incorporated herein by reference.
2.	Filed with the company's Annual Report on Form 10-K for the year ended December 31, 1988, and incorporated herein by reference.
3.	Filed with the company's Annual Report on Form 10-K for the year ended December 31, 1989, and incorporated herein by reference.
4.	Filed with the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1991, and incorporated herein by reference.
5.	Filed with the company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1992, and incorporated herein by reference.
6.	Filed with the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1992, and incorporated herein by reference.
7.	Filed with the company's Current Report on Form 8-K filed on April 28, 1993, and incorporated herein by reference.
8.	Filed with the company's Annual Report on Form 10-K for the year ended December 31, 1992, and incorporated herein by reference.
9.	Filed with the company's Annual Report on Form 10-K for the year ended December 31, 1994, and incorporated herein by reference.
10.	Filed with the company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995, and incorporated herein by reference.

STEPAN COMPANY  
REVOLVING CREDIT AGREEMENT  
DATED AS OF  
JANUARY 9, 1998

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STEPAN COMPANY  
REVOLVING CREDIT AGREEMENT  
DATED AS OF  
JANUARY 9, 1998

This Agreement, dated as of January 9, 1998, is among Stepan Company, the Banks and The First National Bank of Chicago, as Agent. The parties hereto agree as follows:

ARTICLE I

DEFINITIONS  
-----

As used in this Agreement:

"Acquisition" means any transaction, or any series of related transactions, consummated on or after the date of this Agreement, by which the Company or any of its Subsidiaries (i) acquires any going business or all or substantially all of the assets of any firm, corporation or limited liability company, or division thereof, whether through purchase of assets, merger or otherwise or (ii) directly or indirectly acquires (in one transaction or as the most recent transaction in a series of transactions) at least a majority (in number of votes) of the securities of a corporation which have ordinary voting power for the election of directors (other than securities having such power only by reason of the happening of a contingency) or a majority (by percentage or voting power) of the outstanding ownership interests of a partnership or limited liability company.

"Advance" means a borrowing hereunder consisting of the aggregate amount of the several Loans made by the Banks to the Company on the same Borrowing Date, at the same Rate Option and, in the case of Eurodollar Advances, for the same Interest Period.

"Affiliate" of any Person means any other Person directly or indirectly controlling, controlled by or under common control with such Person. A Person shall be deemed to control another Person if the controlling Person owns 10% or more of any class of voting securities (or other ownership interests) of the controlled Person or possesses, directly or indirectly, the power to direct or cause the direction of the management or policies of the controlled Person, whether through ownership of stock, by contract, or otherwise.

"Agent" means The First National Bank of Chicago in its capacity as agent for the Banks pursuant to Article X, and not in its individual capacity as a Bank, and any successor Agent appointed pursuant to Article X.

"Aggregate Commitment" means the aggregate of the Commitments of the Banks hereunder.

"Agreement" means this revolving credit agreement, as it may be amended from time to time.

"Agreement Accounting Principles" means generally accepted principles of accounting in effect at the time of the preparation of the financial statements referred to in Section 5.4, applied in a manner

consistent with that used in preparing such statements. If any change in accounting principles from the principles used in preparing such statements would have a material effect upon the results of any calculation required by or compliance with any provision of this Agreement, then the parties hereto agree to enter into negotiations in order to amend such provisions so as to equitably reflect such changes with the desired result that the criteria for evaluating Company's financial condition and operations shall be the same after such changes as if such changes had not been made.

"Alternate Base Rate" means, for any day, a rate of interest per annum equal to the higher of (i) the Corporate Base Rate for such day and (ii) the sum of the Federal Funds Effective Rate for such day plus 1/2% per annum.

"Applicable Fee Rate" means, at any time, the percentage rate per annum at which Commitment Fees are accruing on the unused portion of the Aggregate Commitment at such time as set forth in the Pricing Schedule.

"Applicable Margin" means, with respect to Eurodollar Advances at any time, the percentage rate per annum which is applicable at such time with respect to Eurodollar Advances as set forth in the Pricing Schedule.

"Arranger" means First Chicago Capital Markets, Inc., a Delaware corporation, and its successors.

"Article" means an article of this Agreement unless another document is specifically referenced.

"Authorized Officer" means any of the President, Vice President - Finance or the Search Corporate Controller of the Company, acting singly.

"Banks" means the banks listed on the signature pages of this Agreement as amended from time to time and their respective successors and assigns.

"Borrowing Date" means a date on which an Advance is made hereunder.

"Borrowing Notice" is defined in Section 2.8.

"Business Day" means (i) with respect to borrowing, payment or rate selection of Eurodollar Advances, a day other than Saturday or Sunday on which banks are open for business in Chicago and New York and on which dealings in U.S. dollars are carried on in the London interbank market and (ii) for all other purposes, a day other than Saturday or Sunday on which banks are open for business in Chicago.

"Capitalized Lease" of a Person means any lease of property by such Person as lessee which would be capitalized on a balance sheet of such Person prepared in accordance with Agreement Accounting Principles.

"Capitalized Lease Obligations" of a Person means the amount of the obligations of such Person under Capitalized Leases which would be shown as a liability on a balance sheet of such Person, prepared in accordance with Agreement Accounting Principles.

"Commitment" means, for each Bank, the obligation of the Bank to make Loans not exceeding the amount set forth opposite its signature below or as set forth in any Notice of Assignment relating to any assignment that has become effective pursuant to Section 13.3.1, as such amount may be modified from time to time.

"Company" means Stepan Company, a Delaware corporation, and its successors and assigns.

"Consolidated Capitalization" means the sum of (i) Consolidated Funded Indebtedness plus (ii) Consolidated Tangible Net Worth plus (iii) deferred taxes and investment tax credits for the Company and its Restricted Subsidiaries.

"Consolidated Current Liabilities" means, at any date as of which the amount thereof is to be determined, the amount which would be set forth as current liabilities on a consolidated balance sheet of the Company and the Restricted Subsidiaries prepared as of such date in accordance with Agreement Accounting Principles.

"Consolidated Earnings Before Interest and Taxes" means, for any fiscal quarter, the sum of (i) earnings before income taxes for such fiscal quarter, plus (ii) Consolidated Interest Expense for such fiscal quarter less (iii) equity earnings of Unrestricted Subsidiaries of the Company for such quarter determined on a consolidated basis for the Company and the Restricted Subsidiaries in accordance with Agreement Accounting Principles.

"Consolidated Tangible Assets" means, as at any date as of which the amount thereof is to be determined, an amount equal to the amount by which (a) the aggregate amount at which all assets of the Company and the Restricted Subsidiaries would be set forth on a consolidated balance sheet of the Company and the Restricted Subsidiaries prepared as of such date in accordance with Agreement Accounting Principles, exceeds (b) the sum of the amounts which would be set forth on such consolidated balance sheet as (i) any surplus resulting from any writeup of assets and (ii) the aggregate value of all patents, licenses, trade names, trademarks, copy-rights, good will and deferred charges (including, but not limited to, unamortized debt discount and expenses, organizational expenses and experimental and developmental expenses, but excluding prepaid expenses).

"Consolidated Tangible Net Worth" means, at any date as of which the amount thereof is to be determined, (a) the sum of the amounts which would be set forth as preferred stock, common stock, capital in excess of par value or paid-in surplus and retained earnings on a consolidated balance sheet of the Company and the Restricted Subsidiaries prepared as of such date in accordance with Agreement Accounting Principles, minus (b) the sum of the amounts which would be set forth on such consolidated balance sheet as (i) the cost of any shares of the Company's common stock held in the treasury, (ii) any surplus resulting from any writeup of assets and (iii) the aggregate value of all patents, licenses, trade names, trademarks, copy-rights, good will and deferred charges (including, but not limited to, unamortized debt discount and expenses, organizational expenses and experimental and developmental expenses, but excluding prepaid expenses).

"Controlled Group" means all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with the Company or any Subsidiary, are treated as a single employer under Section 414(b) or 414(c) of the Internal Revenue Code.

"Corporate Base Rate" means a rate per annum equal to the corporate base rate of interest announced by First Chicago from time to time, changing when and as said corporate base rate changes.

"1990 Credit Agreement" means that certain Credit Agreement dated as of February 20, 1990, among the Company, First Chicago as agent for the banks, and the banks party thereto, as amended through the date hereof.

"Current Indebtedness" means all Indebtedness other than Funded Indebtedness, and, without limitation, shall include (i) all Indebtedness maturing on demand or within one year after the date as of which such determination is made, (ii) final maturities and prepayments of Indebtedness and sinking fund payments and (iii) all other items (including taxes accrued as estimated) which, in accordance with Agreement Accounting Principles, would be included as Consolidated Current Liabilities.

"Default" means an event described in Article VII.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

"Eurodollar Base Rate" means, with respect to a Eurodollar Advance for the relevant Eurodollar Interest Period, the rate determined by the Agent to be the arithmetic average of the rates reported to the Agent by each Bank as the rate at which deposits in U.S. dollars are offered by such Bank to first-class banks in the London interbank market at approximately 11:00 a.m. (London time) two Business Days prior to the first day of such Eurodollar Interest Period, in the approximate amount of such Bank's relevant Eurodollar Loan and having a maturity approximately equal to such Eurodollar Interest Period.

"Eurodollar Rate" means, with respect to a Eurodollar Advance for the relevant Eurodollar Interest Period, the sum of (i) the quotient of (a) the Eurodollar Base Rate applicable to that Eurodollar Interest Period, divided by (b) one minus the Reserve Requirement (expressed as a decimal) applicable to that Eurodollar Interest Period, plus (ii) the Applicable Margin. The Eurodollar Rate shall be rounded, if necessary, to the next higher 1/16 of 1%. "Eurodollar Advance" and "Eurodollar Loan" mean an Advance or a Loan, as the case may be, which bears interest at a Eurodollar Rate.

"Facility Termination Date" means January 8, 2003 or any earlier date on which the Aggregate Commitment is reduced to zero or otherwise terminated pursuant to the terms hereof.

"Federal Funds Effective Rate" means, for any day, an interest rate per annum equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published for such day (or, if such day is not a Business Day, for the immediately preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations at approximately 10:00 a.m. (Chicago time) on such day on such transactions received by the Agent from three Federal funds brokers of recognized standing selected by the Agent in its sole discretion.

"Federal Funds Funding Rate" means, with respect to any Advance bearing interest at the Federal Funds Rate, the rate per annum equal to the consensus (or if no consensus exists, the arithmetic average) of the rates at which reserves are offered by first-class banks to other first-class banks (at approximately 10:00 a.m. (Chicago time)) on such day (or if such day is not a Business Day, on the immediately preceding Business Day) on overnight Federal funds transactions with members of the Federal Reserve

System arranged by Federal funds brokers, received by the Agent from three Federal funds brokers of recognized standing selected by the Agent in its sole discretion.

"Federal Funds Advance" and Federal Funds Loan" means an Advance or a Loan, as the case may be, which bears interest at a Federal Funds Rate.

"Federal Funds Rate" means a rate per annum equal to the Federal Funds Funding Rate plus a margin to be agreed upon between the Banks and the Company from time to time.

"First Chicago" means The First National Bank of Chicago in its individual capacity, and its successors and assigns.

"Floating Rate" means a rate per annum equal to the Alternate Base Rate, changing when and as the Alternate Base Rate changes. "Floating Rate Advance" and "Floating Rate Loan" mean an Advance or a Loan, as the case may be, which bears interest at the Floating Rate.

"Funded Indebtedness" means any liabilities or Indebtedness secured or unsecured with a maturity due date or expiration more than one year from any date of determination, including Capitalized Leases, (i) minus deferred taxes and investment tax credits and (ii) plus Guarantees and Unfunded Liabilities. Funded Indebtedness determined on a consolidated basis for the Company and its Restricted Subsidiaries will be referred to herein as "Consolidated Funded Indebtedness".

"Guaranty" of a Person means any agreement by which such Person assumes, guarantees, endorses, contingently agrees to purchase or provide funds for the payment of, or otherwise becomes liable upon, the obligation of any other Person, or agrees to maintain the net worth or working capital or other financial condition of any other Person or otherwise assures any creditor of such other Person against loss, including, without limitation, any operating agreement or take-or-pay contract and shall include, without limitation, the contingent liability of such Person in connection with any application for a Letter of Credit.

"Indebtedness" of a Person means such Person's (i) obligations for borrowed money, (ii) obligations representing the deferred purchase price of property other than accounts payable arising in the ordinary course of such Person's business payable on terms customary in the trade, (iii) obligations, whether or not assumed, secured by Liens or payable out of the proceeds or production from property now or hereafter owned or acquired by such Person, (iv) obligations which are evidenced by notes, acceptances, or other instruments, (v) Capitalized Lease Obligations and (vi) obligations for which such Person is obligated pursuant to a Guaranty or pursuant to a Letter of Credit.

"Interest Expense" means with respect to any period for which the amount thereof is to be determined, an amount equal to interest expense on Indebtedness, as determined in accordance with Agreement Accounting Principles. Interest Expense determined on a consolidated basis for the Company and its Restricted Subsidiaries will be referred to herein as "Consolidated Interest Expense."

"Interest Period" means, with respect to a Eurodollar Advance, a period of one, two, three or six months commencing on a Business Day selected by the Company pursuant to this Agreement. Such Interest Period shall end on the day in the succeeding calendar month which corresponds numerically to the beginning day of such Interest Period, provided, however, that if there is no such numerically corresponding day in such succeeding month, such Interest Period shall end on the last Business Day of



such succeeding month. If an Interest Period would otherwise end on a day which is not a Business Day, such Interest Period shall end on the next succeeding Business Day, provided, however, that if said next succeeding Business Day falls in a new month, such Interest Period shall end on the immediately preceding Business Day.

"Investment" of a Person means any loan, advance, extension of credit (excluding accounts receivable arising in the ordinary course of business on terms customary in the trade), deposit account or contribution of capital by such Person to any other Person or any investment in, or purchase or other acquisition of, the stock, notes, debentures or other securities of any other Person made by such Person.

"Lending Installation" means any office, branch, subsidiary or affiliate of any Bank or the Agent.

"Letter of Credit" of a Person means a letter of credit or similar instrument which is issued upon the application of such Person or upon which such Person is an account party or for which such Person is in any way liable.

"Lien" means any lien (statutory or other), mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance or preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including, without limitation, the interest of a vendor or lessor under any conditional sale, Capitalized Lease or other title retention agreement).

"Loan" means, with respect to a Bank, such Bank's portion of any Advance.

"Loan Documents" means this Agreement and the Notes.

"Multiemployer Plan" means a Plan maintained pursuant to a collective bargaining agreement or any other arrangement to which the Company or any member of the Controlled Group is a party to which more than one employer is obligated to make contributions.

"Note" means a promissory note in substantially the form of Exhibit "A" hereto, duly executed and delivered to the Agent by the Company and payable to the order of a Bank in the amount of its Commitment, including any amendment, modification, renewal or replacement of such promissory note.

"Obligations" means all unpaid principal of and accrued and unpaid interest on the Notes, all accrued and unpaid commitment fees and all other obligations of the Company to the Banks or to any Bank or the Agent arising under the Loan Documents.

"Phthalic Anhydride Line" means any product manufactured by the Company from Orthoxylene.

"Payment Date" means the last day of January, April, July, and October.

"PBGC" means the Pension Benefit Guaranty Corporation and its successors and assigns.

"Person" means any corporation, natural person, firm, joint venture, partnership, limited liability company, trust, unincorporated organization, enterprise, government or any department or agency of any government.

"Plan" means an employee pension benefit plan which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Internal Revenue Code as to which the Company or any Subsidiary may have any liability.

"Pricing Schedule" means the Schedule attached hereto identified as such.

"Property" of a Person means any and all property, whether real, personal, tangible, intangible, or mixed, of such Person, or other assets owned, leased or operated by such Person.

"Rate Option" means the Eurodollar Rate, the Floating Rate or the Federal Funds Rate.

"Regulation D" means Regulation D of the Board of Governors of the Federal Reserve System from time to time in effect and shall include any successor or other regulation or official interpretation of said Board of Governors relating to reserve requirements applicable to member banks of the Federal Reserve System.

"Regulation U" means Regulation U of the Board of Governors of the Federal Reserve System from time to time in effect and shall include any successor or other regulation or official interpretation of said Board of Governors relating to the extension of credit by banks for the purpose of purchasing or carrying margin stocks applicable to member banks of the Federal Reserve System.

"Rentals" of a Person means the aggregate fixed amounts payable by such Person under any lease of real or personal property having an original term (including any required renewals or any renewals at the option of the lessor or lessee) of one year or more but does not include any amounts payable under Capitalized Leases of such Person.

"Reportable Event" means a reportable event as defined in Section 4043 of ERISA and the regulations issued under such Section, with respect to a Plan, excluding, however, such events as to which the PBGC by regulation waived the requirement of Section 4043(a) of ERISA that it be notified within 30 days of the occurrence of such event, provided that a failure to meet the minimum funding standard of Section 412 of the Internal Revenue Code and of Section 302 of ERISA shall be a reportable event regardless of the issuance of any such waivers in accordance with Section 412(d) of the Internal Revenue Code.

"Required Banks" means Banks in the aggregate having at least 66-2/3% of the Aggregate Commitment or, if the Aggregate Commitment has been terminated, Banks in the aggregate holding at least 66-2/3% of the aggregate unpaid principal amount of the outstanding Advances.

"Reserve Requirement" means, with respect to a Eurodollar Interest Period, the maximum aggregate reserve requirement (including all basic, supplemental, marginal and other reserves) which is imposed under Regulation D on Eurocurrency liabilities as defined in Regulation D).

"Restricted Subsidiary" means any Subsidiary of the Company which (i) is organized under the laws of any state of the United States of America or under the laws of Canada or any province thereof, (ii) has substantially all of its assets located within, and operates substantially within, the United States of America or Canada, (iii) at least 50% of the outstanding voting stock having ordinary voting power to elect a majority of the Board of Directors of such corporation (irrespective of whether or not at the time stock of any other class or classes shall have or might have voting power by reason of the happening

of any contingency) is at the time directly or indirectly owned by the Company, by one or more of its Wholly-Owned Restricted Subsidiaries or by the Company and one or more of its Wholly-Owned Restricted Subsidiaries, and (iv) which the Company designates as a Restricted Subsidiary; provided, however, that the Company may not subsequently change the description of any such Subsidiary from Restricted Subsidiary to Unrestricted Subsidiary.

"Section" means a numbered section of this Agreement, unless another document is specifically referenced.

"Stepan Family" means Mary Louise Stepan, F. Quinn Stepan and family, Paul H. Stepan and family, Charlotte Stepan Flanagan and family, Mary Louise Wehman and family, Alfred C. Stepan III and family, John A. Stepan and family, Stratford E. Stepan and family and Stepan Venture I and Stepan Venture II.

"Single Employer Plan" means a Plan maintained by the Company or any member of the Controlled Group for employees of the Company or any member of the Controlled Group.

"Subordinated Indebtedness" means any Indebtedness the payment of which is subordinated to payment of the Obligations to the written satisfaction of the Banks.

"Subsidiary" means any corporation more than 50% of the outstanding voting securities of which shall at the time be owned or controlled, directly or indirectly, by the Company or by one or more Subsidiaries or by the Company and one or more Subsidiaries, or any similar business organization which is so owned or controlled.

"Taxes" means any and all present or future taxes, duties, levies, imposts, deductions, charges or withholdings, and any and all liabilities with respect to the foregoing, but excluding in the case of each Bank or applicable Lending Installation and the Agent, taxes imposed on its overall net income, and franchise taxes imposed on it, by (i) the jurisdiction under the laws of which such Bank or the Agent is incorporated or organized or (ii) the jurisdiction in which the Agent's or such Bank's principal executive office or such Bank's applicable Lending Installation is located.

"Unfriendly Acquisition" means any Acquisition unless the board of directors (or other person exercising similar functions) of the issuer of the securities to be acquired shall have approved such Acquisition and recommended it to the holders of the securities to be acquired.

"Unfunded Liabilities" means, (i) in the case of Single Employer Plans, the amount (if any) by which the present value of all vested nonforfeitable benefits under such Plan exceeds the fair market value of all Plan assets allocable to such benefits, all determined as of the then most recent valuation date for such Plan, and (ii) in the case of Multiemployer Plans, the withdrawal liability of the Company and Subsidiaries.

"Unmatured Default" means an event which but for the lapse of time or the giving of notice, or both, would constitute a Default.

"Unrestricted Subsidiary" means any Subsidiary other than a Restricted Subsidiary.

"Wholly-Owned Subsidiary" means any Subsidiary all of the outstanding voting securities of which shall at the time be owned or controlled, directly or indirectly, by the Company or one or more Wholly-Owned Subsidiaries, or by the Company and one or more Wholly-Owned Subsidiaries, or any similar business organization which is so owned or controlled.

The foregoing definitions shall be equally applicable to both the singular and plural forms of the defined terms.

ARTICLE II

THE CREDITS

-----

2.1. Commitment. From and including the date of this Agreement and prior to the Facility Termination Date, each Bank severally agrees, on the terms and conditions set forth in this Agreement, to make Loans to the Company from time to time in amounts not to exceed in the aggregate at any one time outstanding the amount of its Commitment. Subject to the terms of this Agreement, the Company may borrow, repay and reborrow at any time prior to the Facility Termination Date.

2.2. Ratable Loans. Each Advance hereunder shall consist of Loans made from the several Banks ratably in proportion to the ratio that their respective Commitments bear to the Aggregate Commitment.

2.3. Rate Options. The Advances may be Floating Rate Advances, Eurodollar Advances or, during the last 5 Business Days of each calendar quarter, Federal Funds Advances, or a combination thereof, selected by the Company in accordance with Section 2.8.

2.4. Mandatory Principal Payments. Any outstanding Advances and all other unpaid Obligations shall be paid in full by the Company on the Facility Termination Date.

2.5. Optional Principal Payments. The Company may from time to time pay all outstanding Floating Rate Advances or Federal Funds Advances, or, in a minimum aggregate amount of \$100,000 or any integral multiple thereof, any portion of the outstanding Floating Rate Advances or Federal Funds Advances upon one Business Day's prior notice to the Agent without penalty or premium. The Company may from time to time pay, subject to the payment of any fundings indemnification amounts required by Section 3.3 but without penalty or premium, all outstanding Eurodollar Advances, or, in a minimum aggregate amount of \$100,000 or any integral multiple of \$100,000 in excess thereof, any portion of the outstanding Eurodollar Advances upon three Business Days' prior notice to the Agent.

2.6. Commitment Fee and Reduction of Commitments. The Company agrees to pay to the Agent on each Payment Date for the account of each Bank a commitment fee at a per annum rate equal to the Applicable Fee Rate multiplied by the unused Aggregate Commitment from the date hereof through and including the Facility Termination Date. The Company may permanently reduce the Aggregate Commitment in whole, or in part ratably among the Banks, in integral multiples of \$1,000,000, upon at least three Business Days' written notice to the Agent, which shall specify the amount of any such reduction, provided, however, that the amount of the Aggregate Commitment may not be reduced below the outstanding principal amount of the Advances. All accrued commitment fees shall be payable on the effective date of any termination of the obligations of the Banks to make Loans hereunder.

2.7. Method of Borrowing. Not later than noon Chicago time on each Borrowing Date, each Bank shall make available its Loan or Loans in funds immediately available in Chicago, to the Agent at its address specified pursuant to Article XII. The Agent will make the funds so received from the Banks available to the Company at the Agent's aforesaid address. Notwithstanding the foregoing provisions of this Section, to the extent that a Loan made by a Bank matures on the Borrowing Date of a requested Loan, such Bank shall apply the proceeds of the Loan it is then making to the repayment of the maturing Loan.

2.8. Method of Selecting Rate Options and Interest Periods. The Company shall select the Rate Option and, in the case of each Eurodollar Advance, the Interest Period applicable thereto from time to time. The Company shall give the Agent irrevocable notice (a "Borrowing Notice") not later than 11:00 a.m. Chicago time on the Borrowing Date of each Floating Rate Advance or Federal Funds Advance and three Business Days before the Borrowing Date for each Eurodollar Advance, specifying:

- (i) the Borrowing Date, which shall be a Business Day, of such Advance,
- (ii) the aggregate amount of such Advance,
- (iii) the Rate Option selected for such Advance, and
- (iv) in the case of each Eurodollar Advance, the Interest Period applicable thereto.

Each Eurodollar Advance shall bear interest from and including the first day of the Interest Period applicable thereto to (but not including) the last day of such Interest Period at the interest rate determined as applicable to such Eurodollar Advance.

2.9. Conversion and Continuation of Outstanding Advances. Floating Rate Advances shall continue as Floating Rate Advances unless and until such Floating Rate Advances are converted into Eurodollar Advances pursuant to this Section 2.9 or are repaid in accordance with Section 2.5. Each Federal Funds Advance shall automatically continue as a Federal Funds Advance for another day unless it shall have been paid or converted prior to 11:00 a.m. (Chicago time) on any day; provided that on the last Business Day of each calendar quarter such Federal Funds Advance shall be automatically converted into a Floating Rate Advance. Each Eurodollar Advance shall continue as a Eurodollar Advance until the end of the then applicable Interest Period therefor, at which time such Eurodollar Advance shall be automatically converted into a Floating Rate Advance unless (x) such Eurodollar Advance is or was repaid in accordance with Section 2.5 or (y) the Company shall have given the Agent a Conversion/Continuation Notice (as defined below) requesting that, at the end of such Interest Period, such Eurodollar Advance continue as a Eurodollar Advance for the same or another Interest Period. Subject to the terms of Section 2.5, the Company may elect from time to time to convert all or any part of a Floating Rate Advance or into a Eurodollar Advance. The Company shall give the Agent irrevocable notice (a "Conversion/Continuation Notice") of each conversion of a Floating Rate Advance into a Eurodollar Advance or continuation of a Eurodollar Advance not later than 11:00 a.m. (Chicago time) at least three Business Days prior to the date of the requested conversion or continuation, specifying:

- (i) the requested date, which shall be a Business Day, of such conversion or continuation,
- (ii) the aggregate amount and Rate Option selected for the Advance which is to be converted or continued, and

- (iii) the amount of such Advance which is to be converted into or continued as a Eurodollar Advance and the duration of the Interest Period applicable thereto.

2.10. Minimum Amount of Each Advance. Each Eurodollar Advance shall be in the minimum amount of \$2,000,000 (and in multiples of \$100,000 if in excess thereof), and each Floating Rate Advance and Federal Funds Advance shall be in the minimum amount of \$100,000 (and in multiples of \$100,000 if in excess thereof), provided, however, that any Floating Rate Advance may be in the amount of the unused Aggregate Commitment.

2.11. Rate after Default. Notwithstanding anything to the contrary contained in Section 2.8 or 2.9, during the continuance of a Default or Unmatured Default the Required Banks may, at their option, by notice to the Company, declare that no Advance may be made as, converted into or continued as a Eurodollar Advance. During the continuance of a Default the Required Banks may, at their option, by notice to the Company, declare that (i) each Eurodollar Advance shall bear interest for the remainder of the applicable Interest Period at the rate otherwise applicable to such Interest Period plus 2% per annum and (ii) each Floating Rate Advance and Federal Funds Advance shall bear interest at a rate per annum equal to the Floating Rate in effect from time to time plus 2% per annum, provided that, during the continuance of a Default under Section 7.6 or 7.7, the interest rates set forth in clauses (i) and (ii) above shall be applicable to all Advances without any election or action on the part of the Agent or any Bank.

2.12. Method of Payment. All payments of principal, interest, and fees hereunder shall be made in immediately available funds, by noon (local time) on the date when due (except that payments of principal on Federal Funds Advances shall be made by 10:00 a.m. (local time) and shall be made ratably among the Banks, to the Agent at the Agent's address specified pursuant to Article XII or at any other Lending Installation of the Agent specified in writing by the Agent to the Company. Each payment delivered to the Agent for the account of any Bank shall be delivered promptly by the Agent to such Bank in the same type of funds which the Agent received at its address specified pursuant to Article XII or at any Lending Installation specified in a notice received by the Agent from such Bank. The Agent is hereby authorized to charge the account of the Company maintained with First Chicago for each payment of principal, interest and fees as it becomes due hereunder.

2.13. Notes; Telephonic Notices. Each Bank is hereby authorized to record the principal amount of each of its Loans and each repayment on the schedule attached to its Note provided, however, that the failure to so record shall not affect the Company's obligations under such Note. The Company hereby authorizes the Banks and the Agent to extend Advances and effect Rate Option selections based on telephonic notices made by any person or persons the Agent or any Bank in good faith believes to be acting on behalf of the Company. The Company agrees to deliver promptly to the Agent a written confirmation of each telephonic notice signed by an Authorized Officer. If the written confirmation differs in any material respect from the action taken by the Agent and the Banks in response to any telephonic notice, the records of the Agent and the Banks shall govern absent manifest error.

2.14. Interest Payment Dates; Interest Basis. Interest accrued on each Eurodollar Advance shall be payable on the last day of its applicable Interest Period and on any date on which the Advance is prepaid, whether due to acceleration or otherwise. Interest accrued on each Eurodollar Advance having an Interest Period longer than three months shall also be payable on the last day of each three-month interval during such Interest Period. Interest accrued on each Floating Rate Advance or Federal Funds Advance shall be payable on each Payment Date and on any date on which the Advance is prepaid,

whether due to acceleration or otherwise. Interest and commitment fees shall be calculated for actual days elapsed on the basis of a 360-day year. Interest shall be payable for the day an Advance is made but not for the day of any payment on the amount paid if payment is received prior to noon (local time) at the place of payment. If any payment of principal of or interest on an Advance shall become due on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day and, in the case of a principal payment, such extension of time shall be included in computing interest in connection with such payment.

2.15. Notification of Advances, Interest Rates, Prepayments and Commitment Reductions. Promptly after receipt thereof, the Agent will notify each Bank of the contents of each Aggregate Commitment reduction notice, Borrowing Notice, conversion/continuation notice and repayment notice received by it hereunder. The Agent will notify each Bank of the interest rate applicable to each Eurodollar Advance promptly upon determination of such interest rate and will give each Bank prompt notice of each change in the Corporate Base Rate.

2.16. Lending Installations. Each Bank may book its Loans at any Lending Installation selected by such Bank and may change its Lending Installation from time to time. All terms of this Agreement shall apply to any such Lending Installation and the Notes shall be deemed held by each Bank for the benefit of such Lending Installation. Each Bank may, by written or telex notice to the Agent and the Company, designate a Lending Installation through which Loans will be made by it and for whose account Loan payments are to be made.

2.17. Non-Receipt of Funds by the Agent. Unless the Company or a Bank, as the case may be, notifies the Agent prior to the date on which it is scheduled to make payment to the Agent of (i) in the case of a Bank, the proceeds of a Loan or (ii) in the case of the Company, a payment of principal, interest or fees to the Agent for the account of the Banks, that it does not intend to make such payment, the Agent may assume that such payment has been made. The Agent may, but shall not be obligated to, make the amount of such payment available to the intended recipient in reliance upon such assumption. If such Bank or the Company, as the case may be, has not in fact made such payment to the Agent, the recipient of such payment shall, on demand by the Agent, repay to the Agent the amount so made available together with interest thereon in respect of each day during the period commencing on the date such amount was so made available by the Agent until the date the Agent recovers such amount at a rate per annum equal to (i) in the case of payment by a Bank, the federal funds rate for such day (as determined by the Agent) or (ii) in the case of payment by the Company, the interest rate applicable to the relevant Loan.

ARTICLE III

CHANGE IN CIRCUMSTANCES

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3.1. Yield Protection. If any law or any governmental rule, regulation, policy, guideline or directive (whether or not having the force of law), or any interpretation thereof, or compliance of any Bank with such,

(i) subjects any Bank or any applicable Lending Installation to any Taxes or changes the basis of taxation of payments to any Bank in respect of its Loans or other amounts due it hereunder, or

(ii) imposes or increases or deems applicable any reserve, assessment, insurance charge, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Bank or any applicable Lending Installation (other than reserves and assessments taken into account in determining the interest rate applicable to Eurodollar Advances), or

(iii) imposes any other condition the result of which is to increase the cost to any Bank or any applicable Lending Installation of making, funding or maintaining loans or reduces any amount receivable by any Bank or any applicable Lending Installation in connection with loans, or requires any Bank or any applicable Lending Installation to make any payment calculated by reference to the amount of loans held or interest received by it, by an amount deemed material by such Bank, except any special charge imposed on a Bank separate from the Assessment Rate that is imposed on such Bank as a result of its non-performing loans or

(iv) affects the amount of capital required or expected to be maintained by any Bank or Lending Office or any corporation controlling any Bank and such Bank determines the amount of capital required is increased by or based upon the existence of this Agreement or its obligation to make Loans hereunder or of commitments of this type,

then, within 15 days of demand by such Bank, the Company shall pay such Bank that portion of such increased expense incurred (including, in the case of Section 3.1(iv), any reduction in the rate of return on capital to an amount below that which it could have achieved but for such change in regulation after taking into account such Bank's policies as to capital adequacy) or reduction in an amount received which such Bank determines is attributable to making, funding and maintaining its Loans and its Commitment. The Company will not be liable for any amounts incurred by the Banks more than one year prior to the receipt by the Company of a notice from the Bank demanding payment of such amounts.

3.2. Availability of Rate Options. If any Bank determines that maintenance of its Eurodollar Loans at a suitable Lending Installation would violate any applicable law, rule, regulation, or directive, whether or not having the force of law, or if any Bank determines that (i) deposits of a type and maturity appropriate to match fund Eurodollar Advances are not available or (ii) a Rate Option does not accurately reflect the cost of making or maintaining an Advance at such Rate Option, then the Agent shall suspend the availability of the affected Rate Option and require any Eurodollar Advances outstanding under an affected Rate Option to be repaid.

3.3. Funding Indemnification. If any payment of a Eurodollar Advance occurs on a date which is not the last day of the applicable Interest Period, whether because of acceleration, prepayment or otherwise, or a Eurodollar Advance is not made on the date specified by the Company for any reason other than default by the Banks, the Company will indemnify each Bank for any loss or cost incurred by it resulting therefrom, including, without limitation, any loss or cost in liquidating or employing deposits acquired to fund or maintain the Eurodollar Advance.

3.4. Taxes. (i) All payments by the Company to or for the account of any Bank or the Agent hereunder or under any Note shall be made free and clear of and without deduction for any and all Taxes.



If the Company shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder to any Bank or the Agent, (a) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 3.5) such Bank or the Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (b) the Company shall make such deductions, (c) the Company shall pay the full amount deducted to the relevant authority in accordance with applicable law and (d) the Company shall furnish to the Agent the original copy of a receipt evidencing payment thereof within 30 days after such payment is made.

(ii) In addition, the Company hereby agrees to pay any present or future stamp or documentary taxes and any other excise or property taxes, charges or similar levies which arise from any payment made hereunder or under any Note or from the execution or delivery of, or otherwise with respect to, this Agreement or any Note ("Other Taxes").

(iii) The Company hereby agrees to indemnify the Agent and each Bank for the full amount of Taxes or Other Taxes (including, without limitation, any Taxes or Other Taxes imposed on amounts payable under this Section 3.5) paid by the Agent or such Bank and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto. Payments due under this indemnification shall be made within 30 days of the date the Agent or such Bank makes demand therefor pursuant to Section 3.5.

(iv) Each Bank that is not incorporated under the laws of the United States of America or a state thereof (each a "Non-U.S. Bank") agrees that it will, not less than ten Business Days after the date of this Agreement, (i) deliver to each of the Company and the Agent two duly completed copies of United States Internal Revenue Service Form 1001 or 4224, certifying in either case that such Bank is entitled to receive payments under this Agreement without deduction or withholding of any United States federal income taxes, and (ii) deliver to each of the Company and the Agent a United States Internal Revenue Form W-8 or W-9, as the case may be, and certify that it is entitled to an exemption from United States backup withholding tax. Each Non-U.S. Bank further undertakes to deliver to each of the Company and the Agent (x) renewals or additional copies of such form (or any successor form) on or before the date that such form expires or becomes obsolete, and (y) after the occurrence of any event requiring a change in the most recent forms so delivered by it, such additional forms or amendments thereto as may be reasonably requested by the Company or the Agent. All forms or amendments described in the preceding sentence shall certify that such Bank is entitled to receive payments under this Agreement without deduction or withholding of any United States federal income taxes, unless an event (including without limitation any change in treaty, law or regulation) has occurred prior to the date on which any such delivery would otherwise be required which renders all such forms inapplicable or which would prevent such Bank from duly completing and delivering any such form or amendment with respect to it and such Bank advises the Company and the Agent that it is not capable of receiving payments without any deduction or withholding of United States federal income tax.

(v) For any period during which a Non-U.S. Bank has failed to provide the Company with an appropriate form pursuant to clause (iv), above (unless such failure is due to a change in treaty, law or regulation, or any change in the interpretation or administration thereof by any governmental authority, occurring subsequent to the date on which a form originally was required to be provided), such Non-U.S. Bank shall not be entitled to indemnification under this Section 3.4 with respect to Taxes imposed by the United States; provided that, should a Non-U.S. Bank which is otherwise exempt from or subject to a reduced rate of withholding tax become subject to Taxes because of its failure to deliver a form required

under clause (iv), above, the Company shall take such steps as such Non-U.S. Bank shall reasonably request to assist such Non-U.S. Bank to recover such Taxes.

(vi) Any Bank that is entitled to an exemption from or reduction of withholding tax with respect to payments under this Agreement or any Note pursuant to the law of any relevant jurisdiction or any treaty shall deliver to the Company (with a copy to the Agent), at the time or times prescribed by applicable law, such properly completed and executed documentation prescribed by applicable law as will permit such payments to be made without withholding or at a reduced rate.

3.5. Bank Certificates; Survival of Indemnity. To the extent reasonably possible, each Bank shall designate an alternate Lending Installation with respect to its Eurodollar Loans to reduce any liability of the Company to such Bank under Section 3.1 or to avoid the unavailability of a Rate Option under Section 3.2, so long as such designation is not disadvantageous to such Bank. A certificate of a Bank as to the amount due under Section 3.1, 3.3 and 3.4 shall be final, conclusive and binding on the Company in the absence of manifest error. Determination of amounts payable under such Sections in connection with a Eurodollar Loan shall be calculated as though each Bank funded its Eurodollar Loan through the purchase of a deposit of the type and maturity corresponding to the deposit used as a reference in determining the Eurodollar applicable to such Loan, whether in fact that is the case or not. Unless otherwise provided herein, the amount specified in the certificate shall be payable on demand after receipt by the Company of the certificate. The obligations of the Company under Sections 3.1, 3.3 or 3.4 shall survive payment of the Obligations and termination of this Agreement.

#### ARTICLE IV

##### CONDITIONS PRECEDENT

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4.1. Initial Advance. The Banks shall not be required to make the initial Advance hereunder unless the Company has furnished to the Agent with sufficient copies for the Banks:

- (a) Copies of the Articles of Incorporation of the Company, together with all amendments, and a certificate of good standing, both certified by the appropriate governmental officer in its jurisdiction of incorporation.
- (b) Copies, certified by the Secretary or Assistant Secretary of the Company, of its By-Laws and of its Board of Directors' resolutions (and resolutions of other bodies, if any are deemed necessary by counsel for any Bank) authorizing the execution of the Loan Documents.
- (c) An incumbency certificate, executed by the Secretary or Assistant Secretary of the Company, which shall identify by name and title and bear the signature of the officers of the Company authorized to sign the Loan Documents and to make borrowings hereunder, upon which certificate the Banks shall be entitled to rely until informed of any change in writing by the Company.
- (d) A certificate, signed by the chief financial officer of the Company, stating that on the initial Borrowing Date no Default or Unmatured Default has occurred and is continuing.

- (e) A written opinion of the Company's counsel, addressed to the Banks in substantially the form of Exhibit "B" hereto.
- (f) Notes payable to the order of each of the Banks.
- (g) Evidence satisfactory to the Banks that the 1990 Credit Agreement has been terminated and all indebtedness and obligations thereunder has been paid in full.
- (h) Such other documents as any Bank or its counsel may have reasonably requested.

4.2. Each Advance. No Bank shall be required to make any Advance (including the initial Advance), unless on the applicable Borrowing Date:

- (a) There exists no Default or Unmatured Default.
- (b) The representations and warranties (other than the representation contained in Section 5.5) contained in Article V are true and correct as of such Borrowing Date except for changes in the Schedules hereto reflecting transactions permitted by this Agreement.
- (c) All legal matters incident to the making of such Advance shall be satisfactory to the Banks and their counsel.

Each Borrowing Notice with respect to each such Advance shall constitute a representation and warranty by the Company that the conditions contained in Sections 4.2(a) and (b) have been satisfied. Any Bank may require a duly completed compliance certificate in substantially the form of Exhibit "C" hereto as a condition to making an Advance.

ARTICLE V

REPRESENTATIONS AND WARRANTIES

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The Company represents and warrants to the Banks that:

5.1. Corporate Existence and Standing. Each of the Company and the Subsidiaries is a corporation duly incorporated, validly existing and in good standing under the laws of its jurisdiction of incorporation and has all requisite authority to conduct its business in each jurisdiction in which its business is conducted except in those instances in which the failure to maintain such authority does not materially adversely affect the business or condition of the Company and the Subsidiaries taken as a whole.

5.2. Authorization and Validity. The Company has the corporate power and authority and legal right to execute and deliver the Loan Documents and to perform its obligations thereunder. The execution and delivery by the Company of the Loan Documents and the performance of its obligations thereunder have been duly authorized by proper corporate proceedings, and the Loan Documents constitute legal, valid and binding obligations of the Company enforceable against the Company in

accordance with their terms, except as enforceability may be limited by bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally.

5.3. No Conflict; Government Consent. Neither the execution and delivery by the Company of the Loan Documents, nor the consummation of the transactions therein contemplated, nor compliance with the provisions thereof will violate any law, rule, regulation, order, writ, judgment, injunction, decree or award binding on the Company or any Restricted Subsidiary or the Company's or any Restricted Subsidiary's articles of incorporation or by-laws or the provisions of any indenture, instrument or agreement to which the Company or any Restricted Subsidiary is a party or is subject, or by which it, or its property, is bound, or conflict with or constitute a default thereunder, or result in the creation or imposition of any Lien in, of or on the property of the Company or a Restricted Subsidiary pursuant to the terms of any such indenture, instrument or agreement. No order, consent, approval, license, authorization, or validation of, or filing, recording or registration with, or exemption by, any governmental or public body or authority, or any subdivision thereof, is required to authorize, or is required in connection with the execution, delivery and performance of, or the legality, validity, binding effect or enforceability of, any of the Loan Documents.

5.4. Financial Statements. The December 31, 1996 audited consolidated financial statements and the September 30, 1997 unaudited consolidated financial statements of the Company and the Restricted Subsidiaries heretofore delivered to the Banks were prepared in accordance with generally accepted accounting principles in effect on the date such statements were prepared and fairly present the consolidated financial condition and operations of the Company and the Restricted Subsidiaries at such date and the consolidated results of their operations for the period then ended.

5.5. Material Adverse Change. No material adverse change in the business, financial condition, prospects or results of operations of the Company and the Restricted Subsidiaries has occurred since the date of the financial statements referred to in Section 5.4.

5.6. Taxes. The Company and the Restricted Subsidiaries have filed all United States federal tax returns and all other tax returns which are required to be filed and have paid all taxes due pursuant to said returns or pursuant to any assessment received by the Company or any Subsidiary, except such taxes, if any, as are being contested in good faith and as to which adequate reserves have been provided. The United States income tax returns of the Company and the Subsidiaries have been audited by the Internal Revenue Service through the fiscal year ended December 31, 1993. No tax liens have been filed and no claims are being asserted with respect to any such taxes. To the best of the Company's knowledge and belief, the charges, accruals and reserves on the books of the Company and the Restricted Subsidiaries in respect of any taxes or other governmental charges are adequate.

5.7. Litigation. Except as disclosed in the Company's financial statements referred to in Section 5.4 and the opinion of the Company's counsel referred to in Section 4.1(e), there is no litigation or proceeding pending or, to the knowledge of any of their officers, threatened against or affecting the Company or any Restricted Subsidiary which might materially adversely affect the business, financial condition or results of operations of the Company or the ability of the Company to perform its obligations under the Loan Documents. No material adverse change, as evidenced by the filing of a Form 8-K, in the litigation referred to in the opinion of the Company's counsel referred to in Section 4.1(e) has occurred since the date of this Agreement. The Company is not, to the best of its knowledge and belief (i) in default with respect to any order, writ, injunction or decree of any court or (ii) in default in any material respect under any order, regulations (including but not limited to any environmental regulation),

permit, license or demand of any federal, state, municipal or other governmental agency, the consequences of which would materially and adversely affect the business, properties or assets or the condition, financial or otherwise, of the Company.

5.8. Subsidiaries. Schedule "1" hereto contains an accurate list of all of the presently existing Subsidiaries of the Company, setting forth, among other things, their respective jurisdictions of incorporation and the percentage of their respective capital stock owned by the Company or other Subsidiaries and whether each Subsidiary is a Restricted Subsidiary or an Unrestricted Subsidiary. All of the issued and outstanding shares of capital stock of such Subsidiaries have been duly authorized and issued and are fully paid and non-assessable.

5.9. ERISA. The Unfunded Liabilities of all Plans do not in the aggregate exceed \$5,000,000. Each Plan complies in all material respects with all applicable requirements of law and regulations and no Reportable Event has occurred with respect to any Plan.

5.10. Accuracy of Information. No information, exhibit or report furnished by the Company or any Subsidiary to the Agent or to any Bank in connection with the negotiation of the Loan Documents contained any material misstatement of fact or omitted to state a material fact or any fact necessary to make the statements contained therein not misleading.

5.11. Regulation U. Margin stock (as defined in Regulation U) constitutes less than 25% of those assets of the Company and its Subsidiaries which are subject to any limitation on sale, pledge, or other restriction hereunder.

5.12. Material Agreements. Neither the Company nor any Subsidiary is a party to any agreement or instrument or subject to any charter or other corporate restriction materially and adversely affecting its business, properties or assets, operations or condition (financial or otherwise). Neither the Company nor any Subsidiary is in default in the performance, observance or fulfillment of any of the obligations, covenants or conditions contained in (i) any agreement to which it is a party, which default might have a material adverse effect on the business, properties or assets, operations, or condition (financial or otherwise) of the Company and its Subsidiaries or (ii) any agreement or instrument evidencing or governing Indebtedness.

5.13. Subordinated Indebtedness. The Obligations constitute senior indebtedness which will be entitled to the benefits of the subordination provisions of all outstanding Subordinated Indebtedness.

5.14. Compliance with Environmental Laws. Except as disclosed in the Company's financial statements referred to in Section 5.4, the Company and its Subsidiaries comply with all applicable Federal, state and local laws, statutes, rules, regulations and ordinances relating to public health, safety or the environment including, without limitation, relating to releases, discharges, emissions or disposals to air, water, land or ground water, to the withdrawal or use of ground water, to the use, handling or disposal of polychlorinated biphenyls (PCBs), asbestos or urea formaldehyde, to the treatment, storage, disposal or management of hazardous substances (including, without limitation, petroleum, its derivatives, by-products or other hydrocarbons), to exposure to toxic, hazardous or other controlled, prohibited or regulated substances, to the transportation, storage, disposal, management or release of gases or liquid substances, the failure to comply with which could have a materially adverse effect on the Company, its Subsidiaries, their business and properties, taken as a whole. The Company does not know of any liability of the Company or any Subsidiary under the Comprehensive Environmental Response,

Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986 (42 U.S.C. Section 9601 et seq.) which could have a material adverse effect on the Company and its Subsidiaries on a consolidated basis.

5.15. Compliance With Laws. The Company and its Subsidiaries have complied with all applicable statutes, rules, regulations, orders and restrictions of any domestic or foreign government or any instrumentality or agency thereof having jurisdiction over the conduct of their respective businesses or the ownership of their respective Property, except for any failure to comply with any of the foregoing which could not reasonably be expected to have a material adverse effect on the Company and its Subsidiaries on a consolidated basis.

5.16. Ownership of Properties. Except as set forth on Schedule 2, on the date of this Agreement, the Company and its Subsidiaries will have good title, free of all Liens other than those permitted by Section 6.14, to all of the Property and assets reflected in the Company's most recent consolidated financial statements provided to the Agent as owned by the Company and its Subsidiaries.

5.17. Plan Assets; Prohibited Transactions. The Company is not an entity deemed to hold "plan assets" within the meaning of 29 C.F.R. (S) 2510.3-101 of an employee benefit plan (as defined in Section 3(3) of ERISA) which is subject to Title I of ERISA or any plan (within the meaning of Section 4975 of the Code), and neither the execution of this Agreement nor the making of Loans hereunder gives rise to a prohibited transaction within the meaning of Section 406 of ERISA or Section 4975 of the Code.

5.18. Investment Company Act. Neither the Company nor any Subsidiary is an "investment company" or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended.

5.19. Public Utility Holding Company Act. Neither the Company nor any Subsidiary is a "holding company" or a "subsidiary company" of a "holding company", or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company", within the meaning of the Public Utility Holding Company Act of 1935, as amended.

#### ARTICLE VI

#### COVENANTS

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During the term of this Agreement, and until the Obligations are paid in full, unless the Required Banks shall otherwise consent in writing:

6.1. Financial Reporting. The Company will maintain, for itself and each Subsidiary, a system of accounting established and administered in accordance with generally accepted accounting principles ("GAAP"), and furnish to the Banks:

(a) Annual Reports and Financial Statements. As soon as reasonably possible, and in any event within 90 days after the close of each fiscal year of the Company, (1) the balance sheet of the Company and the Restricted Subsidiaries as of the end of such fiscal year, setting forth in comparative form the corresponding figures as of the end of the preceding fiscal year,

and (2) the statements of income, stockholders' equity and cash flows of the Company and the Restricted Subsidiaries for such fiscal year, setting forth in comparative form the corresponding figures for the preceding fiscal year. Such balance sheet and statements shall be prepared in reasonable detail and in accordance with Agreement Accounting Principles and shall be prepared on a consolidated basis under the circumstances set forth in the first paragraph following subsection (i) of this Section 6.1; and such balance sheets and statements shall be accompanied by an opinion of independent public accountants of recognized national standing acceptable to the Banks, which opinion shall state that such financial statements were prepared in accordance with GAAP. In addition, such accountants will furnish to you a letter stating that in making their examination of such financial statements nothing came to their attention which caused them to believe that there was any Default by the Company in the performance or observance of any covenant, condition or agreement of the Company contained herein insofar as such covenants, conditions or agreements pertain to accounting matters, provided that if in the course of their regular auditing procedure such accountants become aware of any other type of default, they shall disclose the same but such accountants shall have no responsibility for ascertaining the existence of any such Default. The Company agrees to supply you promptly with a copy of any letter, certificate or other writing supplied by its independent public accountants to any other person pertaining to whether such accountants have cause to believe that there has been any default by the Company under any other agreement or evidence of Indebtedness.

(b) Quarterly Financial Statements. As soon as reasonably possible, and in any event within 60 days after the close of each of the first three fiscal quarters of the Company, (1) the balance sheet of the Company and its Restricted Subsidiaries as of the end of such quarter, setting forth in comparative form the corresponding figures for the corresponding quarter of the preceding fiscal year, and (2) the income and stockholders' equity and cash flows statements of the Company and Restricted Subsidiaries for such quarter and for the portion of the fiscal year ended with such quarter, setting forth in comparative form the corresponding figures for the corresponding periods of the preceding fiscal year, all in reasonable detail (and prepared on a consolidated basis under the circumstances set forth in the first paragraph following subsection (i) of this Section 6.1) and certified as complete and correct by a principal financial officer of the Company.

(c) Together with the financial statements required hereunder, a compliance certificate in substantially the form of Exhibit "C" hereto signed by its chief financial officer showing the calculations necessary to determine compliance with this Agreement and stating that no Default or Unmatured Default exists, or if any Default or Unmatured Default exists, stating the nature and status thereof.

(d) During each fiscal year, within 30 days of receipt, a statement of the Unfunded Liabilities of each Plan, certified as correct by an actuary enrolled under ERISA.

(e) As soon as possible and in any event within 10 days after the Company knows that any Reportable Event has occurred with respect to any Plan, a statement, signed by the chief financial officer of the Company, describing said Reportable Event and the action which the Company proposes to take with respect thereto.

(f) Promptly upon the furnishing thereof to the shareholders of the Company, copies of all financial statements, reports and proxy statements so furnished.

(g) Promptly upon the filing thereof, copies of all registration statements and annual, quarterly, monthly or other regular reports which the Company or any Restricted Subsidiary files with the Securities and Exchange Commission.

(h) Promptly after the end of each fiscal quarter revised Schedules 1, 2 and 3 to the Agreement if there are any additions or deletions to those Schedules.

(i) Such other information (including non-financial information) as the Agent or any Bank may from time to time reasonably request.

If, and so long as, the Company has (i) one or more Restricted Subsidiaries, the financial statements referred to in subsections (a) and (b) of this Section 6.1 shall be on a consolidated basis prepared in accordance with Agreement Accounting Principles, or (ii) one or more Unrestricted Subsidiaries, the Company shall deliver to the Agent, promptly after receipt thereof, copies of balance sheets and income and surplus and cash flows statements of each such Subsidiary, prepared in accordance with Agreement Accounting Principles, which are not included in the financial statements furnished pursuant to subsection (a) of this Section 6.1, in the form delivered to the Company for the fiscal year of each such Subsidiary.

6.2. Use of Proceeds. The Company will, and will cause each Restricted Subsidiary to, use the proceeds of the Advances to finance Acquisitions, other than Unfriendly Acquisitions, for working capital and general corporate purposes. The Company will not, nor will it permit any Restricted Subsidiary to, use any of the proceeds of the Loans to purchase or carry any "margin stock" (as defined in Regulation U).

6.3. Interest Coverage Ratio. The Company and the Restricted Subsidiaries will maintain a ratio of Consolidated Earnings Before Interest and Taxes to Consolidated Interest Expense, as of the end of each fiscal quarter of the Company, such that the ratio calculated for such fiscal quarter and the preceding three fiscal quarters taken as one accounting period is at least 2.0 to 1.0.

6.4. Notice of Default. The Company will, and will cause each Restricted Subsidiary to, give prompt notice in writing to the Banks of the occurrence of any Default or Unmatured Default and of any other development, financial or otherwise, which might materially adversely affect its business, properties or affairs or the ability of the Company to repay the Obligations within five days after the Company's senior management shall have the knowledge that an event constituting a Default or Unmatured Default or such a development has occurred.

6.5. Conduct of Business. The Company will, and will cause each Restricted Subsidiary to, carry on and conduct its business in the fields of manufacturing, developing, producing and selling products which are primarily in the chemical field and to do all things necessary to remain duly incorporated, validly existing and in good standing as a domestic corporation in its jurisdiction of incorporation and maintain all requisite authority to conduct its business in each jurisdiction in which its business is conducted except on those instances in which the failure to maintain all such authority does not materially adversely affect the business of the Company and the Restricted Subsidiaries taken as a whole.

6.6. Taxes. The Company will, and will cause each Restricted Subsidiary to, pay when due all taxes, assessments and governmental charges and levies upon it or its income, profits or property,



except those which are being contested in good faith by appropriate proceedings and with respect to which adequate reserves have been set aside.

6.7. Insurance. The Company will, and will cause each Restricted Subsidiary to, maintain with financially sound and reputable insurance companies insurance on all their property in such amounts and covering such risks as is consistent with sound business practice, and the Company will furnish to any Bank upon request full information as to the insurance carried.

6.8. Compliance with Laws. The Company will, and will cause each Restricted Subsidiary to, comply with all laws, rules, regulations, orders, writs, judgments, injunctions, decrees or awards to which it may be subject except to the extent that such laws, rules, regulations, orders, writs, judgments, decrees or awards (or the application of any thereof to the Company or a Restricted Subsidiary thereof) are being contested by the Company by appropriate proceedings provided that neither the Company nor any Restricted Subsidiary shall be required to maintain all requisite authority to conduct its business in each jurisdiction in which its business is conducted in those instances where the failure to maintain all such authority does not materially adversely affect the business or condition of the Company and the Restricted Subsidiaries taken as a whole.

6.9. Maintenance of Properties. The Company will, and will cause each Restricted Subsidiary to, do all things necessary to maintain, preserve, protect and keep its properties in good repair, working order and condition, and make all necessary and proper repairs, renewals and replacements so that its business carried on in connection therewith may be properly conducted at all times except to the extent that compliance with this Section 6.9 is made impossible by fire, flood, earthquakes, storm, natural disaster, strikes, accidents, inability to secure labor or other causes beyond the control of the Company and the Restricted Subsidiaries.

6.10. Inspection. The Company will, and will cause each Restricted Subsidiary to, permit the Banks, by their respective representatives and agents, to inspect any of the properties, corporate books and financial records of the Company and each Restricted Subsidiary, to examine and make copies of the books of accounts and other financial records of the Company and each Restricted Subsidiary, and to discuss the affairs, finances and accounts of the Company and each Restricted Subsidiary with, and to be advised as to the same by, their respective officers at such reasonable times and intervals as the Banks may designate.

6.11. Dividends. The Company will not declare or pay, or set apart any funds for the payment of, any dividends (other than dividends payable in common stock of the Company) on any shares of capital stock of any class of the Company, or apply any of its funds, property or assets to, or set apart any funds, property or assets for, the purchase, redemption or other retirement of, or make any other distribution, by reduction of capital or otherwise, in respect of, any shares of capital stock of any class of the Company (collectively referred to as "Restricted Payments"), unless, immediately after giving effect to such action:

the sum of

(1) the amounts declared and paid or payable as, or set apart for, dividends (other than dividends paid or payable in common stock of the Company) on, or distributions (taken at cost to the Company or fair value at time of distribution, whichever is higher) in respect of, all shares of capital stock of all classes of the Company subsequent to December 31, 1996, and

(2) the excess, if any, of the amounts applied to, or set apart for, the purchase, redemption or retirement of all shares of capital stock of all classes of the Company subsequent to December 31, 1996, over the sum of (i) such amounts as shall have been received as the net cash proceeds of sales of shares of capital stock of all classes of the Company subsequent to December 31, 1996, plus (ii) the aggregate principal amount of all indebtedness of the Company and its subsidiaries converted into or exchanged for shares of capital stock of the Company subsequent to December 31, 1996,

will not be in excess of (x) \$30,000,000 plus (or minus in the case of a deficit) (y) the consolidated net income of the Company and its Restricted Subsidiaries accrued subsequent to December 31, 1996. The foregoing provisions of this Section 6.11 to the contrary notwithstanding (i) the Company may pay any dividend within 90 days of the date of its declaration if, on the date of declaration, such dividend could properly have been paid within the limitations of this Section 6.11 and (ii) the Company may pay regular dividends on or make payments or purchases required to be made at the time when made by the terms of any sinking fund, purchase fund or mandatory redemption requirement in respect of any outstanding shares of preferred stock of the Company originally issued for cash but all amounts so paid or applied pursuant to clauses (i) and (ii) above shall be included in any subsequent computation of Restricted Payments under this Section 6.11. The Company will not declare any dividend payable more than 90 days after the date of declaration thereof. The Company will not declare any dividend if a Default or Unmatured Default shall have occurred and be continuing.

6.12. Indebtedness. (A) The Company will not create, incur, issue, assume, permit to exist or become or be liable, contingently or otherwise, in respect of any Current Indebtedness or Funded Indebtedness other than:

(1) Unsecured Current Indebtedness arising in the ordinary course of business;

(2) Indebtedness represented by dividends declared as permitted by Section 6.11, but not yet paid;

(3) Unsecured Current Indebtedness for borrowed money;

(4) Current Indebtedness representing amounts payable within one year in respect of any Funded Indebtedness permitted by this Section 6.12;

(5) Funded Indebtedness, provided that Consolidated Funded Indebtedness of the Company and the Restricted Subsidiaries at no time exceeds an amount equal to 55% of Consolidated Capitalization, provided further that for purposes of this Section 6.12 (A) (5) all obligations incurred pursuant to Sections 6.18 (2), (3), and (4) shall constitute Funded Indebtedness.

(B) Limitations on Restricted Subsidiaries. The Company will not cause, suffer or permit any Restricted Subsidiary to:

(1) Create, incur, issue, assume or become or be liable, contingently or otherwise, in respect of any Indebtedness except (a) indebtedness existing at the time of becoming a Restricted Subsidiary, (b) indebtedness to the Company or to another Restricted Subsidiary, (c) unsecured accounts payable and other unsecured obligations (other than as a result of borrowing)

incurred in the ordinary course of business of such Subsidiary, (d) secured Funded Indebtedness incurred or assumed solely for the purpose of financing the acquisition of property and secured only as permitted under clauses (2), (3) and (4) of Section 6.18 and (e) indebtedness guaranteed by the Company as permitted by Section 6.17, provided that the aggregate principal amount of all such Indebtedness permitted by sub-clauses (a), (b), (d) and (e) shall not at any time exceed 20% of Consolidated Tangible Net Worth plus deferred taxes and investment tax credits of the Company and its Restricted Subsidiaries; or

(2) Issue or sell any shares of its capital stock or securities convertible into such capital stock except (a) issuance or sale of directors' qualifying shares, (b) issuance or sale to the Company or to any Wholly-Owned Restricted Subsidiary and (c) issuance or sale of additional shares of stock of any such Subsidiary to any holders thereof entitled to receive or purchase such additional shares through the declaration of a stock dividend or through the exercise of preemptive rights; or

(3) Sell, assign, transfer or otherwise dispose of any shares of capital stock of any class of any other Restricted Subsidiary, or any other security of, or any Indebtedness owing to it by, any other Restricted Subsidiary (except in each case to the Company or to a Wholly-Owned Restricted Subsidiary) unless such sale, assignment, transfer or other disposition shall meet all the conditions set forth in Section 6.20 which would be applicable to a similar disposition made by the Company; or

(4) Consolidate with or merge into any other corporation or permit any other corporation to merge into it, except a merger into or consolidation with (a) the Company, (b) any Wholly-Owned Restricted Subsidiary or (c) any other corporation if, immediately thereafter, the surviving corporation shall be a Restricted Subsidiary and the Company shall be in full compliance with all the terms and provisions of this Agreement; or

(5) Sell, lease, transfer or otherwise dispose of all or any substantial part of its property and assets except (a) to the Company or any Wholly-Owned Restricted Subsidiary or (b) in the case of a sale to any other person, in compliance with all applicable requirements of Section 6.21 and Section 6.14; or

(6) make any Investments or commitments to make Investments except as expressly permitted by Section 6.16.

Any corporation which becomes a Restricted Subsidiary after the date hereof shall for all purposes of this Section 6.12(B) be deemed to have created, assumed or incurred, at the time it becomes a Restricted Subsidiary, all Indebtedness of such corporation existing immediately after it becomes a Restricted Subsidiary.

6.13. Mergers and Consolidations. The Company will not consolidate with or merge into any other corporation, or permit any other corporation to merge into the Company, unless (a) the surviving or continuing corporation shall be the Company, and (b) no Default or Unmatured Default shall exist at the time of, or result from, such merger or consolidation, and (c) after giving effect to such consolidation or merger the Company would be in compliance with Section 6.12(A)(5).

6.14. Sale of Assets. The Company will not, nor will it permit any Restricted Subsidiary to, lease, sell or otherwise dispose of all, or a substantial portion of, its property, assets or business to any other Person except for:

(a) Sales of inventory in the ordinary course of business,

(b) In addition to sales of inventory permitted by Section 6.14 (a), the Company and the Restricted Subsidiaries may sell, lease and otherwise dispose of property, assets and businesses including the Phthalic Anhydride Line provided that, after giving effect to any such sale, lease or other disposition, the aggregate fair market value of all property, assets and businesses (other than inventory sold in the ordinary course of business and excluding the Phthalic Anhydride Line) sold, leased or otherwise disposed of by the Company and the Restricted Subsidiaries during any one fiscal year of the Company shall not exceed 15% of Consolidated Tangible Assets as of the last day of the immediately preceding fiscal year of the Company. Notwithstanding the above-referenced annual limitation on the fair market value of all assets sold, leased or disposed of, excluding the Phthalic Anhydride line, the aggregate amount of all assets, sold leased or otherwise disposed of pursuant to this Section 6.14 after December 31, 1996 shall not exceed \$50,000,000 on a cumulative basis.

The Company will not, nor will it permit any Restricted Subsidiary to, sell or otherwise dispose of any notes receivable or accounts receivable, with or without recourse.

6.15. Sale and Leaseback. The Company will not, nor will it permit any Restricted Subsidiary to enter into any arrangement, directly or indirectly, with any Person whereby the Company or any Restricted Subsidiary shall sell or transfer any manufacturing plant or equipment owned or acquired by the Company or any Restricted Subsidiary and then or thereafter rent or lease, as lessee, such property or any part thereof, or other property which the Company or any Restricted Subsidiary, as the case may be, intends to use for substantially the same purpose or purposes as the property being sold or transferred, unless (a) the lease covering such property shall be for a term of not less than three years and (b) the Company could then incur Funded Indebtedness pursuant to Section 6.12 in an amount not less than the capitalized value of the rentals payable by the Company or any Restricted Subsidiary, as the case may be, under such lease determined in accordance with Agreement Accounting Principles.

6.16. Investments. The Company will not, nor will it permit any Restricted Subsidiary to, make or suffer to exist any Investments (including without limitation, loans and advances to, and other Investments in, Subsidiaries), or commitments therefor, or to create any Subsidiary or to become or remain a partner in any partnership or joint venture, or to make any Acquisition of any Person, except:

(a) Short-term obligations of, or fully guaranteed by, the United States of America,

(b) Commercial paper rated A-1 or better by Standard and Poor's Corporation or P-1 or better by Moody's Investors Service, Inc.,

(c) Demand deposit accounts maintained in the ordinary course of business,

(d) Certificates of deposit issued by and time deposits with commercial banks (whether domestic or foreign) having capital and surplus in excess of \$50,000,000,

(e) Loans to officers and employees made in connection with their relocation and purchase of housing,

(f) Loans to officers and employees in addition to those permitted by Section 6.16(e) provided that the aggregate amount of such additional loans shall not exceed \$1,000,000 in the aggregate for the Company and the Restricted Subsidiaries at any one time outstanding,

(g) Investments made by a Restricted Subsidiary in the Company or another Restricted Subsidiary, and

(h) Investments of cash made by the Company or a Restricted Subsidiary in Persons other than the Company or a Restricted Subsidiary provided, however, that notwithstanding any of the foregoing, the Company will not, nor will it permit any Restricted Subsidiary to make any Investment, or any commitment to any Investment, if immediately after giving effect to any such proposed Investment, whether made before or after the date hereof, the aggregate amount of all of the Investments, (all such Investments to be taken at the cost thereof at the time of making such Investment without allowance for any subsequent write-offs or appreciation or depreciation thereof, but less any amount repaid or recovered on account of capital or principal), shall exceed 30% of the Consolidated Tangible Net Worth plus deferred taxes and investment tax credits of the Company and its Restricted Subsidiaries.

6.17. Guaranties. The Company will not, nor will it permit any Restricted Subsidiary to, Guarantee any dividend, or Guarantee any obligation or Indebtedness, enter into or remain liable upon any Guaranty of any other Person other than (1) an obligation or Indebtedness of a Restricted Subsidiary which such Subsidiary shall be authorized to incur pursuant to the provisions of this Agreement exclusive of Indebtedness permitted by clause (iii) of this Section 6.17 and obligations or Indebtedness secured by mortgages or Liens permitted under clauses (2), (3) and (4) of Section 6.18, (ii) Guaranties incurred in the ordinary course of business of the Company or of a Restricted Subsidiary and (iii) Indebtedness guaranteed by the Company to the extent permitted by Section 6.12(A)(5).

6.18. Liens. The Company will not, and will not permit any Restricted Subsidiary to, create or incur or suffer to be created or incurred or to exist any mortgage, Lien, security interest, charge or encumbrance of any kind on, or pledge of, any property or assets of any kind, real or personal, tangible or intangible, of the Company or any such Restricted Subsidiary, whether owned before or after the date hereof, or acquire or agree to acquire any property or assets of any kind under a conditional sale agreement or other title retention agreement or file or permit the filing of any financing statement under the Uniform Commercial Code or other similar notice under any other similar statute without equally and ratably securing this Agreement; provided, however, that the provisions of this Section 6.18 shall not prevent or restrict the creation, incurring or existence of any of the following:

(1) Any mortgage, lien, security interest, charge or encumbrance on, or pledge of, any property or assets of any Restricted Subsidiary to secure Indebtedness owing by it to the Company or a Wholly-Owned Restricted Subsidiary;

(2) Purchase money mortgages or other liens on real property (including leaseholds) and fixtures thereon, acquired by the Company or any Restricted Subsidiary, to secure the purchase price of such property (or to secure Indebtedness incurred solely for the purpose of financing the acquisition of any such property to be subject to such mortgage or other lien), or

mortgages or other liens existing on any such property at the time of acquisition of such property by the Company or by Restricted Subsidiary, whether or not assumed, or any mortgage or Lien on real property of Restricted Subsidiary, provided that at the time of the acquisition of the property by the Company or a Restricted Subsidiary, or at the time of the acquisition of the Restricted Subsidiary by the Company, as the case may be, (a) the principal amount of the Indebtedness secured by each such mortgage or Lien, plus the principal amount of all other indebtedness secured by mortgages or Liens on the same property, shall not exceed 75% of the fair value thereof (without deduction of the Indebtedness secured by mortgages or Liens on such property) at the time of the acquisition thereof by the Company or Restricted Subsidiary, whichever is the lesser, (b) every mortgage or Lien shall apply only to the property originally subject thereto and fixed improvements constructed thereon.

(3) Refundings or extensions of the mortgages or Liens permitted in the foregoing subsection 6.18(2) for amounts not exceeding the principal amounts of the indebtedness so refunded or extended at the time of the refunding or extension thereof, and applying only to the same property theretofore subject to the same and fixed improvements constructed thereon;

(4) the owning or acquiring or agreeing to acquire machinery or equipment useful for the business of the Company or any Restricted Subsidiary subject to or upon chattel mortgages or conditional sale agreements or other title retention agreements;

(5) Deposits, liens or pledges to enable the Company or any Restricted Subsidiary to exercise any privilege or license, or to secure payments of workmen's compensation, unemployment insurance, old age pensions or other social security, or to secure the performance of bids, tenders, contracts (other than for the payment of money) or leases to which the Company or any Restricted Subsidiary is a party, or to secure public or statutory obligations of the Company or any Restricted Subsidiary, or to secure surety, stay or appeal bonds to which the Company or any Restricted Subsidiary is a party, but, as to all of the foregoing, only if the same shall arise and continue in the ordinary course of business; or other similar deposits or pledges made and continued in the ordinary course of business;

(6) Mechanic's, workmen's, repairmen's or carriers' Liens, but only if arising, and only so long as continuing, in the ordinary course of business; or other similar Liens arising and continuing in the ordinary course of business; or deposits or pledges in the ordinary course of business to obtain the release of any such Liens;

(7) Liens arising out of judgments or awards against the Company or any Restricted Subsidiary with respect to which the Company or such Restricted Subsidiary shall in good faith be prosecuting an appeal or proceedings for review; or liens incurred by the Company or any such Restricted Subsidiary for the purpose of obtaining a stay or discharge in the course of any legal proceeding to which the Company or such Restricted Subsidiary is a party;

(8) Liens for taxes not yet subject to penalties for non-payment or contested in good faith where adequate reserves have been set aside, or minor survey exceptions, or minor encumbrances, easements or reservations of, or rights of others for, rights of way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real properties, which encumbrances, easements, reservations, rights and restrictions do not in the aggregate materially detract from the value of said properties or

materially impair their use in the operation of the business of the Company or of such Restricted Subsidiary owning the same;

(9) Liens in favor of the United States of America or any department or agency thereof or in favor of a prime contractor under a United States Government contract, and resulting from the acceptance of progress or partial payments under United States Government contracts or subcontracts thereunder;

(10) Inchoate liens arising under the ERISA to secure contingent liabilities; and

(11) Any arrangement permitted by Section 6.15 of Article VI.

provided, however, that (i) the aggregate amount of all liens permitted by Section 6.18(2) and Sections 6.18(3) and 6.18(4) shall not exceed an amount equal to 15% of Consolidated Tangible Net Worth plus deferred taxes and investment tax credits and (ii) the sum, without duplication of (x) the aggregate unpaid principal amount of all Indebtedness of the Company or any Restricted Subsidiary secured pursuant to the provisions of Section 6.18(2), 6.18(3) and 6.18(4) and (y) the aggregate unpaid principal amount of all Indebtedness of Restricted Subsidiaries permitted by Sections 6.12(B)(1)(a), (b), (d) and (e) shall not at any time exceed 30% of Consolidated Tangible Net Worth plus deferred taxes and investment tax credits.

6.19. Purchase of Stocks. The Company will not, nor will it permit any Restricted Subsidiary to extend credit to others for the purpose of purchasing or carrying any "margin stock" (as defined in Regulation U) or use any of the proceeds of the loans made under this Agreement (a) to purchase or carry any "margin stock" if, after giving effect to such purchase, more than 25% of the consolidated assets of the Company and the Restricted Subsidiaries subject to Section 6.14 or Section 6.18 consist of "margin stock" or (b) to acquire any security in any transaction which is subject to Sections 13 and 14 of the Securities Exchange Act of 1934.

6.20. Limitations on Dispositions of Stock or Indebtedness of Restricted Subsidiaries. The Company will not sell, assign, transfer or otherwise dispose of (except to a wholly-owned Restricted Subsidiary) any shares of capital stock of any class of any Restricted Subsidiary, or any other security of, or any Indebtedness owing to it by, any such Restricted Subsidiary, unless (i) all of the capital stock and other securities and the entire Indebtedness of such Restricted Subsidiary at the time owned by the Company and by all its other Restricted Subsidiaries shall be sold, assigned, transferred or otherwise disposed of, at the same time, for cash, (ii) such Restricted Subsidiary shall not, at the time of such sale, assignment, transfer or other disposition, own either (a) any shares of capital stock of any class or any other security or any Indebtedness of any other Restricted Subsidiary of the Company which is not being simultaneously disposed of as permitted by this Section 6.20 or (b) any Indebtedness of the Company, and (iii) such sales, assignment or transfer is permitted by Section 6.13 or Section 6.14 hereof.

6.21. Affiliates. The Company will not, and will not permit any Restricted Subsidiary to, enter into any transaction (including, without limitation, the purchase or sale of any Property or service) with, or make any payment or transfer to, any Affiliate except in the ordinary course of business and pursuant to the reasonable requirements of the Company's or such Restricted Subsidiary's business and upon fair and reasonable terms no less favorable to the Company or such Restricted Subsidiary than the Company or such Restricted Subsidiary would obtain in a comparable arms-length transaction.

ARTICLE VII

DEFAULTS

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The occurrence of any one or more of the following events shall constitute a Default:

7.1. Any representation or warranty made or deemed made by or on behalf of the Company or any Restricted Subsidiary to the Banks or the Agent under or in connection with this Agreement, any Loan, or any certificate or information delivered in connection with this Agreement or any other Loan Document shall be materially false as of the date on which made or deemed made.

7.2. Nonpayment of principal of any Note when due, or nonpayment of interest upon any Note or of any commitment fee or other obligations under any of the Loan Documents within five days after the same becomes due.

7.3. The breach by the Company of any of the terms or provisions of Article VI.

7.4. The breach by the Company (other than a breach which constitutes a Default under Section 7.1, 7.2 or 7.3) of any of the terms or provisions of this Agreement which is not remedied within five days after written notice from the Agent or any Bank.

7.5. Failure of the Company or any Restricted Subsidiary to pay any Indebtedness in a principal amount greater than \$2,500,000 when due; or the default by the Company or any Restricted Subsidiary in the performance of any term, provision or condition contained in any agreement under which any Indebtedness was created or is governed, the effect of which is to cause, or to permit the holder or holders of such Indebtedness to cause, such Indebtedness to become due prior to its stated maturity; or any Indebtedness shall be declared to be due and payable or required to be prepaid (other than by a regularly scheduled payment) prior to the stated maturity thereof.

7.6. The Company or any Restricted Subsidiary shall (a) have an order for relief entered with respect to it under the Federal Bankruptcy Code, (b) not pay, or admit in writing its inability to pay, its debts generally as they become due, (c) make an assignment for the benefit of creditors, (d) apply for, seek, consent to, or acquiesce in, the appointment of a receiver, custodian, trustee, examiner, liquidator or similar official for it or any substantial part of its property, (e) institute any proceeding seeking an order for relief under the Federal Bankruptcy Code or seeking to adjudicate it a bankrupt or insolvent, or seeking dissolution, winding up, liquidation, reorganization, arrangement, adjustment or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors or fail to file an answer or other pleading denying the material allegations of any such proceeding filed against it, (f) take any corporate action to authorize or effect any of the foregoing actions set forth in this Section 7.6 or (g) fail to contest in good faith any appointment or proceeding described in Section 7.7.

7.7. Without the application, approval or consent of the Company or any Restricted Subsidiary, a receiver, trustee, examiner, liquidator or similar official shall be appointed for the Company or any Restricted Subsidiary or any substantial part of its property, or a proceeding described in Section 7.6(e) shall be instituted against the Company or any Restricted Subsidiary and such appointment continues undischarged or such proceeding continues undismissed or unstayed for a period of 30 consecutive days.



7.8. Any court, government or governmental agency shall condemn, seize or otherwise appropriate, or take custody or control of all or any substantial portion of the property of the Company or any Restricted Subsidiary.

7.9. The Company or any Subsidiary shall fail within 60 days to pay, bond or otherwise discharge any judgment or order for the payment of money in excess of \$250,000, which is not stayed on appeal or otherwise being appropriately contested in good faith.

7.10. The Unfunded Liabilities of all Plans shall exceed in the aggregate \$5,000,000 or any Reportable Event shall occur in connection with any Plan.

7.11. Any Person or Persons other than Stepan Family acting in concert shall acquire beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934) of thirty percent (30%) or more of the outstanding shares of voting stock of the Company; or during any period of twelve (12) consecutive months, commencing before or after the Closing Date, individuals who at the beginning of such twelve-month period were directors of the Company cease for any reason to constitute a majority of the board of directors of the Company.

#### ARTICLE VIII

##### ACCELERATION, WAIVERS, AMENDMENTS AND REMEDIES

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8.1. Acceleration. If any Default described in Section 7.6 or 7.7 occurs, the obligations of the Banks to make Loans hereunder shall automatically terminate and the Obligations shall immediately become due and payable without any election or action on the part of the Agent or any Bank. If any other Default occurs, the Required Banks may terminate or suspend the obligations of the Banks to make Loans hereunder, or declare the Obligations to be due and payable, or both, whereupon the Obligations shall become immediately due and payable, without presentment, demand, protest or notice of any kind, all of which the Company hereby expressly waives.

8.2. Amendments. Subject to the provisions of this Article VIII, the Required Banks (or the Agent with the consent in writing of the Required Banks) and the Company may enter into agreements supplemental hereto for the purpose of adding or modifying any provisions to the Loan Documents or changing in any manner the rights of the Banks or the Company hereunder or waiving any Default hereunder; provided, however, that no such supplemental agreement shall, without the consent of all of the Banks:

- (i) Extend the final maturity of any Loan or forgive all or any portion of the principal amount thereof, or reduce the rate or extend the time of payment of interest or fees thereon.
- (ii) Reduce the percentage specified in the definition of Required Banks.
- (iii) Extend or reduce the amount or extend the payment date for, the mandatory payments required under Section 2.4, or increase the amount of the Commitment of any Bank hereunder, or permit the Company to assign its rights under this Agreement.

(iv) Amend this Section 8.2.

8.3. Preservation of Rights. No delay or omission of the Banks or the Agent to exercise any right under the Loan Documents shall impair such right or be construed to be a waiver of any Default or an acquiescence therein, and the making of a Loan notwithstanding the existence of a Default or the inability of the Company to satisfy the conditions precedent to such Loan shall not constitute any waiver or acquiescence. Any single or partial exercise of any such right shall not preclude other or further exercise thereof or the exercise of any other right, and no waiver, amendment or other variation of the terms, conditions or provisions of the Loan Documents whatsoever shall be valid unless in writing signed by the Banks required pursuant to Section 8.2, and then only to the extent in such writing specifically set forth. All remedies contained in the Loan Documents or by law afforded shall be cumulative and all shall be available to the Agent and the Banks until the Obligations have been paid in full.

## ARTICLE IX

### GENERAL PROVISIONS

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9.1. Survival of Representations. All representations and warranties of the Company contained in this Agreement shall survive delivery of the Notes and the making of the Loans herein contemplated.

9.2. Governmental Regulation. Anything contained in this Agreement to the contrary notwithstanding, no Bank shall be obligated to extend credit to the Company in violation of any limitation or prohibition provided by any applicable statute or regulation.

9.3. Taxes. Any taxes (excluding income taxes) payable or ruled payable by Federal or State authority in respect of the Loan Documents shall be paid by the Company, together with interest and penalties, if any.

9.4. Choice of Law. The Loan Documents (other than those containing a contrary express choice of law provision) shall be construed in accordance with the internal laws (and not the law of conflicts) of the State of Illinois, but giving effect to federal laws applicable to national and federally insured banks. The Company hereby irrevocably submits to the non-exclusive jurisdiction of any United States federal or Illinois state court sitting in Chicago in any action or proceedings arising out of or relating to any Loan Documents and the Company hereby irrevocably agrees that all claims in respect of such action or proceeding may be heard and determined in any such court. The Company hereby waives any right to a jury trial in any action arising hereunder.

9.5. Headings. Section headings in the Loan Documents are for convenience of reference only, and shall not govern the interpretation of any of the provisions of the Loan Documents.

9.6. Entire Agreement. The Loan Documents embody the entire agreement and understanding among the Company, the Agent and the Banks and supersede all prior agreements and understandings among the Company, the Agent and the Banks relating to the subject matter thereof other than the fee letter described in Section 10.13.

9.7. Several Obligations. The respective obligations of the Banks hereunder are several and not joint and no Bank shall be the partner or agent of any other (except to the extent to which the Agent is authorized to act as such). The failure of any Bank to perform any of its obligations hereunder shall not relieve any other Bank from any of its obligations hereunder. This Agreement shall not be construed so as to confer any right or benefit upon any Person other than the parties to this Agreement and their respective successors and assigns, provided, however, that the parties hereto expressly agree that the Arranger shall enjoy the benefits of the provisions of Section 9.8, 9.12 and 10.11 to the extent specifically set forth therein and shall have the right to enforce such provisions on its own behalf and in its own name to the same extent as if it were a party to this Agreement.

9.8. Expenses; Indemnification. The Company shall reimburse the Agent, the Arranger and the Banks for any costs, internal charges and out-of-pocket expenses (including attorneys' fees and time charges of attorneys for the Agent, the Arranger and the Banks, which attorneys may be employees of the Agent, the Arranger or the Banks) paid or incurred by the Agent, the Arranger or any Bank in connection with the preparation, review, execution, delivery, amendment, modification, administration, collection and enforcement of the Loan Documents. The Company further agrees to indemnify the Agent and each Bank, its directors, officers and employees against all losses, claims, damages, penalties, judgments, liabilities and expenses (including, without limitation, all expenses of litigation or preparation therefor whether or not the Agent, the Arranger or any Bank is a party thereto) which any of them may pay or incur arising out of or relating to this Agreement, the other Loan Documents, the transactions contemplated hereby or the direct or indirect application or proposed application of the proceeds of any Loan hereunder. The obligations of the Company under this Section shall survive the termination of this Agreement.

9.9. Numbers of Documents. All statements, notices, closing documents, and requests hereunder shall be furnished to the Agent with sufficient counterparts so that the Agent may furnish one to each of the Banks.

9.10. Accounting. Except as provided to the contrary herein, all accounting terms used herein shall be interpreted and all accounting determinations hereunder shall be made in accordance with Agreement Accounting Principles.

9.11. Severability of Provisions. Any provision in any Loan Document that is held to be inoperative, unenforceable, or invalid in any jurisdiction shall, as to that jurisdiction, be inoperative, unenforceable, or invalid without affecting the remaining provisions in that jurisdiction or the operation, enforceability, or validity of that provision in any other jurisdiction, and to this end the provisions of all Loan Documents are declared to be severable.

9.12. Nonliability of Banks. The relationship between the Company on the one hand and the Banks and the Agent on the other hand shall be solely that of borrower and lender. Neither the Agent, the Arranger nor any Bank shall have any fiduciary responsibilities to the Company. Neither the Agent, the Arranger nor any Bank undertakes any responsibility to the Company to review or inform the Company of any matter in connection with any phase of the Company's business or operations. The Company agrees that neither the Agent, the Arranger nor any Bank shall have liability to the Company (whether sounding in tort, contract or otherwise) for losses suffered by the Company in connection with, arising out of, or in any way related to, the transactions contemplated and the relationship established by the Loan Documents, or any act, omission or event occurring in connection therewith, unless it is determined in a final non-appealable judgment by a court of competent jurisdiction that such losses

resulted from the gross negligence or willful misconduct of the party from which recovery is sought. Neither the Agent, the Arranger nor any Bank shall have any liability with respect to, and the Company hereby waives, releases and agrees not to sue for, any special, indirect or consequential damages suffered by the Company in connection with, arising out of, or in any way related to the Loan Documents or the transactions contemplated thereby.

ARTICLE X

THE AGENT  
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10.1. Appointment; Nature of Relationship. The First National Bank of Chicago is hereby appointed by each of the Banks as its contractual representative (herein referred to as the "Agent") hereunder and under each other Loan Document, and each of the Banks irrevocably authorizes the Agent to act as the contractual representative of such Bank with the rights and duties expressly set forth herein and in the other Loan Documents. The Agent agrees to act as such contractual representative upon the express conditions contained in this Article X. Notwithstanding the use of the defined term "Agent," it is expressly understood and agreed that the Agent shall not have any fiduciary responsibilities to any Bank by reason of this Agreement or any other Loan Document and that the Agent is merely acting as the contractual representative of the Banks with only those duties as are expressly set forth in this Agreement and the other Loan Documents. In its capacity as the Banks' contractual representative, the Agent (i) does not hereby assume any fiduciary duties to any of the Banks, (ii) is a "representative" of the Banks within the meaning of Section 9-105 of the Uniform Commercial Code and (iii) is acting as an independent contractor, the rights and duties of which are limited to those expressly set forth in this Agreement and the other Loan Documents. Each of the Banks hereby agrees to assert no claim against the Agent on any agency theory or any other theory of liability for breach of fiduciary duty, all of which claims each Bank hereby waives.

10.2. Powers. The Agent shall have and may exercise such powers under the Loan Documents as are specifically delegated to the Agent by the terms of each thereof, together with such powers as are reasonably incidental thereto. The Agent shall have no implied duties to the Banks, or any obligation to the Banks to take any action thereunder except any action specifically provided by the Loan Documents to be taken by the Agent.

10.3. General Immunity. Neither the Agent nor any of its directors, officers, agents or employees shall be liable to the Company, the Banks or any Bank for any action taken or omitted to be taken by it or them hereunder or under any other Loan Document or in connection herewith or therewith except to the extent such action or inaction is determined in a final non-appealable judgment by a court of competent jurisdiction to have arisen from the gross negligence or willful misconduct of such Person.

10.4. No Responsibility for Loans, Recitals, etc. Neither the Agent nor any of its directors, officers, agents or employees shall be responsible for or have any duty to ascertain, inquire into, or verify (a) any statement, warranty or representation made in connection with any Loan Document or any borrowing hereunder; (b) the performance or observance of any of the covenants or agreements of any obligor under any Loan Document, including, without limitation, any agreement by an obligor to furnish information directly to each Bank; (c) the satisfaction of any condition specified in Article IV, except receipt of items required to be delivered solely to the Agent; (d) the existence or possible existence of any

Default or Unmatured Default; (e) the validity, enforceability, effectiveness, sufficiency or genuineness of any Loan Document or any other instrument or writing furnished in connection therewith; or (f) the financial condition of the Company or of any of the Company's Subsidiaries. The Agent shall have no duty to disclose to the Banks information that is not required to be furnished by the Company to the Agent at such time, but is voluntarily furnished by the Company to the Agent (either in its capacity as Agent or in its individual capacity).

10.5. Action on Instructions of Banks. The Agent shall in all cases be fully protected in acting, or in refraining from acting, hereunder and under any other Loan Document in accordance with written instructions signed by the Required Banks, and such instructions and any action taken or failure to act pursuant thereto shall be binding on all of the Banks. The Banks hereby acknowledge that the Agent shall be under no duty to take any discretionary action permitted to be taken by it pursuant to the provisions of this Agreement or any other Loan Document unless it shall be requested in writing to do so by the Required Banks. The Agent shall be fully justified in failing or refusing to take any action hereunder and under any other Loan Document unless it shall first be indemnified to its satisfaction by the Banks pro rata against any and all liability, cost and expense that it may incur by reason of taking or continuing to take any such action.

10.6. Employment of Agents and Counsel. The Agent may execute any of its duties as Agent hereunder and under any other Loan Document by or through employees, agents, and attorneys-in-fact and shall not be answerable to the Banks, except as to money or securities received by it or its authorized agents, for the default or misconduct of any such agents or attorneys-in-fact selected by it with reasonable care. The Agent shall be entitled to advice of counsel concerning the contractual arrangement between the Agent and the Banks and all matters pertaining to the Agent's duties hereunder and under any other Loan Document.

10.7. Reliance on Documents; Counsel. The Agent shall be entitled to rely upon any Note, notice, consent, certificate, affidavit, letter, telegram, statement, paper or document believed by it to be genuine and correct and to have been signed or sent by the proper person or persons, and, in respect to legal matters, upon the opinion of counsel selected by the Agent, which counsel may be employees of the Agent.

10.8. Agent's Reimbursement and Indemnification. The Banks agree to reimburse and indemnify the Agent ratably in proportion to their respective Commitments (or, if the Commitments have been terminated, in proportion to their Commitments immediately prior to such termination) (i) for any amounts not reimbursed by the Company for which the Agent is entitled to reimbursement by the Company under the Loan Documents, (ii) for any other reasonable expenses incurred by the Agent on behalf of the Banks, in connection with the preparation, execution, delivery, administration and enforcement of the Loan Documents and (iii) for any liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind and nature whatsoever which may be imposed on, incurred by or asserted against the Agent in any way relating to or arising out of the Loan Documents or any other document delivered in connection therewith or the transactions contemplated thereby or the enforcement of any of the terms of the Loan Documents or of any such other documents, provided that no Bank shall be liable for any of the foregoing to the extent they arise from the gross negligence or willful misconduct of the Agent. The obligations of the Banks under this Section 10.8 shall survive payment of the Obligations and termination of this Agreement.

10.9. Notice of Default. The Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Unmatured Default hereunder unless the Agent has received written notice from a Bank or the Company referring to this Agreement describing such Default or Unmatured Default and stating that such notice is a "notice of default". In the event that the Agent receives such a notice, the Agent shall give prompt notice thereof to the Banks.

10.10. Rights as a Bank. In the event the Agent is a Bank, the Agent shall have the same rights and powers hereunder and under any other Loan Document with respect to its Commitment and its Loans as any Bank and may exercise the same as though it were not the Agent, and the term "Bank" or "Banks" shall, at any time when the Agent is a Bank, unless the context otherwise indicates, include the Agent in its individual capacity. The Agent and its Affiliates may accept deposits from, lend money to, and generally engage in any kind of trust, debt, equity or other transaction, in addition to those contemplated by this Agreement or any other Loan Document, with the Company or any of its Subsidiaries in which the Company or such Subsidiary is not restricted hereby from engaging with any other Person.

10.11. Bank Credit Decision. Each Bank acknowledges that it has, independently and without reliance upon the Agent, the Arranger or any other Bank and based on the financial statements prepared by the Company and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement and the other Loan Documents. Each Bank also acknowledges that it will, independently and without reliance upon the Agent, the Arranger or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement and the other Loan Documents.

10.12. Successor Agent. The Agent may resign at any time by giving written notice thereof to the Banks and the Company, such resignation to be effective upon the appointment of a successor Agent or, if no successor Agent has been appointed, forty-five days after the retiring Agent gives notice of its intention to resign. The Agent may be removed at any time with or without cause by written notice received by the Agent from the Required Banks, such removal to be effective on the date specified by the Required Banks. Upon any such resignation or removal, the Required Banks shall have the right to appoint, on behalf of the Company and the Banks, a successor Agent. If no successor Agent shall have been so appointed by the Required Banks within thirty days after the resigning Agent's giving notice of its intention to resign, then the resigning Agent may appoint, on behalf of the Company and the Banks, a successor Agent. Notwithstanding the previous sentence, the Agent may at any time without the consent of the Company or any Bank, appoint any of its Affiliates which is a commercial bank as a successor Agent hereunder. If the Agent has resigned or been removed and no successor Agent has been appointed, the Banks may perform all the duties of the Agent hereunder and the Company shall make all payments in respect of the Obligations to the applicable Bank and for all other purposes shall deal directly with the Banks. No successor Agent shall be deemed to be appointed hereunder until such successor Agent has accepted the appointment. Any such successor Agent shall be a commercial bank having capital and retained earnings of at least \$100,000,000. Upon the acceptance of any appointment as Agent hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the resigning or removed Agent. Upon the effectiveness of the resignation or removal of the Agent, the resigning or removed Agent shall be discharged from its duties and obligations hereunder and under the Loan Documents. After the effectiveness of the resignation or removal of an Agent, the provisions of this Article X shall continue in effect for the benefit of such Agent in respect of any actions taken or omitted to be taken by it while it was acting as the Agent hereunder and under the other Loan Documents. In the event that there is a successor to the Agent by merger, or the

Agent assigns its duties and obligations to an Affiliate pursuant to this Section 10.12, then the term "Corporate Base Rate" as used in this Agreement shall mean the prime rate, base rate or other analogous rate of the new Agent.

10.13. Agent's Fee. The Company agrees to pay to the Agent, for its own account, the fees agreed to by the Company and the Agent pursuant to that certain letter agreement dated October 24, 1997, or as otherwise agreed from time to time.

10.14. Delegation to Affiliates. The Company and the Banks agree that the Agent may delegate any of its duties under this Agreement to any of its Affiliates. Any such Affiliate (and such Affiliate's directors, officers, agents and employees) which performs duties in connection with this Agreement shall be entitled to the same benefits of the indemnification, waiver and other protective provisions to which the Agent is entitled under Articles IX and X.

#### ARTICLE XI

##### SETOFF; RATABLE PAYMENTS

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11.1. Setoff. In addition to, and without limitation of, any rights of the Banks under applicable law, if the Company becomes insolvent, however evidenced, or any Default or Unmatured Default occurs, any indebtedness from any Bank to the Company (including all account balances, whether provisional or final and whether or not collected or available) may be offset and applied toward the payment of the Obligations owing to such Bank, whether or not the Obligations, or any part hereof, shall then be due. The Company agrees that any holder of a participation in a loan may, to the fullest extent permitted by law, exercise all its rights of payment with respect to such participation as if such holder were the direct creditor of the Company in the amount of the participation.

11.2. Ratable Payments. If any Bank, whether by setoff or otherwise, has payment made to it upon its Loans in a greater proportion than that received by any other Bank, such Bank agrees, promptly upon demand, to purchase a portion of the Loans held by the other Banks so that after such purchase each Bank will hold its ratable proportion of Loans. If any Bank, whether in connection with setoff or amounts which might be subject to setoff or otherwise, receives collateral or other protection for its Obligations or such amounts which may be subject to set off, such Bank agrees, promptly upon demand, to take such action necessary such that all Banks share in the benefits of such collateral ratably in proportion to their Loans. In case any such payment is disturbed by legal process, or otherwise, appropriate further adjustments shall be made.

#### ARTICLE XII

##### NOTICES

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12.1. Giving Notice. Any notice required or permitted to be given under this Agreement may be, and shall be deemed, given when deposited in the United States mail (except notices given pursuant to Article II which shall not be deemed effective until received by the Banks or the Agent), postage

prepaid, or by telegraph or telex when delivered to the appropriate office for transmission, charges prepaid, addressed to the Company, the Banks or the Agent at the addresses indicated below their signatures to this Agreement.

12.2. Change of Address. The Company, the Agent and any Bank may each change the address for service of notice upon it by a notice in writing to the other parties hereto.

#### ARTICLE XIII

##### BENEFIT OF AGREEMENT; ASSIGNMENTS; PARTICIPATIONS

13.1. Successors and Assigns. The terms and provisions of the Loan Documents shall be binding upon and inure to the benefit of the Company and the Banks and their respective successors and assigns, except that (i) the Company shall not have the right to assign its rights or obligations under the Loan Documents and (ii) any assignment by any Bank must be made in compliance with Section 13.3.1. Notwithstanding clause (ii) of this Section, any Bank may at any time, without the consent of the Company or the Agent, assign all or any portion of its rights under this Agreement and any Note to a Federal Reserve Bank; provided, however, that no such assignment to a Federal Reserve Bank shall release the transferor Bank from its obligations hereunder. The Agent may treat the Person which made any Loan or which holds any Note as the owner thereof for all purposes hereof unless and until such Person complies with Section 13.3.1. in the case of an assignment thereof or, in the case of any other transfer, a written notice of the transfer is filed with the Agent. Any assignee or transferee of the rights to any Loan or any Note agrees by acceptance of such transfer or assignment to be bound by all the terms and provisions of the Loan Documents. Any request, authority or consent of any Person, who at the time of making such request or giving such authority or consent is the owner of the rights to any Loan (whether or not a Note has been issued in evidence thereof), shall be conclusive and binding on any subsequent holder, transferee or assignee of the rights to such Loan.

##### 13.2. Participations.

13.2.1. Permitted Participants; Effect. Any Bank may, in the ordinary course of its business and in accordance with applicable law, at any time sell to one or more banks or other entities ("Participants") participating interests in any Loan owing to such Bank, any Note held by such Bank, any Commitment of such Bank or any other interest of such Bank under the Loan Documents. In the event of any such sale by a Bank of participating interests to a Participant, such Bank's obligations under the Loan Documents shall remain unchanged, such Bank shall remain solely responsible to the other parties hereto for the performance of such obligations, such Bank shall remain the owner of its Loans and the holder of any Note issued to it in evidence thereof for all purposes under the Loan Documents, all amounts payable by the Company under this Agreement shall be determined as if such Bank had not sold such participating interests, and the Company and the Agent shall continue to deal solely and directly with such Bank in connection with such Bank's rights and obligations under the Loan Documents.

13.2.2. Voting Rights. Each Bank shall retain the sole right to approve, without the consent of any Participant, any amendment, modification or waiver of any provision of the Loan Documents other than any amendment, modification or waiver with respect to any Loan or Commitment in which such Participant has an interest which forgives principal, interest or fees



or reduces the interest rate or fees payable with respect to any such Loan or Commitment, extends the Facility Termination Date, postpones any date fixed for any regularly-scheduled payment of principal of, or interest or fees on, any such Loan or Commitment, releases any guarantor of any such Loan or releases all or substantially all of the collateral, if any, securing any such Loan.

13.2.3. Benefit of Setoff. The Company agrees that each Participant shall be deemed to have the right of setoff provided in Section 11.1 in respect of its participating interest in amounts owing under the Loan Documents to the same extent as if the amount of its participating interest were owing directly to it as a Bank under the Loan Documents, provided that each Bank shall retain the right of setoff provided in Section 11.1 with respect to the amount of participating interests sold to each Participant. The Banks agree to share with each Participant, and each Participant, by exercising the right of setoff provided in Section 11.1, agrees to share with each Bank, any amount received pursuant to the exercise of its right of setoff, such amounts to be shared in accordance with Section 11.2 as if each Participant were a Bank.

13.3. Assignments.  
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13.3.1. Permitted Assignments. Any Bank may, in the ordinary course of its business and in accordance with applicable law, at any time assign to one or more banks or other entities ("Purchasers") all or any part of its rights and obligations under the Loan Documents. Such assignment shall be substantially in the form of Exhibit D or in such other form as may be agreed to by the parties thereto. The consent of the Company and the Agent shall be required prior to an assignment becoming effective with respect to a Purchaser which is not a Bank or an Affiliate thereof; provided, however, that if a Default has occurred and is continuing, the consent of the Company shall not be required. Such consent shall not be unreasonably withheld or delayed. Each such assignment shall (unless each of the Company and the Agent otherwise consents) be in an amount not less than the lesser of (i) \$10,000,000 or (ii) the remaining amount of the assigning Bank's Commitment (calculated as at the date of such assignment).

13.3.2. Effect; Effective Date. Upon (i) delivery to the Agent of a notice of assignment, substantially in the form attached as Exhibit I to Exhibit D (a "Notice of Assignment"), together with any consents required by Section 13.3.1, and (ii) payment of a \$3,000 fee to the Agent for processing such assignment, such assignment shall become effective on the effective date specified in such Notice of Assignment. The Notice of Assignment shall contain a representation by the Purchaser to the effect that none of the consideration used to make the purchase of the Commitment and Loans under the applicable assignment agreement are "plan assets" as defined under ERISA and that the rights and interests of the Purchaser in and under the Loan Documents will not be "plan assets" under ERISA. On and after the effective date of such assignment, such Purchaser shall for all purposes be a Bank party to this Agreement and any other Loan Document executed by or on behalf of the Banks and shall have all the rights and obligations of a Bank under the Loan Documents, to the same extent as if it were an original party hereto, and no further consent or action by the Company, the Banks or the Agent shall be required to release the transferor Bank with respect to the percentage of the Aggregate Commitment and Loans assigned to such Purchaser. Upon the consummation of any assignment to a Purchaser pursuant to this Section 9.1(f), the transferor Bank, the Agent and the Company shall, if the transferor Bank or the Purchaser desires that its Loans be evidenced by Notes, make appropriate arrangements so that new Notes or, as appropriate, replacement Notes are issued to such transferor Bank and new Notes or, as appropriate, replacement Notes, are issued to such

Purchaser, in each case in principal amounts reflecting their respective Commitments, as adjusted pursuant to such assignment.

13.4. Dissemination of Information. The Company authorizes each Bank to disclose to any Participant or Purchaser or any other Person acquiring an interest in the Loan Documents by operation of law (each a "Transferee") and any prospective Transferee any and all information in such Bank's possession concerning the creditworthiness of the Company and its Subsidiaries, including without limitation any information contained in any Reports.

13.5. Tax Treatment. If any interest in any Loan Document is transferred to any Transferee which is organized under the laws of any jurisdiction other than the United States or any State thereof, the transferor Bank shall cause such Transferee, concurrently with the effectiveness of such transfer, to comply with the provisions of Section 3.4(iv).

ARTICLE XIV

COUNTERPARTS

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This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one agreement, and any of the parties hereto may execute this Agreement by signing any such counterpart. This Agreement shall be effective when it has been executed by the Company, the Agent and the Banks and each party has notified the Agent by telex or telephone, that it has taken such action.

ARTICLE XV

CHOICE OF LAW; CONSENT TO JURISDICTION; WAIVER OF JURY TRIAL

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15.1. CHOICE OF LAW. THE LOAN DOCUMENTS (OTHER THAN THOSE CONTAINING A CONTRARY EXPRESS CHOICE OF LAW PROVISION) SHALL BE CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS (AND NOT THE LAW OF CONFLICTS) OF THE STATE OF ILLINOIS, BUT GIVING EFFECT TO FEDERAL LAWS APPLICABLE TO NATIONAL BANKS.

15.2. CONSENT TO JURISDICTION. THE COMPANY HEREBY IRREVOCABLY SUBMITS TO THE NON-EXCLUSIVE JURISDICTION OF ANY UNITED STATES FEDERAL OR ILLINOIS STATE COURT SITTING IN CHICAGO, ILLINOIS IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO ANY LOAN DOCUMENTS AND THE COMPANY HEREBY IRREVOCABLY AGREES THAT ALL CLAIMS IN RESPECT OF SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN ANY SUCH COURT AND IRREVOCABLY WAIVES ANY OBJECTION IT MAY NOW OR HEREAFTER HAVE AS TO THE VENUE OF ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN SUCH A COURT OR THAT SUCH COURT IS AN INCONVENIENT FORUM. NOTHING HEREIN SHALL LIMIT THE RIGHT OF THE AGENT OR ANY BANK TO BRING PROCEEDINGS AGAINST THE COMPANY IN THE COURTS OF ANY OTHER JURISDICTION. ANY JUDICIAL PROCEEDING BY THE COMPANY AGAINST THE AGENT OR ANY BANK OR

ANY AFFILIATE OF THE AGENT OR ANY BANK INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH ANY LOAN DOCUMENT SHALL BE BROUGHT ONLY IN A COURT IN CHICAGO, ILLINOIS.

15.3. WAIVER OF JURY TRIAL. THE COMPANY, THE AGENT AND EACH BANK HEREBY WAIVE TRIAL BY JURY IN ANY JUDICIAL PROCEEDING INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER (WHETHER SOUNDING IN TORT, CONTRACT OR OTHERWISE) IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH ANY LOAN DOCUMENT OR THE RELATIONSHIP ESTABLISHED THEREUNDER.

IN WITNESS WHEREOF, the Company, the Banks and the Agent have executed this Agreement as of the date first above written.

Commitments  
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STEPAN COMPANY

By: /s/ Walter J. Klein  
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Title: Vice President  
Finance  
Edens and Winnetka Road  
Northfield, Illinois 60093

Attention: Treasury Department

\$22,500,000

THE FIRST NATIONAL BANK OF CHICAGO,  
Individually and as Agent

By: /s/ Karen F. Kizer  
-----

Title: Senior Vice President  
One First National Plaza  
Chicago, Illinois 60670

Attention: Christopher Cavaiani

\$22,500,000

HARRIS TRUST AND SAVINGS BANK  
By: /s/ R. Michael Newton

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Title: Vice President  
111 West Monroe Street  
Chicago, Illinois 60690

Attention: R. Michael Newton

=====  
\$45,000,000

PRICING SCHEDULE

Applicable Margin	Level I Status	Level II Status	Level III Status
Eurodollar Rate	.35%	.40%	.50%

Applicable Fee Rate	Level I Status	Level II Status	Level III Status
Commitment Fee	.125%	.15%	.175%

For the purposes of this Schedule, the following terms have the following meanings, subject to the final paragraph of this Schedule:

"Financials" means the annual or quarterly financial statements of the Company delivered pursuant to Section 6.1(a) or (b).

"Level I Status" exists at any date if, as of the last day of the fiscal quarter of the Company referred to in the most recent Financials, the ratio of Consolidated Funded Indebtedness to Consolidated Capitalization is less than .40 to 1.00.

"Level II Status" exists at any date if, as of the last day of the fiscal quarter of the Company referred to in the most recent Financials, (i) the Company has not qualified for Level I Status and (ii) the ratio of Consolidated Funded Indebtedness to Consolidated Capitalization is less than or equal to .50 to 1.00.

"Level III Status" exists at any date if the Company has not qualified for Level I Status or Level II Status.

"Status" means either Level I Status, Level II Status or Level III Status.

The Applicable Margin and Applicable Fee Rate shall be determined in accordance with the foregoing table based on the Company's Status as reflected in the then most recent Financials. Adjustments, if any, to the Applicable Margin or Applicable Fee Rate shall be effective five Business Days after the Agent has received the applicable Financials. If the Company fails to deliver the Financials to the Agent at the time required pursuant to Section 6.1, then the Applicable Margin and Applicable Fee Rate shall be the highest Applicable Margin and Applicable Fee Rate set forth in the foregoing table until five days after such Financials are so delivered.

EXHIBIT "A"  
NOTE

January 9, 1998

\$ \_\_\_\_\_

On the Facility Termination Date Stepan Company, a Delaware corporation (the "Company"), promises to pay to the order of \_\_\_\_\_ (the "Bank") the lesser of the principal sum of \_\_\_\_\_ Dollars or the aggregate unpaid principal amount of all Loans made by the Bank to the Company pursuant to Section 2.1 of the Revolving Credit Agreement (the "Agreement") hereinafter referred to, in immediately available funds at the main office of The First National Bank of Chicago in Chicago, Illinois, as Agent, together with interest on the unpaid principal amount hereof at the rates and on the dates set forth in the Agreement.

The Bank shall, and is hereby authorized to, record on the schedule attached hereto, or to otherwise record in accordance with its usual practice, the date and amount of each Loan and the date and amount of each principal payment hereunder.

This Note is one of the Notes issued pursuant to, and is entitled to the benefits of, the Revolving Credit Agreement, dated as of January 9, 1998 among the Company, The First National Bank of Chicago, individually and as Agent, and the banks named therein, to which Agreement, as it may be amended from time to time, reference is hereby made for a statement of the terms and conditions under which this Note may be prepaid or its maturity date accelerated. Capitalized terms used herein and not otherwise defined herein are used with the meanings attributed to them in the Agreement.

STEPAN COMPANY

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

Title: \_\_\_\_\_

SCHEDULE OF LOANS AND PAYMENTS OF PRINCIPAL  
TO  
NOTE OF STEPAN COMPANY,  
DATED JANUARY 9, 1998

Date	Principal Amount of Loan	Maturity of Interest Period	Principal Amount Paid	Unpaid Balance
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January 9, 1998

The Banks who are parties to the  
Credit Agreement described below.

Gentlemen:

I am counsel for Stepan Company (the "Company") and have represented the Company in connection with its execution and delivery of a Credit Agreement among the Company, The First National Bank of Chicago, individually and as Agent, and the Banks named therein, providing for Advances in an aggregate principal amount not exceeding \$45,000,000 at any one time outstanding and dated as of January 9, 1998 (the "Agreement"). All capitalized terms used in this opinion shall have the meanings attributed to them in the Agreement.

I have examined the Company's articles of incorporation, by-laws, resolutions, the Loan Documents and such other matters of fact and law which we deem necessary in order to render this opinion. Based upon the foregoing, it is my opinion that:

1. The Company and each Subsidiary are corporations duly incorporated, validly existing and in good standing under the laws of their states of incorporation and have all requisite authority to conduct their business in each jurisdiction in which their business is conducted.

2. The execution and delivery of the Loan Documents by the Company and the performance by the Company of the Obligations have been duly authorized by all necessary corporate action and proceedings on the part of the Company and will not:

(a) require any consent of the Company's shareholders;

(b) violate any law, rule, regulation, order, writ, judgment, injunction, decree or award binding on the Company or any Subsidiary or the Company's or any Subsidiary's articles of incorporation or by-laws or any indenture, instrument or agreement binding upon the Company or any Subsidiary; or

(c) result in, or require, the creation or imposition of any Lien pursuant to the provisions of any indenture, instrument or agreement binding upon the Company or any Subsidiary.

3. The Loan Documents have been duly executed and delivered by the Company and constitute legal, valid and binding obligations of the Company enforceable in accordance with their terms except to the extent the enforcement thereof may be limited by bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally and subject also to the availability of equitable remedies if equitable remedies are sought.



4. Except as disclosed in the Company's financial statements referred to in Section 5.4 of the Credit Agreement, and as disclosed herein, there is no litigation or proceeding against the Company or any Subsidiary which, if adversely determined, would materially affect the business or condition of the Company or any Subsidiary. On December 9th, 296 lawsuits were filed on behalf of 484 plaintiffs from the Boroughs of Maywood, Rochelle Park, and Lodi New Jersey alleging cancer and fear of cancer allegedly due to exposure to thorium and other chemical contaminants. The Company believes it has adequate defenses to these actions; that it may have insurance coverage for part or all of its defense costs and indemnity costs if any, and therefore at this time cannot estimate what its liabilities, if any, will be.

5. No approval, authorization, consent, adjudication or order of any governmental authority, which has not been obtained by the Company or any Subsidiary, is required to be obtained by the Company or any Subsidiary in connection with the execution and delivery of the Loan Documents, the borrowings under the Agreement or in connection with the payment by the Company of the Obligations.

Very truly yours,

/S/ Jeffrey W. Bartlett

-----  
Name: Jeffrey W. Bartlett  
Vice President, Secretary and  
General Counsel

EXHIBIT "C"

COMPLIANCE CERTIFICATE

To: The Banks parties to the  
Credit Agreement Described Below

This Compliance Certificate is furnished pursuant to that certain Credit Agreement dated as of January 9, 1998, among the Company, the banks party thereto and The First National Bank of Chicago as Agent for the Banks (the "Agreement"). Unless otherwise defined herein, the terms used in this Compliance Certificate have the meanings ascribed thereto in the Agreement.

THE UNDERSIGNED HEREBY CERTIFIES THAT:

1. I am the duly elected Vice President - Finance and Administration of the Company;
2. I have reviewed the terms of the Agreement and I have made, or have caused to be made under my supervision, a detailed review of the transactions and conditions of the Company and its Subsidiaries during the accounting period covered by the attached financial statements;
3. The examinations described in paragraph 2 did not disclose, and I have no knowledge of, the existence of any condition or event which constitutes a Default or Unmatured Default during or at the end of the accounting period covered by the attached financial statements or as of the date of this Certificate, except as set forth below; and
4. Schedule I attached hereto sets forth financial data and computations evidencing the Company's compliance with certain covenants of the Agreement, all of which data and computations are true, complete and correct.

Described below are the exceptions, if any, to paragraph 3 by listing, in detail, the nature of the condition or event, the period during which it has existed and the action which the Company has taken, is taking, or proposes to take with respect to each such condition or event:

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- -----  
- -----

The foregoing certifications, together with the computations set forth in Schedule I hereto and the financial statements delivered with this Certificate in support hereof, are made and delivered this \_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_.

-----  
Name: \_\_\_\_\_  
Vice President - Finance and  
Administration

SCHEDULE I TO COMPLIANCE REPORT

Calculation Test  
-----

1. Interest Coverage Ratio		
a.	Consolidated Earnings Before Interest and Taxes for quarter ended ____ plus preceding three quarters _____	
b.	Consolidated Interest Expense for quarter ended _____ plus preceding three quarters _____	_____
	a : b	_____ 2.0
2. Dividend Limitation		
a.	Restricted Payments since 12/31/96 _____	
b.	\$30,000,000 + Consolidated Net Income - Consolidated Net Loss since December 31, 1996 _____	
	a + b	_____
3. Funded Indebtedness Limitation		
a.	Consolidated Funded Indebtedness _____	
b.	Guaranties _____	
c.	Unfunded Liabilities _____	
d.	Consolidated Capitalization _____	
	a+b+c	_____ .55
	-----	
	d	
4. Sale of Assets		
a.	Assets sold since December 31, 1996 _____	
	\$50,000,000	
b.	Assets sold during FY _____	15%
c.	Consolidated Tangible Assets _____	
	b : c	

EXHIBIT "D"

ASSIGNMENT AGREEMENT

This Assignment Agreement (this "Assignment Agreement") between \_\_\_\_\_ (the "Assignor") and \_\_\_\_\_ (the "Assignee") is dated as of \_\_\_\_\_, 19\_\_\_. The parties hereto agree as follows:

1. PRELIMINARY STATEMENT. The Assignor is a party to a Credit Agreement (which, as it may be amended, modified, renewed or extended from time to time is herein called the "Credit Agreement") described in Item 1 of Schedule 1 attached hereto ("Schedule 1"). Capitalized terms used herein and not otherwise defined herein shall have the meanings attributed to them in the Credit Agreement.

2. ASSIGNMENT AND ASSUMPTION. The Assignor hereby sells and assigns to the Assignee, and the Assignee hereby purchases and assumes from the Assignor, an interest in and to the Assignor's rights and obligations under the Credit Agreement such that after giving effect to such assignment the Assignee shall have purchased pursuant to this Assignment Agreement the percentage interest specified in Item 3 of Schedule 1 of all outstanding rights and obligations under the Credit Agreement relating to the facilities listed in Item 3 of Schedule 1 and the other Loan Documents. The aggregate Commitment (or Loans, if the applicable Commitment has been terminated) purchased by the Assignee hereunder is set forth in Item 4 of Schedule 1.

3. EFFECTIVE DATE. The effective date of this Assignment Agreement (the "Effective Date") shall be the later of the date specified in Item 5 of Schedule 1 or two Business Days (or such shorter period agreed to by the Agent) after a Notice of Assignment substantially in the form of Exhibit "I" attached hereto has been delivered to the Agent. Such Notice of Assignment must include any consents required to be delivered to the Agent by Section 13.3.1 of the Credit Agreement. In no event will the Effective Date occur if the payments required to be made by the Assignee to the Assignor on the Effective Date under Sections 4 and 5 hereof are not made on the proposed Effective Date. The Assignor will notify the Assignee of the proposed Effective Date no later than the Business Day prior to the proposed Effective Date. As of the Effective Date, (i) the Assignee shall have the rights and obligations of a Lender under the Loan Documents with respect to the rights and obligations assigned to the Assignee hereunder and (ii) the Assignor shall relinquish its rights and be released from its corresponding obligations under the Loan Documents with respect to the rights and obligations assigned to the Assignee hereunder.

4. PAYMENT OBLIGATIONS. On and after the Effective Date, the Assignee shall be entitled to receive from the Agent all payments of principal, interest and fees with respect to the interest assigned hereby. The Assignee shall advance funds directly to the Agent with respect to all Loans and reimbursement payments made on or after the Effective Date with respect to the interest assigned hereby. \*\*[In consideration for the sale and assignment of Loans hereunder, (i) the Assignee shall pay the Assignor, on the Effective Date, an amount equal to the principal amount of the portion of all Floating Rate Loans assigned to the Assignee hereunder and (ii) with respect to each Eurodollar Loan made by the Assignor and assigned to the Assignee hereunder which is outstanding on the Effective Date, (a) on the last day of the Interest Period therefor or (b) on such earlier date agreed to by the Assignor and the Assignee or (c) on the date on which any such Eurodollar Loan becomes due (by acceleration or otherwise)(the date as described in the foregoing clauses (a), (b) or (c) being hereinafter referred to as

the "Payment Date"), the Assignee shall pay the Assignor an amount equal to the principal amount of the portion of such Eurodollar Loan assigned to the Assignee which is outstanding on the Payment Date. If the Assignor and the Assignee agree that the Payment Date for such Eurodollar Loan shall be the Effective Date, they shall agree to the interest rate applicable to the portion of such Loan assigned hereunder for the period from the Effective Date to the end of the existing Interest Period applicable to such Eurodollar Loan (the "Agreed Interest Rate") and any interest received by the Assignee in excess of the Agreed Interest Rate shall be remitted to the Assignor. In the event interest for the period from the Effective Date to but not including the Payment Date is not paid by the Company with respect to any Eurodollar Loan sold by the Assignor to the Assignee hereunder, the Assignee shall pay to the Assignor interest for such period on the portion of such Eurodollar Loan sold by the Assignor to the Assignee hereunder at the applicable rate provided by the Credit Agreement. In the event a prepayment of any Eurodollar Loan which is existing on the Payment Date and assigned by the Assignor to the Assignee hereunder occurs after the Payment Date but before the end of the Interest Period applicable to such Eurodollar Loan, the Assignee shall remit to the Assignor the excess of the prepayment penalty paid with respect to the portion of such Eurodollar Loan assigned to the Assignee hereunder over the amount which would have been paid if such prepayment penalty was calculated based on the Agreed Interest Rate. The Assignee will also promptly remit to the Assignor (i) any principal payments received from the Agent with respect to Eurodollar Loans prior to the Payment Date and (ii) any amounts of interest on Loans and fees received from the Agent which relate to the portion of the Loans assigned to the Assignee hereunder for periods prior to the Effective Date, in the case of Floating Rate Loans or fees, or the Payment Date, in the case of Eurodollar Loans, and not previously paid by the Assignee to the Assignor.]\*\* In the event that either party hereto receives any payment to which the other party hereto is entitled under this Assignment Agreement, then the party receiving such amount shall promptly remit it to the other party hereto.

\*\*Each Assignor may insert its standard payment provisions in lieu of the payment terms included in this Exhibit.

5. FEES PAYABLE BY THE ASSIGNEE. The Assignee shall pay to the Assignor a fee on each day on which a payment of interest or commitment fees is made under the Credit Agreement with respect to the amounts assigned to the Assignee hereunder (other than a payment of interest or commitment fees for the period prior to the Effective Date or, in the case of Eurodollar Loans, the Payment Date, which the Assignee is obligated to deliver to the Assignor pursuant to Section 4 hereof). The amount of such fee shall be the difference between (i) the interest or fee, as applicable, paid with respect to the amounts assigned to the Assignee hereunder and (ii) the interest or fee, as applicable, which would have been paid with respect to the amounts assigned to the Assignee hereunder if each interest rate was \_\_\_ of 1% less than the interest rate paid by the Company or if the commitment fee was \_\_\_ of 1% less than the commitment fee paid by the Company, as applicable. In addition, the Assignee agrees to pay \_\_\_% of the recordation fee required to be paid to the Agent in connection with this Assignment Agreement.

6. REPRESENTATIONS OF THE ASSIGNOR; LIMITATIONS ON THE ASSIGNOR'S LIABILITY. The Assignor represents and warrants that it is the legal and beneficial owner of the interest being assigned by it hereunder and that such interest is free and clear of any adverse claim created by the Assignor. It is understood and agreed that the assignment and assumption hereunder are made without recourse to the Assignor and that the Assignor makes no other representation or warranty of any kind to the Assignee. Neither the Assignor nor any of its officers, directors, employees, agents or attorneys shall be responsible for (i) the due execution, legality, validity, enforceability, genuineness, sufficiency or collectability of any Loan Document, including without limitation, documents granting the Assignor and

the other Lenders a security interest in assets of the Company or any guarantor, (ii) any representation, warranty or statement made in or in connection with any of the Loan Documents, (iii) the financial condition or creditworthiness of the Company or any guarantor, (iv) the performance of or compliance with any of the terms or provisions of any of the Loan Documents, (v) inspecting any of the Property, books or records of the Company, (vi) the validity, enforceability, perfection, priority, condition, value or sufficiency of any collateral securing or purporting to secure the Loans or (vii) any mistake, error of judgment, or action taken or omitted to be taken in connection with the Loans or the Loan Documents.

7. REPRESENTATIONS OF THE ASSIGNEE. The Assignee (i) confirms that it has received a copy of the Credit Agreement, together with copies of the financial statements requested by the Assignee and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment Agreement, (ii) agrees that it will, independently and without reliance upon the Agent, the Assignor or any other Lender and based on such documents and information at it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents, (iii) appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under the Loan Documents as are delegated to the Agent by the terms thereof, together with such powers as are reasonably incidental thereto, (iv) agrees that it will perform in accordance with their terms all of the obligations which by the terms of the Loan Documents are required to be performed by it as a Lender, (v) agrees that its payment instructions and notice instructions are as set forth in the attachment to Schedule 1, (vi) confirms that none of the funds, monies, assets or other consideration being used to make the purchase and assumption hereunder are "plan assets" as defined under ERISA and that its rights, benefits and interests in and under the Loan Documents will not be "plan assets" under ERISA, and (vii) attaches the forms prescribed by the Internal Revenue Service of the United States certifying that the Assignee is entitled to receive payments under the Loan Documents without deduction or withholding of any United States federal income taxes.

\*to be inserted if required by the Credit Agreement.

\*\*to be inserted if the Assignee is not incorporated under the laws of the United States, or a state thereof.

8. INDEMNITY. The Assignee agrees to indemnify and hold the Assignor harmless against any and all losses, costs and expenses (including, without limitation, reasonable attorneys' fees) and liabilities incurred by the Assignor in connection with or arising in any manner from the Assignee's non-performance of the obligations assumed under this Assignment Agreement.

9. SUBSEQUENT ASSIGNMENTS. After the Effective Date, the Assignee shall have the right pursuant to Section 13.3.1 of the Credit Agreement to assign the rights which are assigned to the Assignee hereunder to any entity or person, provided that (i) any such subsequent assignment does not violate any of the terms and conditions of the Loan Documents or any law, rule, regulation, order, writ, judgment, injunction or decree and that any consent required under the terms of the Loan Documents has been obtained and (ii) unless the prior written consent of the Assignor is obtained, the Assignee is not thereby released from its obligations to the Assignor hereunder, if any remain unsatisfied, including, without limitation, its obligations under Sections 4, 5 and 8 hereof.

10. REDUCTIONS OF AGGREGATE COMMITMENT. If any reduction in the Aggregate Commitment occurs between the date of this Assignment Agreement and the Effective Date, the percentage interest specified in Item 3 of Schedule 1 shall remain the same, but the dollar amount purchased shall be recalculated based on the reduced Aggregate Commitment.

11. ENTIRE AGREEMENT. This Assignment Agreement and the attached Notice of Assignment embody the entire agreement and understanding between the parties hereto and supersede all prior agreements and understandings between the parties hereto relating to the subject matter hereof.

12. GOVERNING LAW. This Assignment Agreement shall be governed by the internal law, and not the law of conflicts, of the State of Illinois.

13. NOTICES. Notices shall be given under this Assignment Agreement in the manner set forth in the Credit Agreement. For the purpose hereof, the addresses of the parties hereto (until notice of a change is delivered) shall be the address set forth in the attachment to Schedule 1.

IN WITNESS WHEREOF, the parties hereto have executed this Assignment Agreement by their duly authorized officers as of the date first above written.

\*\*[NAME OF ASSIGNOR]\*\*

By: -----

Title: -----

\*\*[NAME OF ASSIGNEE]\*\*

By: -----

Title: -----



SCHEDULE 1  
to Assignment Agreement

1. Description and Date of Credit Agreement:
2. Date of Assignment Agreement: \_\_\_\_\_, 19\_\_
3. Amounts (As of Date of Item 2 above):

	Facility 1*	Facility 2*	Facility 3*	Facility 4*
	-----	-----	-----	-----
a. Total of Commitments (Loans)** under Credit Agreement	\$ -----	\$ -----	\$ -----	\$ -----
b. Assignee's Percentage of each Facility purchased under the Assignment Agreement***	----- %	----- %	----- %	----- %
c. Amount of Assigned Share in each Facility purchased under the Assignment Agreement	\$ -----	\$ -----	\$ -----	\$ -----

4. Assignee's Aggregate (Loan Amount)\*\* Commitment Amount Purchased Hereunder:
 

\$	-----
----	-------
5. Proposed Effective Date: -----

Accepted and Agreed:

<p>**[NAME OF ASSIGNOR]**</p> <p>By: -----</p> <p>Title: -----</p>	<p>**[NAME OF ASSIGNEE]**</p> <p>By: -----</p> <p>Title: -----</p>
--	--

\* Insert specific facility names per Credit Agreement  
 \*\* If a Commitment has been terminated, insert outstanding Loans in place of Commitment  
 \*\*\* Percentage taken to 10 decimal places

ADMINISTRATIVE INFORMATION SHEET

Attach Assignor's Administrative Information Sheet, which must include notice addresses for the Assignor and the Assignee (Sample form shown below)

ASSIGNOR INFORMATION

Contact:  
-----

Name: \_\_\_\_\_ Telephone No.: \_\_\_\_\_  
Fax No.: \_\_\_\_\_ Telex No.: \_\_\_\_\_  
Answerback: \_\_\_\_\_

Payment Information:  
-----

Name & ABA # of Destination Bank: \_\_\_\_\_  
-----

Account Name & Number for Wire Transfer: \_\_\_\_\_  
-----

Other Instructions: \_\_\_\_\_  
-----

Address for Notices for Assignor: \_\_\_\_\_  
-----  
-----  
-----

ASSIGNEE INFORMATION

Credit Contact:  
-----

Name: \_\_\_\_\_ Telephone No.: \_\_\_\_\_  
Fax No.: \_\_\_\_\_ Telex No.: \_\_\_\_\_  
Answerback: \_\_\_\_\_

Key Operations Contacts:  
-----

Booking Installation: \_\_\_\_\_ Booking Installation: \_\_\_\_\_  
Name: \_\_\_\_\_ Name: \_\_\_\_\_  
Telephone No.: \_\_\_\_\_ Telephone No.: \_\_\_\_\_  
Fax No.: \_\_\_\_\_ Fax No.: \_\_\_\_\_  
Telex No.: \_\_\_\_\_ Telex No.: \_\_\_\_\_  
Answerback: \_\_\_\_\_ Answerback: \_\_\_\_\_

Payment Information:

-----

Name & ABA # of Destination Bank:

-----  
-----

Account Name & Number for Wire Transfer:

-----  
-----

Other Instructions:

-----  
-----

Address for Notices for Assignee:

-----  
-----  
-----  
-----

FNBC INFORMATION

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Assignee will be called promptly upon receipt of the signed agreement.

Initial Funding Contact: -----	Subsequent Operations Contact: -----
Name: John Loizzo -----	Name: -----
Telephone No.: (312) 732-4118 -----	Telephone No.: (312) -----
Fax No.: (312) 732-7455 -----	Fax No.: (312) -----
FNBC Telex No.: 190201 (Answerback: FNBC UT) -----	

Initial Funding Standards:  
-----

Libor - Fund 2 days after rates are set.

FNBC Wire Instructions: The First National Bank of Chicago, ABA # 071000013  
BNF = 7521-7653/DES, Ref.: \_\_\_\_\_

Address for Notices for FNBC: One First National Plaza, Chicago, IL 60670  
-----  
Attn: Agency/Compliance Division, Suite 0353  
Fax No. (312)732-2038 or (312)732-4339

EXHIBIT "I"  
to Assignment Agreement

NOTICE  
OF ASSIGNMENT  
-----

\_\_\_\_\_, 19  
-----

To:     \*\*[NAME OF Company]\*\*

-----

-----

      \*\*[NAME OF AGENT]\*\*

-----

-----

From:  \*\*[NAME OF ASSIGNOR]\*\* (the "Assignor")

      \*\*[NAME OF ASSIGNEE]\*\* (the "Assignee")

1. We refer to that Credit Agreement (the "Credit Agreement") described in Item 1 of Schedule 1 attached hereto ("Schedule 1"). Capitalized terms used herein and not otherwise defined herein shall have the meanings attributed to them in the Credit Agreement.

2. This Notice of Assignment (this "Notice") is given and delivered to \*\*[the Company and]\*\* the Agent pursuant to Section \*\*[13.3.2]\*\* of the Credit Agreement.

3. The Assignor and the Assignee have entered into an Assignment Agreement, dated as of \_\_\_\_\_, 19\_\_ (the "Assignment"), pursuant to which, among other things, the Assignor has sold, assigned, delegated and transferred to the Assignee, and the Assignee has purchased, accepted and assumed from the Assignor the percentage interest specified in Item 3 of Schedule 1 of all outstandings, rights and obligations under the Credit Agreement relating to the facilities listed in Item 3 of Schedule 1. The Effective Date of the Assignment shall be the later of the date specified in Item 5 of Schedule 1 or two Business Days (or such shorter period as agreed to by the Agent) after this Notice of Assignment and any consents and fees required by Sections \*\*[13.3.1 and 13.3.2]\*\* of the Credit Agreement have been delivered to the Agent, provided that the Effective Date shall not occur if any condition precedent agreed to by the Assignor and the Assignee has not been satisfied.

\*To be included only if consent must be obtained from the Company pursuant to Section 12.3.1 of the Credit Agreement.

4. The Assignor and the Assignee hereby give to the Company and the Agent notice of the assignment and delegation referred to herein. The Assignor will confer with the Agent before the date specified in Item 5 of Schedule 1 to determine if the Assignment Agreement will become effective on such date pursuant to Section 3 hereof, and will confer with the Agent to determine the Effective Date pursuant to Section 3 hereof if it occurs thereafter. The Assignor shall notify the Agent if the Assignment Agreement does not become effective on any proposed Effective Date as a result of the failure to satisfy the conditions precedent agreed to by the Assignor and the Assignee. At the request of the Agent, the Assignor will give the Agent written confirmation of the satisfaction of the conditions precedent.

5. The Assignor or the Assignee shall pay to the Agent on or before the Effective Date the processing fee of \$3,000 required by Section 12.3.2 of the Credit Agreement.

6. If Notes are outstanding on the Effective Date, the Assignor and the Assignee request and direct that the Agent prepare and cause the Company to execute and deliver new Notes or, as appropriate, replacement notes, to the Assignor and the Assignee. The Assignor and, if applicable, the Assignee each agree to deliver to the Agent the original Note received by it from the Company upon its receipt of a new Note in the appropriate amount.

7. The Assignee advises the Agent that notice and payment instructions are set forth in the attachment to Schedule 1.

8. The Assignee hereby represents and warrants that none of the funds, monies, assets or other consideration being used to make the purchase pursuant to the Assignment are "plan assets" as defined under ERISA and that its rights, benefits, and interests in and under the Loan Documents will not be "plan assets" under ERISA.

9. The Assignee authorizes the Agent to act as its agent under the Loan Documents in accordance with the terms thereof. The Assignee acknowledges that the Agent has no duty to supply information with respect to the Company or the Loan Documents to the Assignee until the Assignee becomes a party to the Credit Agreement.\*

\*May be eliminated if Assignee is a party to the Credit Agreement prior to the Effective Date.

NAME OF ASSIGNOR	NAME OF ASSIGNEE
By: -----	By: -----
Title: -----	Title: -----

ACKNOWLEDGED \*\*[AND CONSENTED TO]\*\*  
BY \*\*[NAME OF AGENT]\*\*

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

ACKNOWLEDGED \*\*[AND CONSENTED TO]\*\*  
BY \*\*[NAME OF Company]\*\*

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

\*\*[Attach photocopy of Schedule 1 to Assignment]\*\*

SCHEDULE "1"

SUBSIDIARIES AND OTHER INVESTMENTS  
(See Sections 5.8 and 6.16)

Investment In -----	Owned By -----	Amount of Investment -----	Percent Ownership -----	Restricted or Unrestricted -----	Jurisdiction of Organization -----
Stepan Europe	Stepan Company	\$2,741,000	100%	Unrestricted	France
Stepan Canada	Stepan Company	\$ 880,000	100%	Unrestricted	Canada
Stepan Mexico	Stepan Company	\$5,754,000	100%	Unrestricted	Mexico
Global Insurance	Stepan Company	\$ 50,000	100%	Unrestricted	British West Indies
Stepan Quimica Ltda.	Stepan Company	\$ 46,000	100%	Unrestricted	Brazil
Stepan Columbiana	Stepan Company	\$2,408,000	50%	Unrestricted	Columbia
Stepan Phillipines	Stepan Company	\$8,814,000	50%	Unrestricted	Phillipines



SCHEDULE "2"

INDEBTEDNESS AND LIENS  
(See Sections 6.12, 6.15 and 6.18)

Indebtedness Incurred By -----	Indebtedness Owed To -----	Property Encumbered (If Any) -----	Maturity and Amount of Indebtedness -----
--------------------------------------	----------------------------------	--	--

NONE

SCHEDULE "3"

LONG TERM DEBT  
(See Section 6.1(h))

9.7% Promissory Note (1987)  
9.7% Promissory Note (1991)  
9.52% Promissory Notes  
7.22% Promissory Notes, Series A and B  
7.69% Promissory Notes, Series A  
7.77% Promissory Notes, Series B

Results of Operations

1997 Compared with 1996. Net sales for 1997 rose eight percent to a record \$581.9 million. The increase was the result of an 11 percent growth in sales volume. Net sales by product group were:

(Dollars in Thousands)	1997	1996	Percent Change
Surfactants	\$445,946	\$402,268	+ 11
Polymers	105,754	103,444	+ 2
Specialty Products	30,249	30,293	- 2
<b>Total</b>	<b>\$581,949</b>	<b>\$536,635</b>	<b>+ 8</b>

Surfactants are a principal ingredient in consumer and industrial cleaning products such as detergents, shampoos, lotions, toothpastes and cosmetics. Other applications include lubricating ingredients and emulsifiers for spreading of insecticides and herbicides. Surfactants net sales, representing 77 percent of the company's business, were the primary source for overall sales growth in 1997. The surfactants sales increase was due mainly to a 16 percent increase in domestic sales volume. The volume gain stemmed largely from the acquisition of Lonza, Inc.'s West Coast surfactant business (see Note 2 of Notes to the Consolidated Financial Statements) and from increased demand for the company's laundry and cleaning and personal care products. The domestic market accounted for 84 percent of total surfactant volume. Foreign net sales were flat between years, despite a nine percent increase in sales volume. Weaker foreign currency exchange rates, particularly for the French franc, negatively impacted results.

The polymer product group includes phthalic anhydride (PA), polyurethane systems and polyurethane polyols. PA is used in polyester resins, alkyd resins and plasticizers for applications in construction materials and components of automotive, boating and other consumer products. Polyurethane systems provide thermal insulation and are sold to the construction, industrial and appliance markets. Polyurethane polyols are used in the manufacture of laminate board for the construction industry. Polymers net sales, accounting for 18 percent of the company business, increased two percent over 1996, despite volume being down three percent. Higher average selling prices, due largely to the passing on of raw material price increases, and increased sales volume for the more expensive polyurethane system products caused the rise in sales. Polyurethane systems posted significant net sales and volume improvements of 18 percent and 16 percent, respectively, compared to 1996. Offsetting these strong results, however, were decreased sales of both PA and polyurethane polyols. PA sales volume dropped seven percent from a year ago due to decreased customer demand plus increased first half of year internal requirements of PA in polyurethane polyols. Polyols sales volume fell four percent as a result of the mid-year loss of a large customer. PA and polyurethane polyols accounted for 47 percent and 46 percent, respectively, of 1997 polymer sales volume.

Specialty products include flavors, lubricant additives, oil field chemicals and emulsifiers and solubilizers used in the food and pharmaceutical industry. Specialty products revenue declined two percent on an eight percent reduction in sales volume. Improvement in the average selling price between years partially offset the lower sales volume.

Gross profit increased eight percent to \$104.2 million, or 18 percent of net sales, in 1997 from \$96.2 million, or 18 percent of net sales, in 1996. Surfactants 1997 gross profit of \$76.1 million was 17 percent higher than 1996 profit of \$65.0 million. Domestic earnings, driven by strong growth in sales volumes, increased 23 percent and accounted for the improvement in total surfactant profit. Foreign gross profit was down six percent to \$12.6 million in 1997 from \$13.4 million in 1996. Despite increased sales volume, European surfactant profit dropped \$1.4 million, or 18 percent, due primarily to continued pressure on sales margins. Stepan Mexico earnings were also down slightly while Canadian results improved on increased sales volumes. Polymers gross profit fell eight percent to \$22.8 million in 1997 from a record \$24.9 million in 1996. Decreased sales volumes and margins led to the profit decline. Within the polymer group, PA and urethane polyol earnings declined by 21 percent and 12 percent, respectively. In both instances, lower volumes and margins caused the

decrease. Price reductions necessitated by competitive situations led to PA's drop in margin. Higher raw material costs, which could only be partially passed along to customers, caused polyol's margin decrease. Urethane systems profit, up 59 percent between years due to better margins and volumes, partially offset the results of the larger two polymer product lines. A shift to a more profitable sales mix generated urethane systems margin improvement. Specialty products gross profit declined 16 percent to \$5.3 million in 1997 from \$6.3 million in 1996. Lower volumes and margins led to the decreased earnings.

Average raw material costs remained constant from year to year. Manufacturing labor costs increased due to higher fringe benefit costs and to normal annual pay increases. Total company headcount increased to 1,292 in 1997 from 1,270 in 1996. Most of the increase occurred in non-manufacturing areas. Depreciation expense increased to \$33.5 million in 1997 from \$30.5 million in 1996 as a result of bringing into service significant capacity expansion projects as well as continuing capital spending for plant improvements.

Operating income was \$44.4 million in 1997, a 10 percent increase over 1996. Operating expenses, consisting of marketing, administrative and research expenses, rose seven percent from a year ago. Administrative expenses climbed 15 percent as a result of the prior year benefiting from \$4.2 million of insurance recoveries. Lower domestic 1997 travel and computer operations expenses and lower overall foreign expenses partially offset the impact of the 1996 insurance recoveries. Marketing expenses and research and development expenses each grew four percent over 1996. These increases were primarily the result of higher salaries and fringe benefits expenses. Operating expenses are expected to increase moderately in 1998.

Negatively impacting pre-tax earnings was \$1.0 million of increased losses of the company's equity joint ventures. Foreign exchange losses of \$3.1 million for the Philippine joint venture, due to the devaluation of the Philippine peso, led to the increased loss. Results from operations showed a profit, and the company expects this to continue in 1998.

The effective tax rate was 41.5 percent in 1997 compared to 40.9 percent in 1996. The higher effective tax rate for the year was precipitated by the inability to tax benefit losses in the Philippines (see Note 6 of the Notes to the Consolidated Financial Statements for a reconciliation of the statutory to the effective tax rate).

Net income for 1997 rose to a record of \$20.4 million, or \$1.97 per share, up seven percent from \$19.1 million, or \$1.80 per share reported for 1996. The company believes that record earnings will again be achieved in 1998. The core surfactant business will lead improvements in 1998 by growing sales volumes and by penetrating the market with higher value-added products. Polymer earnings are expected to improve due to increased polyurethane polyol volume. The company also believes that the Philippine foreign exchange losses should be reduced based on the sheer magnitude of the devaluation that has already occurred in 1997.

1996 Compared with 1995. Net sales for 1996 rose two percent to a record \$536.6 million. The increase was the result of a nine percent growth in sales volume. Net sales by product group were:

(Dollars in Thousands)	1996	1995	Percent Change
Surfactants	\$402,268	\$380,179	+ 6
Polymers	103,444	115,833	- 11
Specialty Products	30,923	32,206	- 4
Total	\$536,635	\$528,218	+ 2

Surfactants net sales, representing 75 percent of the company business, were the source of sales growth in 1996. The sales increase was due mainly to a 10 percent increase in sales volume. The volume gain stemmed largely from a growing domestic demand for high active products. The domestic market accounted for 84 percent of the total surfactant volume. Foreign operations also contributed to the sales growth, particularly with \$6.5 million of first-time sales reported by the newly acquired German subsidiary (see Note 2 of Notes to the Consolidated Financial Statements). Canada, France and Mexico all reported higher sales on modest volume gains.

Despite a seven percent increase in sales volume, polymers net sales, accounting for 19 percent of the company business, decreased sharply due to a 35 percent drop in sales of phthalic anhydride (PA). Lower selling prices driven by a steep decline in raw material costs led to the decrease in PA sales. A five percent decrease in sales volume also contributed. PA business represented 48 percent of polymer volume in 1996. Partially offsetting the PA results were higher polyurethane polyols and polyurethane systems sales on stronger sales volume. Polyurethane polyols, representing 46 percent of polymer volume, recorded a 13 percent volume gain primarily on the strength of the laminate board industry.

Specialty products revenue declined moderately on a much reduced sales volume. 1995 sales included some lower margin products which had since been discontinued. This contributed to an improved average selling price between years.

Gross profit in 1996 was \$96.2 million, or 17.9 percent of net sales, a one percent drop from \$97.2 million, or 18.4 percent of net sales in 1995. Surfactant business was the main contributor to the decline. Despite the sales and volume growth, surfactants gross profit decreased 10 percent from \$72.2 million to \$65.0 million in 1996. Both domestic and foreign operations posted lower gross profit. Domestic gross profit decreased primarily as a result of competitive pressure on pricing and higher maintenance expenses. Mexican gross profit was down 32 percent principally as a result of a larger volume of lower margin products. Canadian gross profit was also down as a result of lower profit margins. France posted higher gross profit on higher sales volume, while Germany, the newly acquired subsidiary, reported start-up losses. For 1996, the impact of the German operation was \$1.6 million after-tax loss which reduced earnings by approximately \$.16 per share. Offsetting the surfactants results, polymers gross profit increased 29 percent to a record \$24.9 million in 1996 from \$19.3 million reported in 1995. Higher margins and sales volumes for polyurethane polyols and systems, partially offset by lower margins and volumes for PA, accounted for the improvement. Specialty products gross profit improved by \$.6 million to \$6.3 million as a result of the improved product mix between years.

Average raw material costs decreased eight percent during 1996, due primarily to lower polymer raw material costs. Manufacturing labor costs increased at a modest rate reflecting the recent low levels of inflation. The company employed 1,270 people which was relatively unchanged from 1995. Depreciation expense increased to \$30.5 million in 1996 from \$28.8 million in 1995 as a result of bringing into service significant capacity expansion projects, as well as continuing capital spending for plant improvements.

Operating income was \$40.4 million in 1996, a 24 percent increase over 1995. Operating expenses, consisting of marketing, administrative and research expenses, fell 14 percent from 1995. Administrative expenses decreased 40 percent as a result of lower legal and environmental costs which in 1995 included significant charges for potential future remediation costs for the company's Maywood, New Jersey, plant and adjacent property. Operating expense also benefited from \$4.2 million of insurance recoveries reported in 1996. Marketing expenses rose five percent primarily due to higher payroll related expenses as well as increased advertising and promotional expenses. Research and development expenses increased seven percent due primarily to higher payroll expenses.

Pre-tax income benefited from an eight percent decrease in interest expense. An increased amount of interest capitalized for long term construction projects accounted for most of the decline. Start-up losses reported by the Philippine joint venture negatively affected pre-tax earnings.

The effective tax rate was 40.9 percent in 1996 compared to 35.5 percent in 1995. The higher effective tax rate for the year was precipitated by a higher effective Mexican tax rate, as the prior year included loss carryforward benefits. The inability to tax benefit losses in Germany and the Philippines also contributed to a higher effective tax rate (see Note 6 of the Notes to the Consolidated Financial Statements for a reconciliation of the statutory to the effective tax rate).

Net income for 1996 rose to a record of \$19.1 million, or \$1.80 per share, up 19 percent from \$16.1 million, or \$1.51 per share reported for 1995.

Fourth Quarter 1997 Compared with 1996. For the quarter ended December 31, 1997, the company reported net income of \$3.5 million, or \$.33 per share, compared to \$4.1 million, or \$.38 per share in the fourth quarter of 1996. Earnings for the quarter would have been \$.11 per share higher if the exchange losses in the Philippines had not been incurred. Net sales for the quarter grew nine percent to \$142.1 million from \$130.1 million recorded in 1996. Gross profit was \$24.5 million, up six percent in the fourth quarter compared to the same quarter of 1996. Surfactants earnings increased 17 percent due to a 15 percent increase in sales volume. Polymers reported lower quarterly gross profit due to reduced sales volume and eroded margins. Specialty products posted higher gross profit due to increased sales volume and improved margins. Operating expenses were 11 percent greater in the fourth quarter compared to the same quarter of 1996 due to the impact of prior year insurance settlements and higher salaries and fringe benefits expense in 1997.

#### Liquidity and Financial Condition

For the year ended December 31, 1997, net cash from operations totaled \$62.9 million, a decrease of \$2.9 million from 1996. The current year decrease was a product of lower insurance recoveries and customer prepayments, partially offset by working capital improvements.

For the current year, net income was up by \$1.3 million, while customer prepayments fell by \$4.1 million. Inventories decreased by \$1.2 million during 1997 compared to a \$4.1 million decrease in 1996. During 1997, accounts receivable decreased by \$4.0 million versus an increase of \$5.2 million for 1996.

Capital expenditures totaled \$35.6 million for 1997, down from the \$44.9 million recorded in 1996. Looking ahead, capital spending for 1998 is expected to be within a range of \$36.0 to \$44.0 million.

Since December 31, 1996, total company debt has decreased by \$8.7 million to finish the year at \$100.9 million. Since December 31, 1996, the ratio of long-term debt to long-term debt plus shareholders' equity (long-term debt ratio) has decreased from 43.8 percent to 40.8 percent.

At December 31, 1997, the company had \$10.8 million outstanding under its \$45 million revolving credit line. 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.

On January 9, 1998, the company entered into a new, committed five year \$45 million revolving credit agreement, replacing the old agreement. Terms and conditions are substantially the same as the previous agreement. Interest rate spreads and commitment fees are dependent on the company's capitalization structure and are lower than under the old agreement.

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.

#### Environmental and Legal Matters

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. During 1997, the company's expenditures for capital projects related to the environment were \$4.1 million and should approximate \$4.0 to \$5.0 million for 1998. These projects are capitalized and typically depreciated over ten years. Capital spending on such projects is likely to continue at these levels in future 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 approximately \$7.5 million for 1997 compared to \$7.8 million for 1996. While difficult to project, it is not anticipated that these recurring expenses will increase significantly in the future.

The company has been named by the government as a potentially responsible party at 17 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 the sites. After partial remediation payments at certain sites, the company has estimated a range of possible environmental and legal losses from \$4.2 million to \$25.8 million at December 31, 1997, compared to \$4.1 million to \$26.5 million at December 31, 1996. At December 31, 1997, the company's reserve was \$20.6 million for legal and environmental matters compared to \$21.0 million at December 31, 1996. During 1997, expenditures related to legal and environmental matters approximated \$3.0 million compared to \$8.2 million expended in 1996. While it is difficult to forecast the timing of the expenditures, the company believes that \$3.0 million of the \$20.6 million reserve is likely to be paid out in 1998. The balance of the reserve would probably be paid out over many years (see also Note 12 of the Notes to Consolidated Financial Statements).

At certain of the 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 1997 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.

#### Year 2000 Readiness

The company has begun evaluating the nature and extent of the effort required to make its systems and infrastructure Year 2000 compliant. Some systems will be replaced while others will be modified using both external and internal resources. Costs for new systems and software will be capitalized and depreciated over the assets' useful lives. Modifications will be expensed against income as incurred. Although the total cost of making the necessary systems modifications is not yet known, the company believes, based on available information, that it will be able to manage a complete and timely Year 2000 transition without any material adverse effect on its operating results or financial condition.

In addition, reference should be made to the Five Year Summary on page 34.

## Management Report on Financial Statements

The financial statements of Stepan Company and subsidiaries were prepared by and are the responsibility of management. The statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances and include some amounts that are based on management's best estimates and judgments. The Board of Directors, through its Audit Committee, assumes an oversight role with respect to the preparation of the financial statements.

In meeting its responsibility for the reliability of the financial statements, the company depends on its system of internal accounting control. The system is designed to provide reasonable assurance that assets are safeguarded and that transactions are executed as authorized and are properly recorded. The system is augmented by written policies and procedures and an internal audit department.

The Audit Committee of the Board of Directors, composed solely of directors who are not officers or employees of the company, meets regularly with management, with the company's internal auditors and with its independent certified public accountants to discuss its evaluation of internal accounting controls and the quality of financial reporting. The independent auditors and the internal auditors have free access to the Audit Committee, without management's presence.

/S/ F. Quinn Stepan  
-----  
F. Quinn Stepan

Chairman of the Board and Chief Executive Officer

/S/ Walter J. Klein  
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Walter J. Klein

Vice President--Finance

February 11, 1998

To the Stockholders of Stepan Company:

We have audited the accompanying consolidated balance sheets of Stepan Company (a Delaware corporation) and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of income, cash flows and stockholders' equity, for each of the three years in the period ended December 31, 1997. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Stepan Company and subsidiaries as of December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

/s/ Arthur Andersen LLP

Chicago, Illinois,

February 11, 1998



Consolidated Balance Sheets  
December 31, 1997 and 1996

(Dollars in Thousands)	1997	1996
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 5,507	\$ 4,778
Receivables, less allowances of \$2,121 in 1997 and \$2,074 in 1996	81,018	85,017
Inventories (Note 3)	48,999	50,242
Deferred income taxes (Note 6)	6,636	10,703
Other current assets	4,322	2,958
<b>Total current assets</b>	<b>146,482</b>	<b>153,698</b>
<b>Property, Plant and Equipment:</b>		
Land	6,108	6,416
Buildings and improvements	58,670	55,795
Machinery and equipment	459,945	427,141
Construction in progress	2,943	8,530
	527,666	497,882
Less: Accumulated depreciation	321,065	290,723
<b>Property, plant and equipment, net</b>	<b>206,601</b>	<b>207,159</b>
<b>Other Assets</b>	<b>21,853</b>	<b>20,155</b>
<b>Total assets</b>	<b>\$374,936</b>	<b>\$381,012</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities:</b>		
Current maturities of long-term debt (Note 4)	\$ 5,957	\$ 6,973
Accounts payable	42,894	43,417
Accrued liabilities (Note 10)	33,842	32,986
<b>Total current liabilities</b>	<b>82,693</b>	<b>83,376</b>
Deferred Income Taxes (Note 6)	32,258	35,954
Long-term Debt, less current maturities (Note 4)	94,898	102,567
Other Non-current Liabilities (Note 11)	27,489	27,500
<b>Stockholders' Equity (Note 7):</b>		
5 1/2 percent convertible preferred stock, cumulative, voting, without par value; authorized 2,000,000 shares; issued 788,434 in 1997 and 796,972 shares in 1996	19,711	19,924
Common stock, \$1 par value; authorized 15,000,000 shares; issued 10,341,952 shares in 1997 and 10,131,706 shares in 1996	10,342	10,132
Additional paid-in capital	8,091	5,066
Cumulative translation adjustments	(7,337)	(4,820)
Retained earnings	120,854	106,513
	151,661	136,815
Less: Treasury stock, at cost	14,063	5,200
<b>Stockholders' equity</b>	<b>137,598</b>	<b>131,615</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$374,936</b>	<b>\$381,012</b>

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

Consolidated Statements of Income  
For the years ended December 31, 1997, 1996 and 1995

(Dollars in Thousands, except per share amounts)	1997	1996	1995
Net Sales	\$581,949	\$536,635	\$528,218
Cost of Sales	477,778	440,420	431,051
Gross profit	104,171	96,215	97,167
Operating Expenses:			
Marketing	20,394	19,577	18,673
Administrative	18,964	16,549	27,412
Research, development and technical services (Note 1)	20,443	19,703	18,462
	59,801	55,829	64,547
Operating Income	44,370	40,386	32,620
Other Income (Expenses):			
Interest, net (Note 4)	(7,595)	(7,243)	(7,865)
Income (loss) from equity joint ventures (Note 1)	(1,901)	(882)	236
	(9,496)	(8,125)	(7,629)
Income Before Provision for Income Taxes	34,874	32,261	24,991
Provision for Income Taxes (Note 6)	14,464	13,194	8,872
Net Income	\$ 20,410	\$ 19,067	\$ 16,119
Net Income Per Common Share:			
Basic	\$ 1.97	\$ 1.80	\$ 1.51
Diluted	\$ 1.86	\$ 1.71	\$ 1.46
Average Common Shares Outstanding (Note 1)	9,831	10,002	9,984

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

1997 Sales Dollar Distribution  
(Dollars in Thousands)

[PIE CHART APPEARS HERE]	[ ] Material \$352,590 60.6%	[ ] Depreciation and Amortization \$35,281 6.0%
	[ ] Other Expenses \$74,428 12.8%	[ ] Income Taxes \$14,464 2.5%
	[ ] Payroll and Fringes \$84,776 14.6%	[ ] Net Income \$20,410 3.5%

Combined Sales  
(Thousands of Dollars)

[Bar Graph Appears Here]

93	324,809	79,071	34,945	438,825
94	329,186	78,778	35,984	443,948
95	380,179	115,833	32,206	528,218
96	402,268	103,444	30,923	536,635
97	445,946	105,754	30,249	581,949

Surfactants

Polymers

Specialty Products

(Consolidated Totals in bold)

Capital Expenditures  
(Thousands of Dollars)

[INSERT BAR CHART HERE]

92	34,440
93	25,435
94	42,884
95	39,247
96	44,923
97	35,589

Compound Annual Growth  
Five Years + 1%

Equity Per Share  
(Dollars)

[INSERT BAR CHART HERE]

92	9.22
93	9.65
94	10.27
95	11.25
96	12.24
97	13.01

Compound Annual Growth  
Five Years + 7%

Consolidated Statements of Cash Flows  
For the years ended December 31, 1997, 1996 and 1995

(Dollars in Thousands)	1997	1996	1995
<hr/>			
Net Cash Flows from Operating Activities			
Net income	\$ 20,410	\$ 19,067	\$ 16,119
Depreciation and amortization	35,281	32,138	30,384
Deferred revenue recognition	(3,611)	(2,896)	(2,760)
Customer prepayments	3,292	7,375	--
Deferred income taxes	1,114	(1,710)	2,359
Non-current environmental and legal liabilities	(428)	12,925	3,601
Other non-cash items	1,860	548	(605)
Changes in Working Capital:			
Receivables, net	3,999	(5,203)	(9,429)
Inventories	1,243	4,121	(8,899)
Accounts payable and accrued liabilities	1,069	(1,113)	4,310
Other	(1,364)	535	(74)
Net Cash Provided by Operating Activities	62,865	65,787	35,006
<hr/>			
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	(35,589)	(44,923)	(39,247)
Investment in acquisitions	(4,999)	(3,859)	(7,500)
Other non-current assets	344	268	(14)
Net Cash Used for Investing Activities	(40,244)	(48,514)	(46,761)
<hr/>			
Cash Flows from Financing and Other Related Activities			
Revolving debt and notes payable to banks, net	1,210	(800)	(9,711)
Other debt borrowings	--	3,734	40,000
Other debt repayments	(9,660)	(9,190)	(12,053)
Purchases of treasury stock, net	(8,863)	(3,492)	(64)
Dividends paid	(6,069)	(5,846)	(5,540)
Stock option exercises	2,252	464	540
Other non-cash items	(762)	(513)	(721)
Net Cash Provided by (Used for) Financing and Other Related Activities	(21,892)	(15,643)	12,451
<hr/>			
Net Increase in Cash and Cash Equivalents	729	1,630	696
Cash and Cash Equivalents at Beginning of Year	4,778	3,148	2,452
Cash and Cash Equivalents at End of Year	\$ 5,507	\$ 4,778	\$ 3,148
<hr/>			
Supplemental Cash Flow Information			
Cash payments of income taxes, net of refunds	\$ 16,059	\$ 12,417	\$ 9,804
Cash payments of interest	\$ 8,306	\$ 10,838	\$ 7,761
<hr/>			

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

Consolidated Statements of Stockholders' Equity  
For the years ended December 31, 1997, 1996 and 1995

(Dollars in Thousands)	Convertible Preferred Stock	Common Stock	Additional Paid-in Capital	Treasury Stock	Cumulative Translation Adjustments	Retained Earnings
Balance, January 1, 1995	\$19,980	\$10,029	\$ 3,983	\$(1,644)	\$(3,491)	\$ 82,445
Sale of 55,800 shares under stock option plan	--	56	484	--	--	--
Purchase of 536 shares of common treasury stock, net of sales	--	--	52	(64)	--	--
Conversion of preferred stock to common stock	(51)	2	49	--	--	--
Net income	--	--	--	--	--	16,119
Cash dividends paid						
Preferred stock (\$1.375 per share)	--	--	--	--	--	(801)
Common stock (44.75c per share)	--	--	--	--	--	(4,471)
Translation adjustments	--	--	--	--	(200)	--
Balance, December 31, 1995	19,929	10,087	4,568	(1,708)	(3,691)	93,292
Sale of 44,826 shares under stock option plan	--	45	419	--	--	--
Purchase of 184,587 shares of common treasury stock, net of sales	--	--	74	(3,492)	--	--
Conversion of preferred stock to common stock	(5)	--	5	--	--	--
Net income	--	--	--	--	--	19,067
Cash dividends paid						
Preferred stock (\$1.375 per share)	--	--	--	--	--	(1,068)
Common stock (47.75c per share)	--	--	--	--	--	(4,778)
Translation adjustments	--	--	--	--	(1,129)	--
Balance, December 31, 1996	19,924	10,132	5,066	(5,200)	(4,820)	106,513
Sale of 200,500 shares under stock option plan	--	200	2,052	--	--	--
Purchase of 246,901 shares of common and 113,666 shares of preferred treasury stock, net of sales	--	--	101	(8,863)	--	--
Conversion of preferred stock to common stock	(213)	10	203	--	--	--
Net income	--	--	--	--	--	20,410
Cash dividends paid						
Preferred stock (\$1.375 per share)	--	--	--	--	--	(1,027)
Common stock (51.25c per share)	--	--	--	--	--	(5,042)
Translation adjustments	--	--	--	--	(2,517)	--
Non-qualified stock option tax benefit	--	--	669	--	--	--
Balance, December 31, 1997	\$19,711	\$10,342	\$ 8,091	\$(14,063)	\$(7,337)	\$120,854

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

1. Summary of Significant Accounting Policies

Nature of Operations. The company's operations consist predominantly of the production and sale of specialty and intermediate chemicals which are sold to other manufacturers for use in a variety of end products. Principal markets for all products are manufacturers of cleaning and washing compounds (including detergents, shampoos, toothpastes and household cleaners), paints, cosmetics, food and beverages, agricultural insecticides and herbicides, plastics, furniture, automotive equipment, insulation and refrigeration.

The company grants credit to its customers who are widely distributed across the Americas, Europe, Asia and the Pacific. There is no material concentration of credit risk.

Principles of Consolidation. The consolidated financial statements include the accounts of Stepan Company and its wholly-owned foreign subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. Investments in 50 percent owned joint ventures in the Philippines and Colombia are accounted for on the equity method and are included in the "Other Assets" caption on the Consolidated Balance Sheet. The company's share of the net earnings of the investments is included in consolidated net income. Differences between the cost of equity investments and the amount of underlying equity in net assets of the investees are amortized systematically to income.

Cash and Cash Equivalents. The company considers all highly liquid investments with original maturities of six months or less from the date of purchase to be cash equivalents.

Inventories. Inventories are valued at cost, which is not in excess of market value, and include material, labor and plant overhead costs. The last-in, first-out (LIFO) method is used to determine the cost of most company inventories. The first-in, first-out (FIFO) method is used for all other inventories. Inventories priced at LIFO as of December 31, 1997 and 1996, amounted to 91 percent and 89 percent of total inventories, respectively.

Property, Plant and Equipment. Depreciation of physical properties is provided on a straight-line basis over the estimated useful lives of various assets. Lives used for calculating depreciation are 30 years for buildings, 15 years for building improvements and from three to 15 years for machinery and equipment. Major renewals and betterments are capitalized in the property accounts, while maintenance and repairs (\$18,775,000, \$20,509,000 and \$16,791,000 in 1997, 1996 and 1995, respectively), which do not renew or extend the life of the respective assets, are charged to operations currently. The cost of property retired or sold and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income.

Interest charges on borrowings applicable to major construction projects are capitalized and subsequently amortized over the lives of the related assets.

Environmental Expenditures. Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations, and which do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when environmental assessments and/or remedial efforts are probable and the cost or range of possible costs can be reasonably estimated. When no amount within the range is a better estimate than any other amount, at least the minimum is accrued. Some of the factors on which the company bases its estimates include information provided by feasibility studies, potentially responsible party negotiations and the development of remedial action plans. Expenditures that mitigate or prevent environmental contamination and that benefit future operations are capitalized. Capitalized expenditures are depreciated generally utilizing a ten-year life.

Intangible Assets. Included in other assets are intangible assets consisting of patents, agreements not to compete, trademarks, customer lists and goodwill, all of which were acquired as part of business acquisitions. These assets are presented net of amortization provided on a straight-line basis over their estimated useful lives generally ranging from five to ten years.

Research and Development Costs. The company's research and development costs are expensed as incurred. These expenses are aimed at discovery and commercialization of new knowledge with the intent that such effort will be useful in developing a new product or in bringing about a significant improvement to an existing product or process. Total expenses were \$12,404,000, \$12,469,000 and \$12,425,000 in 1997, 1996 and 1995, respectively. The balance of expenses reflected on the Consolidated Statements of Income relates to technical services which include routine product testing, quality control and sales support service.

**Income Taxes.** The provision for income taxes includes federal, foreign, state and local income taxes currently payable and those deferred because of temporary differences between the financial statement and tax bases of assets and liabilities. Deferred tax assets or liabilities are computed based on the difference between the financial statement and income tax bases of assets and liabilities using the enacted marginal tax rate. Deferred income tax expenses or credits are based on the changes in the asset or liability from period to period.

**Translation of Foreign Currencies.** Assets and liabilities of consolidated foreign subsidiaries are translated into U.S. dollars at exchange rates in effect at year end, while revenues and expenses are translated at average exchange rates prevailing during the year. The resulting translation adjustments are included in stockholders' equity. Gains or losses on foreign currency transactions and the related tax effects are reflected in net income.

**Derivative Financial Instruments.** The company's utilization of derivative financial instruments consists of the use of forward exchange contracts to hedge firm foreign currency commitments. The unrealized gains and losses are deferred and included in the measurement of the related foreign currency transaction. Gains and losses on unhedged foreign currency transactions are included in income.

**Long-Lived Assets.** Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," requires that operating assets and associated goodwill be written down to fair value whenever an impairment review indicates that the carrying value cannot be recovered on an undiscounted cash flow basis. After any such noncash write-down, results of operations would be favorably affected by reduced depreciation, depletion and amortization charges. During 1996, the company adopted this statement. The company has determined that no impairment loss has needed to be recognized for applicable assets of continuing operations.

**Stock-Based Compensation.** Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," encourages, but does not require companies to record compensation cost for stock-based employee compensation plans at fair value. The company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the company's stock at the date of the grant over the amount an employee must pay to acquire the stock. See Note 8.

**Per Share Data.** In 1997, the company adopted Statement of Financial Accounting Standards No. 128, "Earnings per Share," effective December 15, 1997. Accordingly, basic earnings per share amounts are computed based on the weighted-average number of common shares outstanding. Net income used in computing basic earnings per share has been reduced by dividends paid to preferred stockholders. Diluted earnings per share amounts are based on the increased number of common shares that would be outstanding assuming the exercise of certain outstanding stock options and the conversion of the convertible preferred stock, when such conversion would have the effect of reducing earnings per share. The adoption of Statement of Financial Accounting Standards No. 128 had no effect on previously reported per share data. See Note 14 for the computation of earnings per share.

**Reclassifications.** Certain amounts in the 1996 and 1995 financial statements have been reclassified to conform to the 1997 presentation.

**Use of Estimates.** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Acquisitions

In April 1997, the company acquired the West Coast anionic surfactant business from Lonza, Inc. The acquisition consisted of intangible assets, including customer lists, goodwill, know-how and a non-compete covenant. No manufacturing facilities were included in the agreement. The acquisition enables the company to significantly strengthen its market share in the personal care market on the West Coast.

In April 1996, the company acquired a sulfonation plant from Shell Group in Cologne, Germany. This plant, organized as a German subsidiary, allows the company to serve Northern European customers with a wide range of sulfate and sulfonate products used in household, personal care, individual, institutional and agricultural markets. The purchase consisted of land, sulfonation equipment, and intangible assets. The acquisition was accounted for as a purchase, and the results of the subsidiary have been included in the accompanying consolidated financial statements since the date of acquisition. Had the results of this subsidiary been included commencing with operations in 1996, the reported results would not have been materially affected.

3. Inventories

The composition of inventories was as follows:

(Dollars in Thousands)	December 31	
	1997	1996
Finished products	\$31,110	\$30,689
Raw materials	17,889	19,553
<b>Total inventories</b>	<b>\$48,999</b>	<b>\$50,242</b>

If the first-in, first-out (FIFO) inventory valuation method had been used, inventories would have been approximately \$11,900,000 and \$12,800,000 higher than reported at December 31, 1997 and 1996, respectively.

4. Debt

Debt was composed of the following:

(Dollars in Thousands)	Maturity Dates	December 31	
		1997	1996
Unsecured promissory notes			
7.22%	1999-2008	\$ 30,000	\$ 30,000
7.77%	2000-2010	30,000	30,000
7.69%	2001-2005	10,000	10,000
9.70%	1998-2005	8,000	10,000
9.52%	1998-1999	3,572	6,429
9.70%	1998-1999	1,667	2,667
10.54%	--	--	2,379
Unsecured bank debt	2003	10,800	12,200
Debt of foreign subsidiaries payable in foreign currency			
	1998-2006	6,816	5,865
<b>Total debt</b>		<b>100,855</b>	<b>109,540</b>
<b>Less current maturities</b>		<b>5,957</b>	<b>6,973</b>
<b>Long-term debt</b>		<b>\$ 94,898</b>	<b>\$102,567</b>

Unsecured bank debt at December 31, 1997, consisted of borrowings under a committed \$45,000,000 revolving credit agreement with interest at varying rates averaging 6.22 percent during the year. This agreement required a commitment fee of .25 percent per annum on the unused portion of the commitment. Periodically, the company also had other borrowings under notes payable to banks of which there were no outstanding balances at December 31, 1997 and 1996.

On January 9, 1998, the company entered into a new committed five year \$45,000,000 revolving credit agreement, replacing the old agreement. Terms and conditions are substantially the same as the previous agreement. Interest rate spreads and commitment fees are dependent on the company's capitalization structure, and are lower than under the old agreement.

The various loan agreements contain provisions which, among others, require maintenance of certain financial ratios and place limitations on additional debt, investments and payment of dividends. Unrestricted retained earnings were \$52,623,000 and \$46,689,000 at December 31, 1997 and 1996, respectively. The company is in compliance with all loan agreements.

Debt at December 31, 1997, matures as follows: \$5,957,000 in 1998; \$6,423,000 in 1999; \$7,052,000 in 2000; \$9,048,000 in 2001; \$9,044,000 in 2002 and \$63,331,000 after 2002.

Net interest expense for the years ended December 31 was composed of the following:



(Dollars in Thousands)	1997	1996	1995
Interest expense	\$8,205	\$9,165	\$9,043
Interest income	(173)	(671)	(629)
Capitalized interest	8,032	8,494	8,414
	(437)	(1,251)	(549)
Interest, net	\$7,595	\$7,243	\$7,865

5. Leased Properties

The company leases certain property and equipment (primarily transportation equipment, buildings and computer equipment) under operating leases. Total rental expense was \$3,884,000, \$3,474,000 and \$3,398,000 in 1997, 1996 and 1995, respectively.

Minimum future rental payments under operating leases with terms in excess of one year as of December 31, 1997, are:

(Dollars in Thousands)	Year	Amount
	1998	\$ 3,288
	1999	2,283
	2000	1,743
	2001	1,293
	2002	671
	Subsequent to 2002	2,091
Total minimum future rental payments		\$11,369

6. Income Taxes

The provision for taxes on income and the related income before taxes are as follows:

Taxes on Income (Dollars in Thousands)	1997	1996	1995
Federal			
Current	\$11,321	\$ 9,785	\$ 3,698
Deferred	(321)	54	2,003
State			
Current	1,953	1,863	899
Deferred	502	(345)	278
Foreign			
Current	1,451	2,700	1,973
Deferred	(442)	(863)	21
Total	\$14,464	\$13,194	\$ 8,872

Income before Taxes (Dollars in Thousands)	1997	1996	1995
Domestic	\$31,758	\$28,420	\$18,044
Foreign	3,116	3,841	6,947
Total	\$34,874	\$32,261	\$24,991

No federal income taxes have been provided on \$24,534,000 of undistributed earnings of the company's foreign subsidiaries. In general, the company reinvests earnings of foreign subsidiaries in their operations indefinitely. However, the company will repatriate earnings from a subsidiary where excess cash has accumulated and it is advantageous for tax or foreign exchange reasons. Because of the probable availability of foreign tax credits, it is not practicable to estimate the amount, if any, of the deferred tax liability on earnings reinvested indefinitely.

The variations between the effective and statutory federal income tax rates are summarized as follows:

(Dollars in Thousands)	1997		1996		1995	
	Amount	%	Amount	%	Amount	%
Income tax provision at statutory tax rate	\$12,206	35.0	\$11,292	35.0	\$8,747	35.0
State taxes on income less applicable federal tax benefit	1,215	3.5	987	3.1	765	3.1
Effect of equity in foreign joint ventures	665	1.9	308	1.0	--	--
Other items	378	1.1	607	1.8	(640)	(2.6)
Total income tax provision	\$14,464	41.5	\$13,194	40.9	\$8,872	35.5

The net deferred tax liability at December 31 is comprised of the following:

(Dollars in Thousands)	1997	1996
------------------------	------	------

Current deferred income taxes		
Gross assets	\$ 7,469	\$ 14,970
Gross liabilities	(833)	(4,267)
-----		
Total current deferred tax assets	6,636	10,703
Non-current deferred income taxes		
Gross assets	12,558	6,135
Gross liabilities	(44,816)	(42,089)
-----		
Total non-current deferred tax liabilities	(32,258)	(35,954)
-----		
Net deferred tax liability	\$(25,622)	\$(25,251)
=====		

At December 31, the tax effect of significant temporary differences representing deferred tax assets and liabilities is as follows:

(Dollars in Thousands)	1997	1996
-----		
Tax over book depreciation	\$(40,705)	\$(36,691)
Safe Harbor leases	(2,971)	(3,452)
SFAS No. 87 pension accounting	(2,894)	(2,716)
State income tax accrual	1,444	1,377
Deferred revenue	5,942	5,813
Book reserves deductible in other periods	14,277	10,652
Other, net	(715)	(234)
-----		
Net deferred tax liability	\$(25,622)	\$(25,251)
=====		

7. Stockholders' Equity

On November 11, 1994, the Board of Directors declared a two-for-one stock split on the company's common stock in the form of a 100 percent stock dividend, payable December 15, 1994, to shareholders of record on December 1, 1994. As a result of the split, 5,014,272 additional shares were issued, and retained earnings were reduced by \$5,014,272. All share and per share data appearing in the consolidated financial statements and notes thereto have been retroactively adjusted for the stock split.

On April 28, 1993, the shareholders approved an increase in the authorized shares of the 5 1/2% convertible preferred stock ("preferred stock") from 200,000 to 2,000,000 and approved an eight-for-one stock split to shareholders of record on April 30, 1993. All share and per share data appearing in the consolidated financial statements and notes thereto have been retroactively adjusted for the stock split and the increased authorized shares.

The preferred stock is convertible at the option of the holder at any time (unless previously redeemed) into shares of common stock at a conversion of 1.14175 shares of common stock for each share of preferred stock. Dividends on preferred stock accrue at a rate of \$1.375 per share per annum which are cumulative from the date of original issue. The company may not declare and pay any dividend or make any distribution of assets (other than dividends or other distribution payable in shares of common stock) on, or redeem, purchase or otherwise acquire, shares of common stock, unless all accumulated and unpaid preferred dividends have been paid or are contemporaneously declared and paid. The preferred stock is subject to optional redemption by the company, in whole or in part, at any time on or after September 1, 1997, at a redemption price of \$25.69 per share reduced annually by \$.14 per share to a minimum of \$25 per share on or after September 1, 2002, plus accrued and unpaid dividends thereon to the date fixed for redemption. Preferred stock is entitled to 1.14175 votes per share on all matters submitted to stockholders for action, and votes together with the common stock as a single class, except as otherwise provided by law or the Certificate of Incorporation of the company. There is no mandatory redemption or sinking fund obligation with respect to the preferred stock.

At December 31, 1997, treasury stock consists of 133,874 shares of preferred stock and 516,304 shares of common stock. At December 31, 1996, treasury stock consisted of 20,208 shares of preferred stock and 269,403 shares of common stock.

8. Stock Option Plans

The company has two fixed stock option plans--1982 Plan and 1992 Plan. The 1992 Plan extends participation to directors who are not employees of the company. No further grants may be made under the 1982 Plan. The 1992 Plan authorizes the award of up to 1,600,000 shares of the company's common stock for stock options ("options") and stock appreciation rights ("SAR"). SARs entitle the employee to receive an amount equal to the difference between the fair market value of a share of stock at the time the SAR is exercised and the exercise price specified at the time the SAR is granted. Options are granted at the market price on the date of grant. An option may not be exercised within two years from the date of grant and no option will be exercisable after ten years from the date granted.

The company accounts for these plans under APB Opinion No. 25, under which no compensation cost has been recognized. Had compensation cost for the 1992 Plan been determined based on the fair value at the grant date for awards in 1997 and 1996 consistent with the provisions of SFAS No. 123, the company's net income and earnings per share would have been reduced to the following pro forma amounts:

(In Thousands, except per share data)	1997	1996	1995
Net Earnings--as reported	\$20,410	\$19,067	\$16,119
Net Earnings--pro forma	19,716	18,556	16,117
Basic Earnings per share--as reported	\$ 1.97	\$ 1.80	\$ 1.51
Basic Earnings per share--pro forma	1.90	1.75	1.51
Diluted Earnings per share--as reported	1.86	1.71	1.46
Diluted Earnings per share--pro forma	1.80	1.66	1.46

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 1997, 1996 and 1995: expected dividend yield of 2.7% in 1997 and 3.0% in 1996 and 1995; expected volatility of 28%; expected lives of 7.5 years; and risk-free interest rate of 6.24% in 1997, 6.89% in 1996 and 7.06% in 1995.

A summary of the status of the company's stock option plans at December 31, 1997, 1996 and 1995 and changes during the years then ended is presented as follows:

	1997 Shares	Weighted- Average Exercise Price	1996 Shares	1995 Shares
Options outstanding, beginning of year	1,266,252	\$ 15.04	1,044,810	1,126,704
Options exercised	(200,500)	11.23	(44,826)	(55,800)
Options cancelled	(4,000)	19.75	(5,112)	(27,088)
Options granted	105,000	19.25	271,380	994
Options outstanding, end of year	1,166,752	16.05	1,266,252	1,044,810
Option price range at end of year	\$ 9.43750-		\$ 9.43750-	\$ 8.12500-
	\$ 19.75000		\$ 19.75000	\$ 19.62500
Option price range for exercised shares	\$ 19.43750-		\$ 8.12500-	\$ 8.12500-
	\$ 18.21875		\$ 18.21875	\$ 14.68750
Options available for grant at end of year	546,122		647,122	913,390
Weighted-average fair value of options, granted during the year	\$ 6.18		\$ 6.35	\$ 6.38

A summary of stock options outstanding at December 31, 1997, is as follows:

Range of Exercise Price	Number Outstanding at 12/31/97	Options Outstanding		Options Exercisable	
		Weighted- Average Remaining Contractual Life	Weighted- Average Exercise Price	Number Exercisable at 12/31/97	Weighted- Average Exercise Price
\$ 9.43750	101,800	2.33	\$ 9.44	101,800	\$ 9.44
\$ 12.09375 - \$14.00000	489,300	5.99	13.82	489,300	13.82
\$ 18.21875 - \$19.75000	575,652	7.08	19.12	203,272	18.23
	1,166,752	6.21	\$ 16.05	794,372	\$ 14.39

### 9. Pension Plans

The company has non-contributory defined benefit plans covering substantially all employees. The benefits under these plans are based primarily on years of service and compensation levels. The company funds the annual provision deductible for income tax purposes. The plans' assets consist principally of marketable equity securities and government and corporate debt securities. The plans' assets at December 31, 1997, include \$12,443,000 of the company's common stock.

Net 1997, 1996 and 1995 periodic pension cost for the plans consists of the following:

(Dollars in Thousands)	1997	1996	1995
Service cost	\$ 1,754	\$ 1,664	\$ 1,244
Interest cost on projected benefit obligation	3,029	2,700	2,383
Actual return on plan assets	(13,130)	(6,732)	(8,653)
Net amortization and deferral	8,669	2,478	4,611
Net pension expense (income)	\$ 322	\$ 110	\$ (415)

The reconciliation of the funded status of the plans to the amount reported in the company's consolidated balance sheet is as follows:

(Dollars in Thousands)	1997	1996
Vested benefit obligation	\$ (32,098)	\$ (27,013)
Accumulated benefit obligation	(35,955)	(30,306)
Projected benefit obligation	(44,391)	(37,696)
Plan assets at fair value	64,786	52,304
Plan assets in excess of projected benefit obligation	20,395	14,608
Unrecognized net gain	(13,763)	(6,871)

Unamortized net transitional assets	(1,701)	(2,268)
Unamortized prior service cost	1,994	1,140
-----		
Prepaid pension asset	\$ 6,925	\$ 6,609
=====		

The prepaid pension asset is included in the "Other Assets" caption on the Consolidated Balance Sheets.

The projected benefit obligations were determined using a discount rate of 7.25 and 7.75 percent for 1997 and 1996, respectively. The projected benefit obligations were determined under assumed compensation increases ranging from 4.50 percent to 6.50 percent for different employee groups for 1997 and 5.00 percent to 7.00 percent for 1996. The assumed long-term rate of return on plan assets was 8.50 percent for 1997 and 1996. The plans' net transitional assets are being amortized over a period of 15 years. The prior service costs are being amortized over an average of 12 years.

10. Accrued Liabilities

Accrued liabilities consisted of:

(Dollars in Thousands)	December 31	
	1997	1996
Accrued payroll and benefits	\$ 13,824	\$ 11,236
Accrued customer discounts	6,307	3,806
Deferred revenue--current	4,328	3,564
Accrued environmental and legal matters (Note 12)	3,000	4,500
Other accrued liabilities	6,383	9,880
<b>Total accrued liabilities</b>	<b>\$ 33,842</b>	<b>\$ 32,986</b>

11. Other Non-current Liabilities

Other non-current liabilities were comprised of the following:

(Dollars in Thousands)	December 31	
	1997	1996
Deferred revenue	\$ 9,892	\$ 10,974
Environmental and legal matters (Note 12)	17,597	16,526
<b>Total other non-current liabilities</b>	<b>\$ 27,489</b>	<b>\$ 27,500</b>

During 1997 and 1996, the company received prepayments on certain multi-year commitments for future shipments of products. As the commitments are fulfilled, a proportionate share of the deferred revenue is recognized into income. Related deferred revenue at December 31, 1997 and 1996 is \$14,219,000 and \$14,538,000, respectively, of which the amount recognizable within one year is included in the "Accrued Liabilities" caption of the Consolidated Balance Sheets.

12. Contingencies

There are a variety of legal proceedings pending or threatened 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, the company believes that it has made adequate provisions for the costs it may incur with respect to these sites.

After partial remediation payments at certain sites, the company has estimated a range of possible environmental and legal losses from \$4.2 million to \$25.8 million at December 31, 1997, compared to \$4.1 million to \$26.5 million at December 31, 1996. At December 31, 1997, the company's reserve was \$20.6 million for legal and environmental matters compared to \$21.0 million at December 31, 1996. The company made payments of \$3.0 million in 1997 and \$8.2 million in 1996 related to legal costs, settlements and costs related to remedial design studies at various sites.

At certain of the 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 1997 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.

## 13. Geographic Data

(Dollars in Thousands)	1997	1996	1995
<b>United States</b>			
Net Sales--Unaffiliated	\$ 494,496	\$ 449,544	\$ 452,013
Interarea Transfers	16,897	15,338	13,052
<b>Total</b>	<b>\$ 511,393</b>	<b>\$ 464,882</b>	<b>\$ 465,065</b>
Operating Income	40,992	37,034	25,938
Identifiable Assets	330,671	333,598	315,393
<b>Other</b>			
Net Sales--Unaffiliated	\$ 87,453	\$ 87,091	\$ 76,205
Interarea Transfers	22,961	20,025	19,971
<b>Total</b>	<b>\$ 110,414</b>	<b>\$ 107,116</b>	<b>\$ 96,176</b>
Operating Income	3,378	3,352	6,682
Identifiable Assets	44,265	47,414	47,134
<b>Eliminations</b>			
Net Sales	\$ (39,858)	\$ (35,363)	\$ (33,023)
<b>Consolidated</b>			
Net Sales	\$ 581,949	\$ 536,635	\$ 528,218
Operating Income	44,370	40,386	32,620
Identifiable Assets	374,936	381,012	362,527

Interarea transfers consist principally of surfactant intermediates and finished products. They are generally transferred at cost plus an appropriate mark-up for profit. Marketing and services in the United States, Canada and Mexico are managed as a single enterprise. However, in compliance with Statement of Financial Accounting Standards No. 14, "Financial Reporting for Segments of a Business Enterprise," the United States is reported as a separate geographic area. Other includes subsidiaries in Canada, Mexico and Europe.

## 14. Earnings Per Share

Below is the computation of basic and diluted earnings per share for the years ended December 31, 1997, 1996 and 1995:

(In Thousands, except per share amounts)	1997	1996	1995
<b>Computation of Basic Earnings per Share</b>			
Net income	\$ 20,410	\$ 19,067	\$ 16,119
Deduct dividends on preferred stock	1,027	1,068	1,069
<b>Income applicable to common stock</b>	<b>\$ 19,383</b>	<b>\$ 17,999</b>	<b>\$ 15,050</b>
Weighted-average number of shares outstanding	9,831	10,002	9,984
<b>Basic earnings per share</b>	<b>\$ 1.97</b>	<b>\$ 1.80</b>	<b>\$ 1.51</b>
<b>Computation of Diluted Earnings per Share</b>			
Net income	\$ 20,410	\$ 19,067	\$ 16,119
Weighted-average number of shares outstanding	9,831	10,002	9,984
Add net shares from assumed exercise of options (under treasury stock method)	275	242	166
Add weighted-average shares from assumed conversion of convertible preferred stock	853	887	888
<b>Shares applicable to diluted earnings</b>	<b>10,959</b>	<b>11,131</b>	<b>11,038</b>
<b>Diluted earnings per share</b>	<b>\$ 1.86</b>	<b>\$ 1.71</b>	<b>\$ 1.46</b>



Five Year Summary  
(In Thousands, except per share and employee data)

For the Year	1997	1996	1995	1994	1993
Net Sales	\$581,949	\$536,635	\$528,218	\$443,948	\$438,825
Operating Income	44,370	40,386	32,620	29,853	27,335
Percent of net sales	7.6%	7.5%	6.2%	6.7%	6.2%
Pre-tax Income	34,874	32,261	24,991	22,512	19,624
Percent of net sales	6.0%	6.0%	4.7%	5.1%	4.5%
Provision for Income Taxes	14,464	13,194	8,872	8,667	8,848
Net Income	20,410	19,067	16,119	13,845	10,776
Per share (basic)/(a)(b)/	1.97	1.80	1.51	1.29	.98
Percent of net sales	3.5%	3.6%	3.1%	3.1%	2.5%
Percent to stockholders' equity/(c)/	15.5%	15.6%	14.5%	13.3%	10.8%
Cash Dividends Paid	6,069	5,846	5,540	5,294	5,105
Per common share/(a)/	.5125	.4775	.4475	.4250	.4050
Depreciation and Amortization	35,281	32,138	30,384	28,935	27,679
Capital Expenditures	35,589	44,923	39,247	42,884	25,435
Weighted-Average Common Shares Outstanding/(a)/	9,831	10,002	9,984	9,924	9,894
As of Year End					
Working Capital	\$ 63,789	\$ 70,322	\$ 66,856	\$ 48,915	\$ 48,569
Current Ratio	1.8	1.8	1.8	1.6	1.7
Property, Plant and Equipment, net	206,601	207,159	192,470	183,657	170,270
Total Assets	374,936	381,012	362,527	324,948	300,488
Long-term Debt, less current maturities	94,898	102,567	109,023	89,795	89,660
Stockholders' Equity	137,598	131,615	122,477	111,302	104,217
Per share/(a)(d)/	13.01	12.24	11.25	10.27	9.65
Number of Employees	1,292	1,270	1,267	1,265	1,302

/(a)/ Adjusted for two-for-one common stock split in 1994.

/(b)/ Based on weighted-average number of common shares outstanding during the year.

/(c)/ Based on equity at beginning of year.

/(d)/ Based on common shares and the assumed conversion of the convertible preferred shares outstanding at year end.

Quarterly Stock Data (Unaudited)

Quarter	Stock Price Range				Dividends Paid Per Common Share	
	1997		1996		1997	1996
	High	Low	High	Low		
First	\$20 3/8	\$18 1/4	\$19 3/4	\$15 3/4	12.50c	11.75c
Second	24 5/8	18	20 1/2	18	12.50c	11.75c
Third	26 3/4	22 1/16	19	17	12.50c	11.75c
Fourth	32 3/8	26	20 1/2	16 7/8	13.75c	12.50c
Year	32 3/8	18	20 1/2	15 3/4	51.25c	47.75c

Quarterly Financial Data (Unaudited)  
(Dollars in Thousands, except per share data)

Quarter	1997				
	First	Second	Third	Fourth	Year
Net Sales	\$139,670	\$153,650	\$146,502	\$142,127	\$581,949
Gross Profit	24,045	27,284	28,305	24,537	104,171
Interest, net	(1,870)	(1,900)	(1,855)	(1,970)	(7,595)
Pre-tax Income	7,539	10,461	10,962	5,912	34,874
Net Income	4,477	6,323	6,143	3,467	20,410
Net Income per Share	.43	.62	.60	.33	1.97

  

Quarter	1996				
	First	Second	Third	Fourth	Year
Net Sales	\$130,643	\$137,926	\$137,922	\$130,144	\$536,635
Gross Profit	25,875	25,030	22,242	23,068	96,215
Interest, net	(1,987)	(1,732)	(1,643)	(1,881)	(7,243)
Pre-tax Income	9,143	8,722	7,540	6,856	32,261
Net Income	5,635	5,173	4,202	4,057	19,067
Net Income per Share	.54	.49	.39	.38	1.80

STEPAN COMPANY  
SUBSIDIARIES OF REGISTRANT

SUBSIDIARY  
- - - - -

ORGANIZED UNDER THE LAWS OF:  
- - - - -

Stepan Europe S.A.....  
Stepan Canada, Inc.....  
Stepan Mexico, S.A. de C.V.....  
Stepan Deutschland GmbH.....

France  
Canada  
Mexico  
Germany

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports dated February 11, 1998, included or incorporated by reference in Stepan Company's Annual Report in this Form 10-K for the year ended December 31, 1997, into the company's previously filed Registration Statements on Form S-8, File Nos. 2-64668, 2-40183, 2-80336 and 33-57189.

ARTHUR ANDERSEN LLP

Chicago, Illinois,  
March 27, 1998

POWER OF ATTORNEY  
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The undersigned hereby appoints F. Quinn Stepan, Walter J. Klein and Jeffrey W. Bartlett, and each of them individually, the true and lawful attorney or attorneys of the undersigned, with substitution and resubstitution, to execute in his name, place and stead in his capacity as an officer or director or both of Stepan Company, a Delaware corporation, the Annual Report of Form 10-K under the Securities Exchange Act of 1934, and any amendments or supplements thereto, and all instruments necessary or incidental in connection therewith, and to file or cause to be filed such Annual Report and related documents with the Securities and Exchange Commission. Each of said attorneys shall have full power and authority to do and perform, in the name and on behalf of the undersigned, every act whatsoever necessary or desirable to be done in the premises, as fully as all intents and purposes of the undersigned could do in person. The undersigned hereby ratifies and approves the actions of said attorneys and each of them.

IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney on this 27 day of March 1998

/s/ F. Quinn Stepan  
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F. Quinn Stepan

/s/ Thomas F. Grojean  
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Thomas F. Grojean

/s/ James A. Hartlage  
-----

James A. Hartlage

/s/ Walter J. Klein  
-----

Walter J. Klein

/s/ Paul H. Stepan  
-----

Paul H. Stepan

/s/ Robert D. Cadieux  
-----

Robert D. Cadieux

/s/ Robert G. Potter  
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Robert G. Potter



THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 1997 AND CONSOLIDATED STATEMENT OF INCOME FOR THE TWELVE MONTHS THEN ENDED AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

12-MOS		
	DEC-31-1997	
	JAN-01-1997	
	DEC-31-1997	5,507
		0
		83,139
		2,121
		48,999
	146,482	527,666
		321,065
		374,936
82,693		94,898
	0	19,711
		10,342
		107,545
374,936		581,949
		581,949
		477,778
		537,579
		1,901
		0
	7,595	
		34,874
		14,464
20,410		0
		0
		0
		20,410
		1.97
		1.86