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

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1999

OR

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

Commission File Number 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 29, 2000, of voting stock held by nonaffiliates of the registrant: $128,040,000*

Number of shares outstanding of each of the issuer's classes of common stock as of February 29, 2000:

Class	Outstanding at February 29, 2000
Common Stock, $1 par value	9,516,863

Documents Incorporated by Reference

Part of Form 10-K	Document Incorporated
Part I, Item 1	1999 Annual Report to Stockholders
Part II, Items 5-8	1999 Annual Report to Stockholders
Part III, Items 10-12	Proxy Statement dated March 30, 2000

*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 has three reportable segments: 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 products, 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 derives its revenue from the sale of phthalic anhydride, polyols and polyurethane foam systems used in plastics, building materials and refrigeration industries. Specialty products sells chemicals used in food, flavoring and pharmaceutical applications.

MARKETING AND COMPETITION

Principal markets for surfactants are manufacturers of detergents, shampoos, lotions, toothpastes and cosmetics. Surfactants are also sold to the producers of emulsifiers and lubricating products. The company also is a principal provider of polymers used in construction, refrigeration, automotive, boating and other consumer product industries. Specialty products are used primarily by food and pharmaceutical manufacturers.

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 percent 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 interruptable 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 2000, 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 1999, 1998 and 1997 were $13,113,000, $12,219,000, and $12,404,000, 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 $2,740,000 during 1999 and should approximate that amount in 2000. These expenditures represented approximately eight percent of the company's capital expenditures in 1999 and are expected to be approximately seven percent of such expenditures in 2000. 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, 1999 and 1998, the company employed worldwide 1,365 and 1,372 persons, respectively.

FOREIGN OPERATIONS

See Note 14, Segment Reporting, on page 33 of the company's 1999 Annual Report to Stockholders.

SEGMENTS

See Note 14, Segment Reporting, on page 33 of the company's 1999 Annual Report to Stockholders.

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.

Stepan Canada maintains a leased sales office in Mississagua, Canada. Stepan Mexico maintains a leased sales office in Mexico City, Mexico.

Surfactants are produced at four plants in the United States and five wholly owned subsidiaries: one in France, Canada, Mexico, Colombia and Germany. The principal plant is located on a 626 acre site at Millsdale (Joliet), Illinois. A second plant is located on a 44 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 175 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. Stepan Colombia is located on a five acre site in Manizales, Colombia. 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

As reported previously, on October 21, 1999, the company reached an agreement in principle to settle an action entitled Gilberg v. Stepan et al., now known as Accurso v. Stepan et al. (L-1064-98-MT; Case Code No. 242) alleging possible personal injuries related to environmental claims in New Jersey. Final settlement of this action occurred, as scheduled, on December 1, 1999. All terms of the settlement are confidential pursuant to a court order. As previously reported, as a result of this settlement, the company recorded a third quarter $6.3 million after-tax charge to earnings.

As reported previously, the company has been named as a potentially responsible party (PRP) in the case USEPA v. Jerome Lightman (92 CV 4710) (JBS) which involves the Ewan and D'Imperio Superfund Sites located in New Jersey. Trial on the issue of the company's liability at these sites is expected to be completed in March 2000. Should the company lose, there would then be a trial as to the company's allocated share of clean-up costs at these sites. This latter trial would occur, if at all, in fiscal 2000. The company believes it has adequate defenses to the issue of liability. In the event of an unfavorable outcome related to the liability, the company believes it has adequate reserves. On a related matter, the company has filed an appeal to the United States Third Circuit Court of Appeals objecting to the lodging of a partial consent decree in favor of the United States Government in this action. Under the partial consent decree, the government recovered past costs at the site from all PRPs including the company. The company paid its assessed share but by objecting to the partial consent decree, the company is seeking to recover back the sums it paid.

As reported previously, the company's site in Maywood, New Jersey and property formerly owned by the company adjacent to its current site, were listed on the National Priorities List in September 1993 pursuant to the provisions of the Comprehensive Environmental Response Compensation and Liabilities Act because of certain alleged chemical contamination. Pursuant to an Administrative Order on Consent entered into between the United States Environmental Protection Agency (USEPA) and the company for property formerly owned by the company, and the issuance of an order by the USEPA to the company for property currently owned by the company, the company has completed a Remedial Investigation Feasibility Study in 1994. The company has been awaiting the issuance of a Record of Decision (ROD) from the USEPA which would relate to both the currently owned and formerly owned company property and would recommend the type of remediation required on each property. The company does not know when the ROD will be issued by the USEPA.

In 1985, the company entered into a Cooperative Agreement with the United States of America represented by the Department of Energy (Agreement). Pursuant to this Agreement, the Department of Energy took title to radiological contaminated materials and was to remediate, at its expense, all radiological (byproduct material and source material) waste on the company's property in Maywood, New Jersey. The Maywood property (and portions of the surrounding area) were remediated by the Department of Energy under the Formerly Utilized Sites Remedial Action Program, a federal program under which the U.S. Government undertook to remediate properties which were used to process radiological material for the U.S. Government. In 1997, responsibility for this clean-up was transferred to the United States Army Corps of Engineers (USACE). On January 29, 1999, the company received a copy of the USACE Report to Congress dated January 1998 in which the USACE first expressed their intention to evaluate, with the USEPA, whether the company and/or other parties might be responsible for cost recovery or contribution claims related to the Maywood site. Since that report has been issued by the USACE, the USACE has requested legal advice from the Department of Justice as to the interpretation of the Cooperative Agreement. There has been no report issued by the Department of Justice as of this date. Based upon the company's agreement with the United States of America, it is the company's belief that its liability, if any, has been resolved with regard to the United States of America.

Reference is made to the Casmalia Disposal Site located in Santa Barbara County, California. The company has settled its de minimis liability at this site with no material impact on the financial condition of the company.

On December 13, 1999, the company was served in an action entitled Pennsauken Solid Waste Management Authority v. State of New Jersey, et al. The company filed its answer to this action. It appears that although the company was named as a party, there are no allegations regarding dates of hauling or amounts. The company does not believe its liability, if any, will have a material impact on the financial condition of the company.

As to the following sites:

- --ABC Barrel & Drum Co. -- Detroit, Michigan
- --Batavia Landfill -- Batavia, New York
- --Bofors Nobel Site -- Muskegon, Michigan
- --Chemsol, Inc. -- Piscataway, New Jersey
- --Chem-Trol Pollution Services, Inc. -- Hamburg, New York
- --Delilah Road Site -- Atlantic County, New Jersey
- --Gallup's Quarry -- Plainfield, Connecticut
- --Iron Horse Park/Shaffer Landfill -- Billerica, Massachusetts
- --Memphis Container aka Tri-State Drums -- Memphis, Shelby County, Tennessee
- --Nyanza Chemical Waste Dump -- Ashland, Massachusetts
- --Twin Cities -- Arvada, Colorado
- --Virginia RR Washout,

all of which have been previously reported, there has been no further activity or inquiry since the first notice.

Reference is made to the suit Olin Corporation v. Fisons plc et al. (93-11166-MLW). The company was dismissed from this action by the federal court with the right of Nor-Am, one of the defendants, to file a Motion for Reconsideration. Nor-Am filed a Motion for Reconsideration of the company's dismissal on June 28, 1999. Based on a notation on the federal court's docket sheet, the company believes that the court denied Nor-Am's Motion for Reconsideration on February 9, 2000. The company believes its liability at this site has been fully resolved.

On February 10, 2000, the company was served with an Administrative Complaint filed by Region 5 of the United States Environmental Protection Agency (FIFRA-5-2000-011) alleging violations of the Federal Insecticide, Fungicide and Rodenticide Act. The total proposed penalty is $141,000. The company has until April 4, 2000, to file a responsive answer in this matter. The company is currently investigating these allegations and therefore, cannot predict what its liability, if any, will be in this case.

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, 1999.

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 February 15, 1999, F. Quinn Stepan, Jr., was elected President and Chief Operating Officer. He was previously Vice President and General Manager--Surfactants as of January 1, 1997, Vice President--Global Laundry and Cleaning Products as of May 1996 and Director--Business Management as of May 1992. Mr. F. Quinn Stepan, Sr., who has served the company as Chairman and Chief Executive Officer since 1984 and as President since 1973, remains Chairman and Chief Executive Officer.

Effective February 16, 1999, John V. Venegoni was appointed Vice President and General Manager--Surfactants. Since May 1992 until May 1996, he served as a Senior Business Manager--Consumer Products. From May 1996, until February 16, 1999, he was Director--Global Personal Care.

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* (see below). 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 29, 2000, and certain other information are as follows:

Name	Age	Title	Year First Elected Officer
F. Quinn Stepan.........	62	Chairman and Chief Executive Officer	1967
F. Quinn Stepan, Jr. ...	39	President and Chief Operating Officer	1997
James A. Hartlage.......	62	Senior Vice President-- Technology and Operations	1980
Ronald L. Siemon........	62	Vice President and General Manager--Polymers	1992
Jeffrey W. Bartlett*....	56	Vice President, General Counsel, Regulatory Affairs and Corporate Secretary	1983
Walter J. Klein.........	53	Vice President--Finance	1985
Mickey Mirghanbari......	62	Vice President--Manufacturing and Engineering	1992
Earl H. Wagener.........	59	Vice President--Research and Development	1995
John V. Venegoni........	41	Vice President and General Manager--Surfactants	1999

*Jeffrey W. Bartlett passed away on March 21, 2000.

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 1999 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 29 of the company's 1999 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 29, 2000, there were 1,423 holders of common stock of the company.

(c) See page 35 of the company's 1999 Annual Report to Stockholders for dividend information which is incorporated by reference herein. Also see Note 4 on page 28 of the company's 1999 Annual Report to Stockholders which sets forth the restrictive covenants covering dividends.

Item 6. Selected Financial Data

See page 35 of the company's 1999 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 and Quantitative and Qualitative Disclosures about Market Risk

See pages 14 through 19 of the company's 1999 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 20 through 34 of the company's 1999 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 1999 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, filed in bankruptcy for Chapter 11 protection in February, 1998. Mr. Paul Stepan advised that a refinancing package and successful discharge from Chapter 11 occurred.

For additional information about the company's Directors, see pages 3 through 5 of the company's Proxy Statement dated March 30, 2000, 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 7 and 8 of the company's Proxy Statement dated March 30, 2000, 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 6 of the company's Proxy Statement dated March 30, 2000, 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

A report on Form 8-K was filed on October 22, 1999, regarding quarterly earnings.

(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: /s/ Walter J. Klein
Vice President--Finance

March 30, 2000

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.

/s/ F. Quinn Stepan F. Quinn Stepan Name	Chairman, Chief Executive Officer and Director	March 30, 2000
/s/ F. Quinn Stepan, Jr. F. Quinn Stepan, Jr.	President, Chief Operating Officer and Director	March 30, 2000
/s/ Walter J. Klein Walter J. Klein	Vice President--Finance, Principal Financial and Accounting Officer	March 30, 2000
/s/ James A. Hartlage James A. Hartlage	Senior Vice President--Technology and Operations and Director	March 30, 2000
/s/ Thomas F. Grojean Thomas F. Grojean	Director	March 30, 2000
/s/ Paul H. Stepan Paul H. Stepan	Director	March 30, 2000
/s/ Robert D. Cadieux Robert D. Cadieux	Director	March 30, 2000
/s/ Robert G. Potter Robert G. Potter	Director	March 30, 2000

Walter J. Klein, 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.

Walter J. Klein

March 30, 2000

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, 1999, has been filed as an exhibit to this Annual Report on Form 10-K. Pages 20 through 34 of such Annual Report to Stockholders contain the Consolidated Balance Sheets as of December 31, 1999 and 1998, the Consolidated Statements of Income, Stockholders' Equity and Cash Flows and Notes to Consolidated Financial Statements for the three years ended December 31, 1999, 1998 and 1997, 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, 1999
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:

	1999	1998	1997
	(In Thousands)		
Balance, Beginning of Year	$2,263	$2,121	$2,074
Provision charged to income	222	339	548
Accounts written off, net of recoveries	(96)	(197)	(501)
Balance, End of Year	$2,389	$2,263	$2,121

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 10, 2000. 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 10, 2000

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)a(1)	Copy of Certificate of Amendment of Certificate of Incorporation, dated May 24, 1999. (Note 13)
(3)b	Copy of the Bylaws of the company as amended through February 15, 1999. (Note 14)
(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. (Note 11)
(4)o(1)	Copy of Certificate of Amendment, dated March 12, 1999, amending Revolving Credit and Term Loan Agreement, dated January 9, 1998. (Note 12)
(4)p	Copy of Term Loan Agreement, dated October 1, 1998, with The Northwestern Mutual Life Insurance Company and Connecticut General Life Insurance Company. (Note 14)
	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 1999 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, 1999.
(23)	Consent of Independent Public Accountants.
(24)	Power of Attorney.
(27)	Financial Data Schedule.

Notes To Exhibit Index

Note
No.
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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.

11. Filed with the company's Annual report on Form 10-K for the year ended December 31, 1997, and incorporated herein by reference.

12. Filed with the company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999, and incorporated herein by reference.

13. Filed with the company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999, and incorporated herein by reference.

14. Filed with the company's Annual Report on Form 10-K for the year ended December 31, 1998, and incorporated herein by reference.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

1999 Compared with 1998

Net sales for 1999 increased nine percent to a record $666.8 million. The increase was primarily the result of an eight percent growth in sales volume. Net sales by segment were as follows (prior year data has been reclassified to conform to 1999 presentation):

(Dollars in thousands)	1999	1998	Percent Change
Surfactants	$524,956	$474,454	+11
Polymers	121,438	116,460	+4
Specialty Products	20,390	19,537	+4
Total	$666,784	$610,451	+9

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 agricultural products and plastics and composites.

Surfactants net sales, representing 79 percent of the company's revenue, increased $50.5 million, or 11 percent, due primarily to a nine percent rise in sales volume. Domestic and foreign operations contributed to the overall growth. Domestic sales increased $23.7 million, or six percent, due to a six percent gain in sales volume. Rising demand for personal care and laundry and cleaning products was the main contributor to the improved sales volume. Exports to Asia also experienced a solid recovery from the weakness of a year ago. Foreign operations reported a $26.8 million, or 27 percent, increase in net sales due largely to higher sales volume. All foreign subsidiaries posted net sales increases. Canadian operations benefited from the fourth quarter 1998 acquisition of the anionic and cationic surfactants business from Boehme-Filatex Canada, Inc. Mexican operations' net sales increase also was aided by a major customer switching from consigning raw material and paying a processing fee to buying finished products inclusive of raw materials costs. 1999 was the first full-year consolidation of Stepan Colombia.

The polymers product group includes phthalic anhydride (PA), polyurethane systems and polyurethane polyols. PA is used in polyester 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's revenue, increased four percent mainly due to a four percent rise in sales volume. Globally, polyurethane polyols accounted for most of the growth with a gain in net sales of $5.6

million, or nine percent, due to a 10 percent growth in sales volume. North American, South American and European sales all increased between years. Polyurethane systems reported a $1.1 million, or six percent, increase in net sales based on improved sales volume. PA's sales volume drop of four percent, coupled with decreased average selling prices, caused a $1.7 million, or five percent, decline in net sales.

Specialty products include flavors, emulsifiers and solubilizers used in the food and pharmaceutical industry. Net sales for the year were $20.4 million, a rise of $0.9 million, or four percent, over 1998. Increased volume and higher average selling prices contributed to the growth.

Gross profit increased to $120.9 million in 1999 from $111.6 million in 1998. 1999 Surfactants gross profit of $87.6 million was 11 percent higher than a year ago. The rise was driven by a nine percent growth in sales volume. Domestic operations reported a $5.9 million, or nine percent, increase based on a six percent rise in sales volume. In addition, the early termination of a sales contract resulted in the recognition of $2.7 million of income. Improved sales volumes and margins for French and Canadian operations coupled with the whole year consolidation of the Colombian subsidiary led to the increase in foreign operations. The results were adversely affected by continued weakness in the German operation. Polymers' gross profit remained unchanged at $27.8 million between years despite record profits from domestic polyurethane polyols and higher polyurethane systems profit. Globally, polyurethane polyols profit increased $2.6 million, or 13 percent. Higher volumes and domestic margins accounted for the gain. Decreased margins in Europe dampened polyurethane polyols results. Increased volumes and margins also caused a $0.5 million, or 14 percent, profit increase for polyurethane systems. Lower PA gross profit, due to decreased volume and margins, offset the gains reported by polyurethane polyols and systems. Specialty products gross profit increased by $0.5 million, or 11 percent, to $5.5 million in 1999. The increase was primarily due to improved margins.

Average raw material costs increased approximately two percent from 1998 to 1999. Manufacturing labor costs increased due to higher fringe benefit costs and normal annual pay raises. Total number of company employees decreased to 1,365 during 1999 from 1,372 in 1998. Depreciation expenses increased to $36.2 million in 1999 from $34.8 million in 1998.

Operating income was $41.8 million, a $3.6 million, or eight percent, decrease from 1998. Operating expenses, consisting of marketing, administrative and research expenses, increased $13.0 million, or 20 percent. Administrative expenses climbed 50 percent due to a $10.2 million charge related to the settlement of a lawsuit (see Environmental and Legal Matters section of this discussion for additional information). Research expenses rose eight percent between years mainly due to increased staffing levels to support development and commercialization of high value added products. Marketing expenses grew two percent over 1998.

Pre-tax income declined 10 percent between years due mainly to the lawsuit settlement. Interest expenses increased 12 percent due to decreased capitalized interest and higher average levels of debt partially offset by lower average interest rate.

The effective tax rate was 36.5 percent in 1999 compared to 39.5 percent in 1998. The lower effective tax rate primarily was attributable to tax losses utilized in Europe. An overall lower state apportionment factor and a higher tax benefit realized on Philippine income during 1999 also contributed to the lower effective tax rate (see Note 6 of the Notes to the Consolidated Financial Statements for a reconciliation of the statutory rate to the effective tax rate).

Net income for the year was $22.1 million, or $2.08 per share diluted, compared with $23.5 million, or $2.12 per share diluted, a year ago. Excluding the effect of the previously discussed lawsuit settlement ($6.3 million after-tax charge), net income would have been $28.4 million, a 21 percent increase over 1998.

1998 Compared with 1997

Net sales for 1998 increased five percent to $610.5 million. The increase was primarily due to a seven percent growth in sales volume. Net sales by segment were as follows (prior year data has been reclassified to conform to 1999 presentation):

(Dollars in thousands)	1998	1997	Percent Change
Surfactants	$474,454	$457,109	+4
Polymers	116,460	105,754	+10
Specialty Products	19,537	19,086	+2
Total	$610,451	$581,949	+5

Surfactants net sales, accounting for 78 percent of the company's revenue, increased $17.3 million, or four percent, from year to year. Most of the increase was due to foreign operations, which reported a 15 percent rise in net sales based on a 21 percent improvement in sales volume. Sales for the Colombian subsidiary, consolidated for the first time in 1998, contributed to the foreign results. The domestic market, which represented 79 percent of total surfactant net sales, recorded a $4.3 million, or one percent, increase in net sales on sales volume that stayed almost unchanged. Significantly lower export sales volumes to Asia and Central America offset modest volume gains from U.S. customers.

Polymers net sales, accounting for 19 percent of the company's business, rose 10 percent on a 25 percent increase in sales volume. Sales volume for polyurethane polyols increased 32 percent and was the largest contributing factor to the polymer sales growth. Polyurethane systems net sales rose six percent on sales volume that increased 13 percent. PA net sales dropped nine percent. A 21 percent improvement in sales volume was more than offset by declining average selling prices. Oversupply in the marketplace, together with lower raw material costs, led to the decline in average selling prices.

Specialty products net sales increased two percent due to higher selling prices.

Gross profit rose seven percent to $111.6 million in 1998 from $104.2 million in 1997. Surfactants gross profit increased $1.7 million, or two percent, on a three percent rise in sales volume. Domestic surfactants recorded a $1.0 million, or two percent, rise in gross profit due to increased margins. Lower export sales dampened the domestic result. Foreign surfactant operations reported a $0.7 million, or five percent, increase between years. Improved sales volumes for Mexican operations coupled with the consolidation of the Colombian subsidiary for the first time in 1998 led to the increase. Polymers gross profit increased 22 percent to $27.8 million in 1998 from $22.8 million in 1997. The major factor for the increase was an 80 percent improvement in global polyurethane polyols profits. Better margins and volumes accounted for the growth. Polyurethane systems posted a one percent increase in gross profit due to higher sales volume, partially offset by lower margins. A shift to a less profitable sales mix was responsible for the decline in margins. PA gross profit declined 26 percent from what was reported in 1997. A decline in margins more than offset the increase in volume. Price reductions due to the competitiveness brought on by oversupply in the marketplace led to the decrease in margins. Specialty products gross profit increased by $0.7 million, or 16 percent, reaching $5.0 million in 1998. The improvement was primarily due to increased margins.

Average raw material costs declined approximately three percent from 1997 to 1998. Manufacturing labor costs increases were due mainly to higher fringe benefit costs and normal annual pay raises. Total number of employees increased to 1,372 during 1998 from 1,292 in 1997. Most of the change occurred due to non-manufacturing employee numbers and to employees added as a result of the Colombian acquisition. Depreciation expense increased to $34.8 million in 1998 from $33.5 million in 1997.

Operating income was $45.4 million, a two percent increase over 1997. Operating expenses, consisting of marketing, administrative and research expenses, rose 11 percent from 1997. Administrative expenses increased 15 percent as a result of unusually high consulting fees and severance costs. The acquisition of Stepan Colombia also contributed to the increase. Marketing expenses grew 15 percent due to increased payroll costs. The acquisition of Colombia and the start-up of operations in Brazil also added to marketing expenses. Research costs increased three percent due mainly to the growth of payroll cost.

Pre-tax income rose 11 percent. Contributing to the increase was a $2.7 million improvement in joint venture equity income. Most of the improvement resulted from $3.1 million of 1997 exchange loss from the devaluation of the Philippine peso which did not recur in the same magnitude in 1998. The 1998 exchange loss was less than $0.1 million.

The effective tax rate was 39.5 percent in 1998 compared to 41.5 percent in 1997. The lower effective tax rate was primarily attributable to the tax benefit realized on Philippine income during 1998 compared to the inability to secure a tax benefit from Philippine losses in 1997 (see Note 6 of the Notes to the Consolidated Financial Statements for a reconciliation of the statutory rate to the effective tax rate).

Net income for 1998 rose to a record of $23.5 million, or $2.29 per share ($2.12 per share diluted), up 15 percent from $20.4 million, or $1.97 per share ($1.86 per share diluted), in 1997.

Fourth Quarter 1999 Compared with 1998

For the quarter ended December 31, 1999, the company reported record net income of $8.0 million, or $0.76 per share diluted, compared to $5.6 million, or $0.51 per share diluted, in the fourth quarter of 1998. Net sales for the quarter grew 12 percent to $169.1 million from $150.4 million a year ago. All segments contributed to the sales growth. Gross profit was up 11 percent, reaching $31.4 million in 1999. Surfactants earnings increased $4.1 million, or 22 percent, due to increased sales volumes for domestic and foreign operations. Polymers reported a $2.8 million, or 34 percent, drop in gross profit primarily due to weaker margins and reduced sales volume. Specialty products posted higher gross profit due to increased sales volume of high margin products. Consolidated gross profit also was affected by favorable inventory adjustments (approximately $1.0 million) related to the company's annual physical inventory, partially offset by early retirement charges (approximately $0.8 million). Operating expenses rose four percent in comparison with the fourth quarter of 1998. Higher research and development expenses accounted for most of the increase. Fourth quarter 1999 net income was favorably affected by a $0.7 million tax provision reduction arising from the ability to utilize tax losses from European operations.

Liquidity and Financial Condition

For the 12 months ended December 31, 1999, net cash from operations totaled $50.6 million, down by $8.2 million compared to 1998. Working capital amounted to a cash use of $4.5 million for the current year compared to a $1.4 million source for 1998. Accounts receivable increased by $15.2 million from year to year due to increased sales as well as higher non-trade receivables. Accounts payable and accrued liabilities were up by $10.7 million for the year-to-date largely due to higher trade payables.

Capital expenditures totaled $32.7 million for the year, compared to $44.1 million in 1998 due to timing of projects. Capital expenditures are expected to increase during 2000.

From year to year, total company debt increased by $0.6 million, to $115.1 million. As of December 31, 1999, the ratio of long-term debt to long-term debt plus shareholders' equity was 40.9 percent compared to 42.1 percent at the end of 1998. The company maintains contractual relationships with its domestic banks that provide for revolving credit which may be drawn upon as needed for general corporate purposes. This credit facility was amended on March 12, 1999, to increase the total amount of the commitment from $45 million to $60 million. Other terms of the agreement remained unchanged.

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

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

Market Risk Analysis

FOREIGN CURRENCY EXCHANGE RISK

Forward exchange contracts are used from time to time to manage currency exposures for financial instruments denominated in currencies other than the entity's functional currency. The counter-parties to any such contracts are major financial institutions, therefore the credit risk of such contracts is considered insignificant. Corporate policy prohibits the purchase or sale of leveraged derivative financial instruments as well as the purchase or sale of any derivative financial instrument for trading purposes. Any unrealized gains or losses on cash transactions are deferred and included in the measurement of the related foreign currency transaction. Gains or losses on unhedged foreign currency transactions are included in income. As of December 31, 1999, the company had no outstanding forward exchange contracts. The impact of foreign exchange was immaterial in 1999.

The company's 50 percent owned Philippine joint venture has U.S. dollar-denominated debt with the potential for future translation gains or losses. A 10 percent change in this exchange rate would not have a material effect on the company's operating results or cash flow. A substantial majority of the revenues of the Philippine joint venture is denominated in U.S. dollars.

INTEREST RATES

The company's debt was composed of fixed-rate and variable-rate borrowings totaling $99.9 million and $15.2 million, respectively, as of December 31, 1999. For 2000, it is projected that interest on variable-rate borrowings will comprise about 14 percent of the company's total interest expense. A 10 percent increase or decrease to short-term interest rates would be immaterial to the company's operating results or cash flow. The fair value of the company's fixed-rate debt, including current maturities, was estimated to be $94.5 million as of December 31, 1999, which was approximately $5.4 million below the carrying value. Market risk was estimated as the potential increase to the fair value that would result from a hypothetical 10 percent decrease in the company's weighted average long-term borrowing rates at December 31, 1999, or $3.4 million. Such a rate decrease would be immaterial to future operating results or cash flow.

COMMODITY PRICE RISK

Certain raw materials are subject to price volatility caused by weather, petroleum prices and other unpredictable factors. In the past, the company has had the ability to pass on raw material price increases to customers. As a result, the company feels that the commodity price risk is not material to the company's consolidated financial position, results of operations or cash flow.

Environmental and Legal Matters

In the action entitled *Accurso v. Stepan et al.*, the company reached a settlement agreement with the plaintiffs' counsels for the 550 plaintiffs in the mass tort action. All terms of the settlement are confidential pursuant to a court order. The company recorded a $10.2 million pre-tax, or $6.3 million after-tax, charge to earnings in 1999 as a result of the settlement. The charge was net of insurance recoveries and previously recorded reserves. The settlement payment was made in December 1999.

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 1999, the company's expenditures for capital projects related to the environment were $2.7 million and should approximate that amount for 2000. These projects are capitalized and typically depreciated over 10 years. Recurring costs associated with the operation and maintenance of facilities for waste treatment and disposal and managing environmental compliance in ongoing operations at our manufacturing locations were approximately $7.5 million for 1999 compared to $6.9 million for 1998. 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 16 waste disposal sites where cleanup costs have been or may be incurred under the federal Comprehensive Environmental Response, Compensation and Liability Act and similar state statutes. In addition, damages are being claimed against the company in general liability actions for alleged personal injury or property damage in the case of some disposal and plant sites. The company believes that it has made adequate provisions for the costs it may incur with respect to 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 $25.2 million at December 31, 1999, compared to $4.1 million to $26.4 million at December 31, 1998. At December 31, 1999, the company's reserve was $11.6 million for legal and environmental matters compared to $17.6 million at December 31, 1998. During 1999, non-capital expenditures related to legal and environmental matters, net of insurance recoveries, approximated $15.8 million compared to $3.6 million expended in 1998. While it is difficult to forecast the timing of the expenditures, the company believes that $2.0 million of the $11.6 million reserve is likely to be paid out in 2000. The balance of the reserve would probably be paid out over many years (see also Note 12 of the Notes to Consolidated Financial Statements).

For certain sites, estimates cannot be made of the total costs of compliance or the company's share of such costs; accordingly, the company is unable to predict the effect thereof on future results of operations. In the event of one or more adverse determinations in any annual or interim period, the impact on results of operations for those periods could be material. However, based upon the company's present belief as to its relative involvement at these sites, other viable entities' responsibilities for cleanup and the extended period over which any costs would be incurred, the company believes that these matters will not have a material effect on the company's financial position.

Certain of these matters are discussed in Item 3, Legal Proceedings, in the 1999 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 Disclosure

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

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

The non-IT systems are comprised of manufacturing process control, telephone, security, laboratory and other embedded chip systems. Implementation of Year 2000 upgrades to these systems has been completed.

To date, the company has not experienced any significant Year 2000 problems with its internal systems.

The company initiated formal communications with suppliers and service providers to determine the extent of their efforts in resolving Year 2000 issues. To date, the company has not experienced any Year 2000 issues with its business partners.

Costs for the Year 2000 project were $2.5 million. Of the total cost, $1.5 million was capitalized as it related to systems replacements and the remaining was expensed as incurred. These costs are not material to the overall IT budget and no projects were deferred due to Year 2000 efforts.

New Accounting Standard

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities", effective for fiscal years beginning after June 15, 1999. The standard establishes accounting and reporting requirements for derivative instruments. In June 1999, the FASB issued SFAS No. 137, which deferred the effective date to fiscal years beginning after June 15, 2000. The company believes that the adoption of SFAS No. 133 in 2001 will not have a material effect on its consolidated results of operations or financial position.

Report of Management

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.

F. Quinn Stepan
Chairman of the Board and Chief Executive Officer

F. Quinn Stepan, Jr.
President and Chief Operating Officer

Walter J. Klein
Vice President - Finance

February 10, 2000

Report of Independent Public Accountants

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, 1999 and 1998, and the related consolidated statements of income, cash flows and stockholders' equity, for each of the three years in the period ended December 31, 1999. 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 auditing standards generally accepted in the United States. 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, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

Chicago, Illinois,
February 10, 2000

Consolidated Balance Sheets
December 31, 1999 and 1998

(Dollars in thousands)	1999	1998
Assets		
Current Assets:		
Cash and cash equivalents	$ 3,969	$ 983
Receivables, less allowances of $2,389 in 1999 and $2,263 in 1998	97,089	81,890
Inventories (Note 3)	51,849	52,496
Deferred income taxes (Note 6)	9,361	10,572
Other current assets	4,392	3,817
Total current assets	166,660	149,758
Property, Plant and Equipment:		
Land	5,905	6,553
Buildings and improvements	68,560	61,838
Machinery and equipment	514,397	491,899
Construction in progress	8,042	8,311
	596,904	568,601
Less: Accumulated depreciation	387,423	353,505
Property, plant and equipment, net	209,481	215,096
Other Assets	38,435	39,507
Total assets	$ 414,576	$ 404,361
Liabilities and Stockholders' Equity		
Current Liabilities:		
Current maturities of long-term debt (Note 4)	$ 7,663	$ 6,807
Accounts payable	48,676	43,977
Accrued liabilities (Note 10)	41,706	37,160
Total current liabilities	98,045	87,944
Deferred Income Taxes (Note 6)	41,975	39,920
Long-term Debt, less current maturities (Note 4)	107,420	107,708
Other Non-current Liabilities (Note 11)	12,072	20,805
Stockholders' Equity (Note 7):		
5 1/2 percent convertible preferred stock, cumulative, voting, without par value; authorized 2,000,000 shares; issued 783,003 in 1999 and 784,417 shares in 1998	19,575	19,611
Common stock, $1 par value; authorized 30,000,000 shares; issued 9,684,600 shares in 1999 and 9,997,736 shares in 1998	9,685	9,998
Additional paid-in capital	11,909	10,962
Accumulated other comprehensive loss	(10,631)	(9,050)
Retained earnings	134,224	127,478
	164,762	158,999
Less: Treasury stock, at cost	9,698	11,015
Stockholders' equity	155,064	147,984
Total liabilities and stockholders' equity	$ 414,576	$ 404,361

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, 1999, 1998 and 1997

(Dollars in thousands, except per share amounts)	1999	1998	1997
Net Sales	$ 666,784	$ 610,451	$ 581,949
Cost of Sales	545,839	498,856	477,778
Gross Profit	120,945	111,595	104,171
Operating Expenses:			
Marketing	23,799	23,365	20,394
Administrative (Note 13)	32,775	21,825	18,964
Research, development and technical services (Note 1)	22,593	20,982	20,443
	79,167	66,172	59,801
Operating Income	41,778	45,423	44,370
Other Income (Expenses):			
Interest, net (Note 4)	(8,376)	(7,453)	(7,595)
Income (loss) from equity joint ventures (Note 1)	1,427	796	(1,901)
	(6,949)	(6,657)	(9,496)
Income Before Provision for Income Taxes	34,829	38,766	34,874
Provision for Income Taxes (Note 6)	12,700	15,312	14,464
Net Income	$ 22,129	$ 23,454	$ 20,410
Net Income Per Common Share (Note 15):			
Basic	$ 2.22	$ 2.29	$ 1.97
Diluted	$ 2.08	$ 2.12	$ 1.86
Average Common Shares Outstanding (Note 1)	9,592	9,843	9,831

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

Combined Sales

(Dollars in thousands)

	Surfactants	Polymers	Specialty Products	Consolidated Total
1995	394,928	115,833	17,457	528,218
1996	414,892	103,444	18,299	536,635
1997	457,109	105,754	19,086	581,949
1998	474,454	116,460	19,537	610,451
1999	524,956	121,438	20,390	666,784

1999 Sales Dollar Distribution

(Dollars in thousands)

Material	$404,587	60.7%
Other Expenses	$ 89,666	13.5%
Payroll and Fringes	$ 98,250	14.7%
Depreciation and Amortization	$ 39,452	5.9%
Income Taxes	$ 12,700	1.9%
Net Income	$ 22,129	3.3%

Consolidated Statements of Cash Flows
For the years ended December 31, 1999, 1998 and 1997

(Dollars in thousands)	1999	1998	1997
Net Cash Flows from Operating Activities			
Net income	$ 22,129	$ 23,454	$ 20,410
Depreciation and amortization	39,452	37,347	35,281
Deferred revenue recognition	(5,165)	(4,327)	(3,611)
Customer prepayments	-	800	3,292
Deferred income taxes	3,745	4,244	1,114
Environmental and legal liabilities	(4,999)	(3,035)	(428)
Other non-cash items	(98)	(998)	1,860
Changes in Working Capital:			
Receivables, net	(15,199)	179	3,999
Inventories	647	(2,840)	1,243
Accounts payable and accrued liabilities	10,676	2,731	1,069
Other	(575)	1,292	(1,364)
Net Cash Provided by Operating Activities	50,613	58,847	62,865
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	(32,697)	(44,056)	(35,589)
Investment in acquisitions	(450)	(21,195)	(4,999)
Other non-current assets	(594)	1,587	344
Net Cash Used for Investing Activities	(33,741)	(63,664)	(40,244)
Cash Flows from Financing and Other Related Activities			
Revolving debt and notes payable to banks, net	11,400	(10,310)	1,210
Other debt borrowings	--	30,000	--
Other debt repayments	(10,832)	(6,151)	(9,660)
Purchases of treasury stock, net	(8,255)	(8,402)	(8,863)
Dividends paid	(6,727)	(6,432)	(6,069)
Stock option exercises	1,088	2,473	2,252
Other non-cash items	(560)	(885)	(762)
Net Cash Provided by (Used for) Financing and Other Related Activities	(13,886)	293	(21,892)
Net Increase (Decrease) in Cash and Cash Equivalents	2,986	(4,524)	729
Cash and Cash Equivalents at Beginning of Year	983	5,507	4,778
Cash and Cash Equivalents at End of Year	$ 3,969	$ 983	$ 5,507
Supplemental Cash Flow Information			
Cash payments of income taxes, net of refunds	$ 10,564	$ 9,295	$ 16,059
Cash payments of interest	$ 8,780	$ 7,781	$ 8,306

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

Capital Expenditures
(Dollars in thousands)

1994	42,884
1995	39,247
1996	44,923
1997	35,589
1998	44,056
1999	32,697

Compound Annual Growth
Five Years -5%

Equity Per Share
(Dollars)

1994	10.27
1995	11.25
1996	12.24
1997	13.01
1998	14.18
1999	15.20

Compound Annual Growth
Five Years +8%

Consolidated Statements of Stockholders' Equity
For the years ended December 31, 1999, 1998 and 1997

(Dollars in thousands)	Convertible Preferred Stock	Common Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Comprehensive Income
Balance, January 1, 1997	$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	$ 20,410
Other comprehensive income:							
Foreign currency translation adjustments	--	--	--	--	(2,517)	--	(2,517)
Comprehensive income	--	--	--	--	--	--	$ 17,893
Cash dividends paid	--	--	--	--	--	--	--
Preferred stock ($1.375 per share)	--	--	--	--	--	(1,027)	--
Common stock (51.25c per share)	--	--	--	--	--	(5,042)	--
Non-qualified stock option tax benefit	--	--	669	--	--	--	--
Balance, December 31, 1997	19,711	10,342	8,091	(14,063)	(7,337)	120,854	--
Sale of 151,200 shares under stock option plan	--	151	2,322	--	--	--	--
Purchase of 288,744 shares of common treasury stock, net of sales	--	--	462	(8,402)	--	--	--
Retirement of 500,000 shares of common treasury stock	--	(500)	(552)	11,450	--	(10,398)	--
Conversion of preferred stock to common stock	(100)	5	96	--	--	--	--
Net income	--	--	--	--	--	23,454	$ 23,454
Other comprehensive income:							
Foreign currency translation adjustments	--	--	--	--	(1,713)	--	(1,713)
Comprehensive income	--	--	--	--	--	--	$ 21,741
Cash dividends paid	--	--	--	--	--	--	--
Preferred stock ($1.375 per share)	--	--	--	--	--	(896)	--
Common stock (56.25c per share)	--	--	--	--	--	(5,536)	--
Non-qualified stock option tax benefit	--	--	543	--	--	--	--
Balance, December 31, 1998	19,611	9,998	10,962	(11,015)	(9,050)	127,478	--
Sale of 85,250 shares under stock option plan	--	85	1,003	--	--	--	--
Purchase of 317,048 shares of common and 38,646 shares of preferred treasury stock, net of sales	--	--	4	(8,255)	--	--	--
Retirement of 400,000 shares of common treasury stock	--	(400)	(516)	9,572	--	(8,656)	--
Conversion of preferred stock to common stock	(36)	2	34	--	--	--	--
Net income	--	--	--	--	--	22,129	$ 22,129
Other comprehensive income:							
Foreign currency translation adjustments	--	--	--	--	(1,581)	--	(1,581)
Comprehensive income	--	--	--	--	--	--	$ 20,548
Cash dividends paid	--	--	--	--	--	--	--
Preferred stock ($1.375 per share)	--	--	--	--	--	(858)	--
Common stock (61.25c per share)	--	--	--	--	--	(5,869)	--
Non-qualified stock option tax benefit	--	--	422	--	--	--	--
Balance, December 31, 1999	$19,575	$ 9,685	$11,909	$ (9,698)	$(10,631)	$ 134,224	--

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

Notes to Consolidated Financial Statements
For the years ended December 31, 1999, 1998 and 1997

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 products, 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. The investment in the 50 percent owned joint venture in the Philippines is accounted for on the equity method and is included in the "Other Assets" caption on the Consolidated Balance Sheet. The company's share of the net earnings of the investment is included in consolidated net 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, 1999 and 1998, amounted to 86 percent of total inventories.

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 ($17,815,000, $18,350,000 and

$18,775,000 in 1999, 1998 and 1997, 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.

Revenue Recognition

Revenue is recognized upon shipment of goods to customers.

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 10 year life. See Note 12 for contingency information.

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 15 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 $13,113,000, $12,219,000 and $12,404,000 in 1999, 1998 and 1997, 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. The resulting translation adjustments are included in stockholders' equity. Revenues and expenses are translated at average exchange rates prevailing during the year. 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

The company's accounting policies require 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. 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 for stock option plan information.

Per Share Data

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. See Note 15 for the computation of earnings per share.

Comprehensive Income

Comprehensive income includes net income and all other nonowner changes in equity that are not reported in net income. For the twelve months ended December 31, 1999, 1998 and 1997, the company's comprehensive income included net income and foreign currency translation gains and losses. Comprehensive income is disclosed in the Consolidated Statements of Stockholders' Equity.

Segment Reporting

The company reports financial and descriptive information about its reportable operating segments. Operating segments are components of the company that have separate financial information that is regularly evaluated by the chief operating decision maker to assess segment performance and allocate resources. The company discloses segment revenue, operating income, assets, capital expenditures and depreciation and amortization expenses. Enterprise-wide financial information about the revenues derived from the company's products, the geographic locations in which the company earns revenues and holds assets and major customers (i.e. any customer accounting for 10 percent or more of the company's revenue) is also disclosed. See Note 14 for segment reporting information.

Software Development Costs

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

Reclassifications

Certain amounts in the 1998 and 1997 financial statements have been reclassified to conform to the 1999 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

On May 8, 1998, the company purchased an additional 34.5 percent of the outstanding stock of Stepan Colombia raising its stake in the Colombia company to 84.5 percent. On August 19, 1998, the remaining shares (15.5 percent) were acquired. As a result, Stepan Colombia became a wholly-owned subsidiary. The transaction was accounted for as a step acquisition purchase, and Stepan Colombia's financial results have been reported on a consolidated basis from the date that controlling interest was acquired. Prior to the May 1998 purchase date, the investment was accounted for under the equity method. The reported consolidated results of operations for 1997 and 1998 would not have been materially affected had this transaction occurred at the beginning of 1997.

Effective June 30, 1998, the company acquired selected specialty surfactant product lines from E.I. DuPont De Nemours Company. The acquired business consists of phosphate esters, specialty ethoxylates and other specialty quaternaries and polymers sold to the plastic and fiber industries. The product lines supplement the company's existing surfactants and polymers businesses and will be produced in current company manufacturing plants. The transaction was recorded as a purchase of intangible assets, including patents, trademarks, know-how and goodwill.

On November 11, 1998, the company's wholly owned subsidiary, Stepan Canada, Inc., acquired the Canadian anionic and cationic surfactant business from Boehme Filatex Canada, Inc. The acquired product lines are sold primarily into the personal care and the institutional cleaning product markets. No manufacturing facilities were included in this acquisition. The transaction was recorded as a purchase of intangible assets, including goodwill, non-compete agreement, know-how, patents and trademarks.

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.

3. Inventories

The composition of inventories was as follows:

(Dollars in thousands)	December 31 1999	1998
Finished products	$32,729	$33,444
Raw materials	19,120	19,052
Total inventories	$51,849	$52,496

If the first-in, first-out (FIFO) inventory valuation method had been used, inventories would have been approximately $10,600,000 and $10,000,000 higher than reported at December 31, 1999 and 1998, respectively.

4. Debt

Debt was composed of the following:

(Dollars in thousands)	Maturity Dates	December 31 1999	1998
Unsecured promissory notes			
6.59%	2003-2013	$ 30,000	$ 30,000
7.22%	2000-2007	24,000	30,000
7.77%	2000-2010	30,000	30,000
7.69%	2001-2005	10,000	10,000
9.70%	2000-2003	4,000	6,000
9.52%	1999	--	1,429
9.70%	1999	--	667
Unsecured bank debt	2003	14,500	3,100
Debt of foreign subsidiaries payable in foreign currency	2000-2006	2,583	3,319
Total debt		115,083	114,515
Less current maturities		7,663	6,807
Long-term debt		$107,420	$107,708

Unsecured bank debt at December 31, 1999, consisted of borrowings under a committed $60,000,000 revolving credit agreement with interest at varying rates averaging 5.89 percent during the year. The agreement requires a commitment fee to be paid on the unused portion of the commitment which averaged 0.15 percent during the year. Periodically, the company also had other borrowings under notes payable to banks under which there were no outstanding balances at December 31, 1999 and 1998.

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 $48,329,000 and $44,346,000 at December 31, 1999 and 1998, respectively. The company is in compliance with all loan agreements.

Debt at December 31, 1999, matures as follows: $7,663,000 in 2000; $9,049,000 in 2001; $9,020,000 in 2002; $26,245,000 in 2003; $10,743,000 in 2004 and $52,363,000 after 2004.

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

(Dollars in thousands)	1999	1998	1997
Interest expense	$ 8,661	$ 8,235	$ 8,205
Interest income	(211)	(364)	(173)
	8,450	7,871	8,032
Capitalized interest	(74)	(418)	(437)
Interest, net	$ 8,376	$ 7,453	$ 7,595

5. Leased Properties

The company leases certain property and equipment (primarily transportation equipment, buildings and computer equipment) under operating leases. Total rental expense was $3,661,000, $3,918,000 and $3,884,000 in 1999, 1998 and 1997, respectively.

Minimum future rental payments under operating leases with terms in excess of one year as of December 31, 1999, are:

(Dollars in thousands)	Year	Amount
	2000	$ 3,183
	2001	2,067
	2002	1,580
	2003	1,284
	2004	1,196
	Subsequent to 2004	5,868
	Total minimum future rental payments	$15,178

6. Income Taxes

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

Taxes on Income (Dollars in thousands)	1999	1998	1997
Federal			
Current	$ 6,618	$ 8,544	$ 11,321
Deferred	2,280	3,285	(321)
State			
Current	1,301	1,704	1,953
Deferred	506	718	502
Foreign			
Current	1,983	1,047	1,451
Deferred	12	14	(442)
Total	$12,700	$15,312	$ 14,464

Income before Taxes (Dollars in thousands)		1998	1997
Domestic	$29,163	$35,766	$ 31,758
Foreign	5,666	3,000	3,116
Total	$34,829	$38,766	$ 34,874

No federal income taxes have been provided on $30,145,000 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:

	1999		1998		1997	
(Dollars in thousands)	Amount	%	Amount	%	Amount	%
Income tax provision at statutory tax rate	$12,190	35.0	$13,568	35.0	$12,206	35.0
State taxes on income less applicable federal tax benefit	1,175	3.4	1,574	4.1	1,215	3.5
Effect of equity in foreign joint ventures	(499)	-1.4	(278)	-0.7	665	1.9
Other items	(166)	-0.5	448	1.1	378	1.1
Total income tax provision	$12,700	36.5	$15,312	39.5	$14,464	41.5

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

(Dollars in thousands)	1999	1998
Current deferred income taxes		
Gross assets	$ 10,148	$ 11,203
Gross liabilities	(787)	(631)
Total current deferred tax assets	9,361	10,572
Non-current deferred income taxes		
Gross assets	7,001	7,073
Gross liabilities	(48,976)	(46,993)
Total non-current deferred tax liabilities	(41,975)	(39,920)
Net deferred tax liability	$(32,614)	$(29,348)

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

(Dollars in thousands)	1999	1998
Tax over book depreciation	$(45,104)	$(43,884)
Safe Harbor leases	(2,576)	(2,795)
SFAS No. 87 pension accounting	(2,736)	(3,043)
State income tax accrual	2,408	2,062
Deferred revenue	2,340	4,505
Book reserves deductible in other periods	12,456	13,966
Other, net	598	(159)
Net deferred tax liability	$(32,614)	$(29,348)

7. Stockholders' Equity

The company's 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) 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 $0.14 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.

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

On December 17, 1999, 400,000 shares of common stock held in treasury were retired in accordance with the Board of Directors' authorization. At December 31, 1999, treasury stock consists of 172,520 shares of preferred stock and 196,864 shares of common stock. On December 8, 1998, 500,000 shares of common stock held in treasury were retired in accordance with the Board of Directors' authorization. At December 31, 1998, treasury stock consisted of 133,874 shares of preferred stock and 305,048 shares of common stock.

8. Stock Option Plans

The company has two fixed stock option plans: the 1982 Plan and the 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 10 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 1999, 1998 and 1997 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)	1999	1998	1997
Net Earnings - as reported	$22,129	$23,454	$20,410
Net Earnings - pro forma	21,272	22,575	19,716
Basic Earnings per share - as reported	2.22	2.29	1.97
Basic Earnings per share - pro forma	2.13	2.20	1.90
Diluted Earnings per share - as reported	2.08	2.12	1.86
Diluted Earnings per share - pro forma	2.01	2.05	1.80

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 1999, 1998 and 1997: expected dividend yield of 2.5 percent in 1999 and 1998 and 2.7 percent in 1997. Expected volatility of 26.7 percent in 1999, 27.0 percent in 1998 and 28.0 percent in 1997; expected lives of 7.5 years; and risk-free interest rate of 5.21 percent in 1999, 5.75 percent in 1998 and 6.24 percent in 1997.

A summary of the status of the company's stock option plans at December 31, 1999, 1998 and 1997, and changes during the years then ended is presented as follows:

	1999 Shares	Weighted -Average Exercise Price	1998 Shares	1997 Shares
Options outstanding, beginning of year	1,247,591	$ 18.76	1,168,252	1,266,252
Options exercised	(85,250)	12.76	(151,200)	(200,500)
Options canceled	(4,036)	30.97	(3,229)	(4,000)
Options granted	64,058	23.42	233,768	106,500
Options outstanding, end of year	1,222,363	19.38	1,247,591	1,168,252
Option price range at end of year	$ 9.438-30.969		$ 9.438-30.969	$ 9.438-19.750
Option price range for exercised shares	9.438-19.750		9.438-19.750	9.438-18.219
Options available for grant at end of year	255,561		315,583	546,122
Weighted-average fair value of options, granted during the year	$ 6.98		$ 9.64	$ 6.18

A summary of stock options outstanding at December 31, 1999, is as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number Outstanding at 12/31/99	Weighted-Average Remaining Contractual Life	Weighted -Average Exercise Price	Number Exercisable at 12/31/99	Weighted -Average Exercise Price
$9.438	54,800	1.33	$ 9.44	54,800	$ 9.44
$12.563 - $14.000	400,300	5.09	13.86	400,300	13.86
$18.219 - $30.969	767,263	7.51	22.97	476,702	19.16
	1,222,363	6.44	$ 19.38	931,802	$ 16.31

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, 1999, and 1998, included $9,818,000 and $11,183,000, respectively, of the company's common stock.

Net 1999, 1998 and 1997 periodic pension cost for the plans consists of the following:

(Dollars in thousands)	1999	1998	1997
Service cost	$ 2,344	$ 1,969	$ 1,754
Interest cost on projected benefit obligation	3,629	3,262	3,029
Expected return on plan assets	(5,156)	(4,658)	(4,158)
Amortization of unrecognized net transition assets	(567)	(567)	(567)
Amortization of unrecognized prior service cost	287	269	268
Amortization of unrecognized net loss/(gain)	14	(5)	(4)
Net pension expense	$ 551	$ 270	$ 322

Changes in benefit obligations for the years ending December 31, 1999 and 1998 were as follows:

(Dollars in thousands)	1999	1998
Benefit obligation at beginning of year	$ 53,169	$ 44,391
Service cost	2,344	1,969
Interest cost	3,629	3,262
Plan amendments	515	23
Actuarial (gain)/loss	(7,217)	5,064
Benefits paid	(1,713)	(1,540)
Benefit obligation at end of year	$ 50,727	$ 53,169

Changes in the fair value of plan assets during fiscal years 1999 and 1998 were as follows:

(Dollars in thousands)	1999	1998
Fair value of plan assets at beginning of year	$ 67,183	$ 64,786
Actual return on plan assets	10,778	3,350
Employer contributions	--	587
Benefits paid	(1,713)	(1,540)
Fair value of plan assets at end of the year	$ 76,248	$ 67,183

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)	1999	1998
Plan assets in excess of projected benefit obligations	$ 25,522	$ 14,014
Unrecognized net transition assets	(567)	(1,134)
Unrecognized prior service cost	1,767	1,748
Unrecognized net gain	(20,240)	(7,386)
Prepaid benefit cost	$ 6,482	$ 7,242

The prepaid pension asset is included in the "Other Assets" caption on the Consolidated Balance Sheets. The weighted-average assumptions as of December 31, 1999, 1998 and 1997, were as follows:

	1999	1998	1997
Discount rate	7.75%	6.75%	7.25%
Expected return on plan assets	8.50%	8.50%	8.50%
Rate of compensation increase	4.25%-6.25%	4.25%-6.25%	4.50%-6.50%

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:

	December 31	
(Dollars in thousands)	1999	1998
Accrued payroll and benefits	$ 17,421	$ 14,236
Accrued customer discounts	8,007	6,760
Deferred revenue -- current	3,020	4,451
Other accrued liabilities	13,258	11,713
Total accrued liabilities	$ 41,706	$ 37,160

11. Other Non-current Liabilities

Other non-current liabilities were comprised of the following:

	December 31	
(Dollars in thousands)	1999	1998
Deferred revenue	$ 2,508	$ 6,242
Environmental and legal matters (Note 12)	9,564	14,563
Total other non-current liabilities	$12,072	$20,805

During and prior to 1998, 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. In 1999, approximately $1.4 million of previously deferred revenue was accelerated and recorded in net sales when a customer released the company from further performance under a prepaid contract that originally extended into the year 2000. Related deferred revenue at December 31, 1999 and 1998, is $5,528,300 and $10,693,000, 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 $25.2 million at December 31, 1999, compared to $4.1 million to $26.4 million at December 31, 1998. At December 31, 1999, the company's reserve was $11.6 million for legal and environmental matters compared to $17.6 million at December 31, 1998. The company made payments of $15.8 million, net of insurance recoveries, in 1999 and $3.6 million in 1998 related to legal costs, settlements and costs related to remedial design studies at various sites.

For certain sites, estimates cannot be made of the total costs of compliance, or the company's share of such costs; accordingly, the company is unable to predict the effect thereof on future results of operations. In the event of one or more adverse determinations in any annual or interim period, the impact on results of operations for those periods could be material. However, based upon the company's present belief as to its relative involvement at these sites, other viable entities' responsibilities for cleanup, and the extended period over which any costs would be incurred, the company believes that these matters will not have a material effect on the company's financial position. Certain of these matters are discussed in Item 3, Legal Proceedings, in the 1999 Form 10-K Annual Report and in other filings of the company with the Securities and Exchange Commission, which filings are available upon request from the company.

13. Legal Settlement

On December 1, 1999, the company settled a lawsuit in New Jersey, for alleged personal injuries related to environmental claims. All terms of the settlement are confidential pursuant to a court order. As a result of this settlement, the company incurred a $6.3 million after-tax charge ($0.59 per share diluted). The charge was net of insurance recoveries and previously recorded reserves and was included in administrative expenses.

14. Segment Reporting

Stepan Company has three reportable segments: surfactants, polymers and specialty products. Each segment provides distinct products and requires separate management due to unique markets, technologies and production processes. Surfactants are used in a variety of consumer and industrial cleaning compounds as well as in agricultural products, lubricating ingredients and other specialized applications. Polymers derives its revenues from the sale of phthalic anhydride, polyurethane polyols and polyurethane systems used in plastics, building materials and refrigeration systems. Specialty products sells chemicals used in food, flavoring and pharmaceutical applications.

The company evaluates the performance of its segments and allocates resources based on operating income before interest income/expense, other income/expense items and income tax provisions. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. There is no intersegment revenue and all intercompany transactions are eliminated from segments' revenue.

Segment data for the three years ended December 31, 1999, 1998 and 1997, is as follows (prior year data has been reclassified to conform to 1999 presentation):

(Dollars in thousands)	Surfactants	Polymers	Specialty Products	Segment Totals
1999				
Net sales	$524,956	$121,438	$20,390	$666,784
Operating income	51,123	21,453	4,454	77,030
Assets	315,580	52,434	18,760	386,774
Capital expenditures	24,423	4,846	807	30,076
Depreciation and amortization expenses	31,091	5,856	1,128	38,075
1998				
Net sales	$474,454	$116,460	$19,537	$610,451
Operating income	41,997	21,811	3,511	67,319
Assets	315,549	48,795	17,478	381,822
Capital expenditures	37,091	3,632	1,652	42,375
Depreciation and amortization expenses	29,265	5,847	1,249	36,361
1997				
Net sales	$457,109	$105,754	$19,086	$581,949
Operating income	43,989	16,296	2,959	63,244
Assets	278,559	57,295	18,020	353,874
Capital expenditures	23,873	6,494	3,850	34,217
Depreciation and amortization expenses	27,507	5,819	983	34,309

Below are reconciliations of segment data to the accompanying consolidated financial statements:

(Dollars in thousands)	1999	1998	1997
Operating income - segment totals	$ 77,030	$ 67,319	$ 63,244
Unallocated corporate expenses/(a)/	(35,252)	(21,896)	(18,874)
Interest expenses	(8,376)	(7,453)	(7,595)
Income /(Loss) from equity in joint ventures	1,427	796	(1,901)
Consolidated income before income taxes	$ 34,829	$ 38,766	$ 34,874
Assets - segment totals	$386,774	$ 381,822	$ 353,874
Unallocated corporate assets/(b)/	27,802	22,539	21,062
Consolidated assets	$414,576	$ 404,361	$ 374,936
Capital expenditures - segment totals	$ 30,076	$ 42,375	$ 34,217
Unallocated corporate expenditures	2,621	1,681	1,372
Consolidated capital expenditures	$ 32,697	$ 44,056	$ 35,589
Depreciation and amortization expenses - segment totals	$ 38,075	$ 36,361	$ 34,309
Unallocated corporate depreciation expenses	1,377	986	972
Consolidated depreciation and amortization expenses	$ 39,452	$ 37,347	$ 35,281

(a) Includes corporate administrative and corporate manufacturing expenses which are not included in segment operating income and not used to evaluate segment performance.

(b) Includes items such as deferred tax asset, prepaid pension asset, joint venture investments and LIFO inventory reserve which are not allocated to segments.

Company-wide geographic data for the years ended December 31, 1999, 1998 and 1997, is as follows (net sales attributed to countries based on selling location):

(Dollars in thousands)	1999	1998	1997
Net sales			
United States	$ 532,174	$506,075	$494,496
All foreign countries	134,610	104,376	87,453
Total	$ 666,784	$610,451	$581,949
Long-lived assets			
United States	$ 193,436	$200,587	$192,821
All foreign countries	16,045	14,509	13,780
Total	$ 209,481	$215,096	$206,601

15. Earnings Per Share

Below is the computation of basic and diluted earnings per share for the years ended December 31, 1999, 1998 and 1997:

(In thousands, except per share amounts)	1999	1998	1997
Computation of Basic Earnings per Share			
Net income	$22,129	$23,454	$20,410
Deduct dividends on preferred stock	858	896	1,027
Income applicable to common stock	$21,271	$22,558	$19,383
Weighted-average number of shares outstanding	9,592	9,843	9,831
Basic earnings per share	$ 2.22	$ 2.29	$ 1.97
Computation of Diluted Earnings per Share			
Net income	$22,129	$23,454	$20,410
Weighted-average number of shares outstanding	9,592	9,843	9,831
Add net shares from assumed exercise of options (under treasury stock method)	324	456	275
Add weighted-average shares from assumed conversion of convertible preferred stock	716	744	853
Shares applicable to diluted earnings	10,632	11,043	10,959
Diluted earnings per share	$ 2.08	$ 2.12	$ 1.86

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

For the Year	1999	1998	1997	1996	1995
Net Sales	$666,784	$610,451	$581,949	$536,635	$528,218
Operating Income	41,778	45,423	44,370	40,386	32,620
Percent of net sales	6.3%	7.4%	7.6%	7.5%	6.2%
Pre-tax Income	34,829	38,766	34,874	32,261	24,991
Percent of net sales	5.2%	6.4%	6.0%	6.0%	4.7%
Provision for Income Taxes	12,700	15,312	14,464	13,194	8,872
Net Income	22,129	23,454	20,410	19,067	16,119
Per share (Diluted)/(a)/	2.08	2.12	1.86	1.71	1.46
Percent of net sales	3.3%	3.8%	3.5%	3.6%	3.1%
Percent to stockholders' equity/(b)/	15.0%	17.0%	15.5%	15.6%	14.5%
Cash Dividends Paid	6,727	6,432	6,069	5,846	5,540
Per common share	.6125	.5625	.5125	.4775	.4475
Depreciation and Amortization	39,452	37,347	35,281	32,138	30,384
Capital Expenditures	32,697	44,056	35,589	44,923	39,247
Weighted-Average Common Shares Outstanding	9,592	9,843	9,831	10,002	9,984
As of Year End					
Working Capital	$ 68,615	$ 61,814	$ 63,789	$ 70,322	$ 66,856
Current Ratio	1.7	1.7	1.8	1.8	1.8
Property, Plant and Equipment, net	209,481	215,096	206,601	207,159	192,470
Total Assets	414,576	404,361	374,936	381,012	362,527
Long-term Debt, less current maturities	107,420	107,708	94,898	102,567	109,023
Stockholders' Equity	155,064	147,984	137,598	131,615	122,477
Per share /(c)/	15.20	14.18	13.01	12.24	11.25
Number of Employees	1,365	1,372	1,292	1,270	1,267

/(a)/ Based on weighted-average number of common shares outstanding during the year.
/(b)/ Based on equity at beginning of year.
/(c)/ Based on common shares and the assumed conversion of the convertible preferred shares outstanding at year end.

Quarterly Stock Data (Unaudited)

	Stock Price Range								Dividends Paid Per Common Share	
	1999				1998				1999	1998
Quarter	High		Low		High		Low			
First	$26	11/16	$22	1/4	$30	1/2	$26	1/8	15.00c	13.75c
Second	25	11/16	22	1/4	32	1/4	29	5/8	15.00c	13.75c
Third	26	1/4	22	5/8	31	1/4	23	1/8	15.00c	13.75c
Fourth	24	1/8	22	3/16	29		24	5/8	16.25c	15.00c
Year	26	11/16	22	3/16	32	1/4	23	1/8	61.25c	56.25c

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

	1999				
Quarter	First	Second	Third	Fourth	Year
Net Sales	$163,961	$166,759	$166,932	$169,132	$666,784
Gross Profit	28,919	32,391	28,249	31,386	120,945
Interest, net	(2,110)	(2,158)	(2,052)	(2,056)	(8,376)
Pre-tax Income	10,148	12,963	23	11,695	34,829
Net Income	6,142	7,956	14	8,017	22,129
Net Income per Share (Diluted)	.57	.75	(.02)	.76	2.08

	1998				
Quarter	First	Second	Third	Fourth	Year
Net Sales	$150,388	$155,509	154,134	$150,420	$610,451
Gross Profit	27,829	29,654	25,827	28,285	111,595
Interest, net	(1,907)	(1,769)	(1,853)	(1,924)	(7,453)
Pre-tax Income	9,538	11,859	8,131	9,238	38,766
Net Income	5,722	7,110	5,032	5,590	23,454
Net Income per Share (Diluted)	.52	.64	.45	.51	2.12

Exhibit (21)

STEPAN COMPANY
SUBSIDIARIES OF REGISTRANT

Subsidiary	Organized under the Laws of:
Stepan Europe S.A.	France
Stepan Canada, Inc.	Canada
Stepan Mexico, S.A. de C.V.	Mexico
Stepan Deutschland GmbH	Germany
Stepan Colombiana de Quimicos	Colombia
Stepan Quimica Ltda.	Brazil

Exhibit (23)

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports, included or incorporated by reference in this Form 10-K, 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 30, 2000

Exhibit (24)

POWER OF ATTORNEY

The undersigned hereby appoints F. Quinn Stepan and Walter J. Klein 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 10th day of March 2000

/s/ F. Quinn Stepan
F. Quinn Stepan

/s/ F. Quinn Stepan, Jr.
F. Quinn Stepan, Jr.

/s/ Walter J. Klein
Walter J. Klein

/s/ James A. Hartlage
James A. Hartlage

/s/ Thomas F. Grojean
Thomas F. Grojean

/s/ Paul H. Stepan
Paul H. Stepan

/s/ Robert D. Cadieux
Robert D. Cadieux

/s/ Robert G. Potter
Robert G. Potter

5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 1999 AND CONSOLIDATED STATEMENT OF INCOME FOR THE TWELVE MONTHS THEN ENDED AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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JAN-01-1999
DEC-31-1999
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